

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

PJM Interconnection, L.L.C.)
) Docket No. ER17-2291-000
)

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 PJM² (“Market Monitor”), submits these comments responding to the revisions filed by PJM on August 11, 2017, to provisions of its tariff and operating agreement regarding pseudo-ties (“August 11th Filing”). The August 11th Filing was made in connection with corresponding revisions filed by PJM and the Midcontinent Independent System Operator, Inc. (“MISO”) to their Joint Operating Agreement (“JOA”). The Market Monitor has filed comments in proceedings concerning corresponding revisions to the JOA proposed by PJM and MISO similar to the comments filed here.³

The revised rules are provided in response to increased requests for pseudo ties from participants seeking the ability to offer capacity from external sources to PJM and to

¹ 18 CFR § 385.211 (2017).

² PJM Interconnection, L.L.C. (“PJM”). Capitalized terms used herein and not otherwise defined have the meaning used in the PJM Open Access Transmission Tariff (“OATT”), the PJM Operating Agreement (“OA”), the Reliability Assurance Agreement (“RAA”), or the JOA.

³ See Comments of the Independent Market Monitor for PJM, Docket Nos. ER17-2218-000 & ER17-2220-000 (August 22, 2017).

establish eligibility for an exception to the Capacity Import Limit.⁴ A pseudo tie is defined in the RAA as a necessary and sufficient condition for an external unit to be able to sell capacity in the PJM capacity market.⁵ Therefore the pseudo tie requirement is, or should be, designed to ensure that external capacity resources can serve as complete substitutes for PJM internal capacity resources. The proposed pseudo tie rules in the August 11th Filing are not adequate to ensure that external capacity resources can serve as complete substitutes for PJM internal capacity resources. PJM's proposal needs to be substantially strengthened given the critical role that the pseudo tie requirement serves in the RAA.⁶ PJM's proposal should not be approved except on condition that the identified provision for an exception to nonrecallability, the identified provision allowing suspension to the pseudo tie and the identified provision for termination of the pseudo tie arrangement are removed.

The Market Monitor agrees that the proposed pseudo tie rules are an improvement over the existing rules. The Market Monitor does not object to the pseudo tie provisions, which recognize, as they must, the reliability needs of all parties to a pseudo tie agreement. But the reliability needs of external balancing authorities are not consistent with external units serving as complete substitutes for PJM internal capacity resources. The existence of a pseudo tie agreement compliant with the defined rules cannot be considered evidence that an external capacity resource is a substitute for an internal capacity resource. The proposed pseudo tie rules are a necessary but not sufficient condition to be an external capacity resource.

The establishment of a pseudo tie is one requirement for an external resource to be eligible to participate in the PJM Capacity Market.⁷ Therefore, it is essential that the

⁴ See RAA Schedule Art. 1 (Capacity Import Limit); August 11th Filing at 14–15.

⁵ *Id.*

⁶ See RAA Art. 1 (Capacity Import Limit).

⁷ See RAA Art. 1 (Capacity Import Limit).

definition of a pseudo tie conforms to the rules and requirements of the PMM Capacity Market such that external resources can serve as complete substitutes for PJM internal capacity resources. The pseudo tie rules for the new pro forma Pseudo Tie Agreements proposed in the August 11th Filing do not meet these requirements.

I. COMMENTS

A. External Capacity Resources Must Be Full Substitutes for Internal Capacity Resources.

If the PJM Capacity Market is to function effectively and result in competitive prices and in appropriate incentives for entry and exit, all capacity resources must be substitutes. This is a fundamental principle of market design. External capacity resources must provide the same reliability and operational attributes as internal capacity resources. If external capacity resources cannot be full substitutes for internal capacity resources, they are inferior products and should not be permitted in the PJM Capacity Market because they will suppress the price for internal resources and result in an inefficient market outcome. That is counter to the interests of the PJM market, counter to the interests of PJM generation and counter to the interests of PJM load.

A pseudo tie should include requirements sufficient to ensure that external resources are full substitutes for internal capacity resources. A pseudo tie should ensure PJM dispatch control over the energy from capacity resources and ensure that the energy output belongs to PJM by incorporating that energy output in PJM's Area Control Error (ACE). But the proposed pseudo tie tariff provisions create substantial uncertainty about the extent to which a pseudo tie can actually provide that control to PJM because the tariff provisions explicitly create substantial exceptions to that control.

