UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

	)	
PJM Interconnection, L.L.C.	)	Docket No. ER12-1422-000
	)	

COMMENTS OF THE INDEPENDENT MARKET MONITOR FOR PJM

Pursuant to Rule 211 of the Commission's Rules and Regulations,[1] Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor for PJM ("Market Monitor"),[2] submits these comments on tariff revisions to provide for compensation for lost opportunity costs for wind units filed by PJM Interconnection, L.L.C. ("PJM") on April 2, 2012. The Market Monitor generally supports revising the tariff to permit wind units to receive compensation for lost opportunity costs. In several of its details, this proposal falls short. In some cases, the rules for compensating wind resources and all resources for lost opportunity costs are not economic. In others, the rules are not explicitly defined. In order to ensure logical and transparent market rules, approval of PJM's filing should be conditioned on fixing these defects.

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1 18 CFR § 385.211 (2011).

2 Capitalized terms herein are not otherwise defined have the meaning used in the PJM Open Access Transmission Tariff ("OATT").

I. COMMENTS

A. Compensation for Lost Opportunity Cost Should Have a Verifiable and Economic Basis.

Lost Opportunity Cost is an operating reserve credit paid to units whose output is reduced or suspended at the request of the Office of the Interconnection in order to maintain reliability, when the hourly integrated LMP at the unit's pricing node is higher than the unit's offer price corresponding to the level of output that would be expected at that LMP. Units are credited hourly based on the difference between the actual output of the unit and the expected output of the unit, multiplied by the difference between the LMP and the unit offer at that unit's bus.

B. Capacity Injection Rights Appropriately Set an Upper Limit for Compensation for Lost Opportunity Costs.

Network Resources pay the costs of interconnecting to the system in order to receive interconnection service from PJM. Resources that have not paid for transmission upgrades necessary to accommodate additional energy flows have no right to inject additional energy. The level at which a resource does have rights is equal to or less than its Capacity Injection Rights ("CIRs"), which are established through the interconnection process. A resource may inject more power on the grid than its CIRs if PJM permits it. However, when PJM directs a resource to curtail to a level at or below its CIRs, this aligns system access to rights of access. Such curtailments do not deprive a curtailed resource of any opportunity, and such a resource has no entitlement to compensation for a lost opportunity.

Wind resources have CIRs equal to 13 percent of maximum output, or demonstrated capacity factor during RPM peak periods. PJM has the right to curtail energy injected above the levels covered by CIRs without paying any compensation for lost opportunity.

The rules for payment and compensation should reflect this, but they do not in the form proposed by PJM. This market design flaw should be corrected.

The current rules do not explicitly limit conventional resources to a maximum payment for opportunity cost to their CIRs. Unlike wind resources, most conventional resources have CIRs at or near nameplate capacity. Consequently, there was no need for such a rule prior to making provision for wind resources.

C. Appropriate Eligibility Rules for Opportunity Cost Payments Should Apply to Wind Resources

Compensation for lost opportunity cost for wind resources should be based on the lower of PJM forecast value, desired MW, or the CIRs MW. The inclusion of the forecast value and CIRs MW in this calculation, which is typically based only on the desired MW of the resource, reflects the limitations of wind resources compared to conventional generation resources.

Compensation for lost opportunity cost for conventional resources applies when PJM curtails the resource from the lower of the economic maximum MW or desired MW, but this occurs, almost without exception, when output is less than CIR. The PJM forecast value for a wind resource is comparable to the economic maximum MW for a conventional resource, as it reflects the maximum possible output of a wind unit in a given hour. Providing lost opportunity costs to wind resources based on desired MW which exceed capacity injection rights would represent an unsupported and fundamental change in the rules governing lost opportunity cost payments. This could result in a substantial increase in unhedgeable and out of market operating reserve charges, which reduce the efficiency of PJM markets. Applying the rule proposed by the Market Monitor would result in comparable compensation for wind and conventional resources while respecting relevant operational differences. The Market Monitor recommends revising the proposed rules accordingly.

II. CONCLUSION

The Market Monitor respectfully requests that the Commission afford due consideration to these comments as the Commission resolves the issues raised in this proceeding.

Respectfully submitted,

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Dated: April 23, 2012

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Eagleville, Pennsylvania,
this 23rd day of April, 2012.

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