The Market Monitor has previously identified issues with PJM’s approach to relying on pseudo ties as a complete basis for designation as an external capacity resource.⁸ All those issues remain and are amplified by the proposed tariff changes.

The proposed tariff changes include allowances for nonrecallability, suspension and termination of pseudo ties that depend on actions by external balancing authorities. These provisions change the reliability and operational attributes that PJM can expect from an external capacity resource compared to an internal capacity resource. As a result, external capacity resources subject to these rules are not full substitutes for internal capacity resources.

The Market Monitor agrees that the proposed pseudo tie rules are an improvement over the existing rules. The Market Monitor does not object to the pseudo tie provisions, which recognize the reliability needs of all parties to a pseudo tie agreement for energy deliveries. But the proposed pseudo tie rules should not be approved as filed because a pseudo tie is defined in the RAA as a necessary and sufficient condition for an external unit to be able to sell capacity in the PJM capacity market.⁹ The existence of a pseudo tie agreement compliant with rules proposed in the August 11th Filing cannot be considered evidence that an external capacity resource is a substitute for an internal capacity resource.

If PJM believes that a separate pseudo tie arrangement is needed for generating units seeking a pseudo tie but not seeking to sell capacity, then it should propose different pseudo tie requirements with a designation that reflects their limited purpose (e.g., “Pseudo-Tie–Energy only”).

⁸ See Comments of the Independent Market Monitor for PJM” Docket No. ER17-1138-000 (March 30, 2017).

⁹ See RAA Schedule Art. 1 (Capacity Import Limit); August 11th Filing at 14–15.

B. The Nonrecallability Provisions Do Not Permit External Capacity Resources to Be Full Substitutes for Internal Capacity Resources.

The proposed provisions on nonrecallability include language that allows for a pseudo tied external capacity resource to be committed, decommitted or redispatched by the Native Reliability Coordinator (an external balancing authority) in the event of a local system operating limit (SOL) or interconnection reliability operating limit (IROL) in that external balancing authority.

The NERC Glossary of Terms Used in Reliability Standards defines an SOL as “The value (such as MW, MVar, Amperes, Frequency or Volts) that satisfies the most limiting of the prescribed operating criteria for a specified system configuration to ensure operation within acceptable reliability criteria. SOLs are based upon certain operating criteria. These include, but are not limited to: i) Facility Ratings (Applicable pre- and post- Contingency equipment or Facility ratings); ii) Transient Stability Ratings (Applicable pre- and/or post- Contingency Stability Limits); iii) Voltage Stability Ratings (Applicable pre- and/or post- Contingency Voltage Stability); and iv) System Voltage Limits (Applicable pre- and post- Contingency Voltage Limits).”¹⁰

The NERC Glossary of Terms Used in Reliability Standards defines an IROL as “The value (such as MW, MVar, Amperes, Frequency or Volts) derived from, or a subset of the System Operating Limits, which if exceeded, could expose a widespread area of the Bulk Electric System to instability, uncontrolled separation(s) or cascading outages.”¹¹

IROLs are not a frequent occurrence. However, local SOLs, particularly facility ratings, can be considered a normal occurrence that system operators deal with on a daily basis. Allowing for an external capacity resource to be committed, de-committed or re-

¹⁰ NERC Standards, “Glossary of Terms Used in NERC Reliability Standards,” <http://www.nerc.com/pa/Stand/Glossary%20of%20Terms/Glossary_of_Terms.pdf> (August 1, 2017).

¹¹ *Id.*

dispatched by the Native Reliability Coordinator in the event of a local system operating limit (SOL) or interconnection reliability operating limit (IROL) effectively removes control from the Attaining Balancing Authority and means that the pseudo tied external capacity resource is not actually under the control of PJM and therefore not equivalent to or a substitute for an internal capacity resource. The proposed provision states:

WHEREAS, the Parties agree that the Facility is non-recallable to the extent it is pseudo tied into PJM and is committed to PJM as a Generation Capacity Resource for a Delivery Year to ensure that the Facility will not be directed to serve load in the Native Balancing Authority Area at a time when the PJM Balancing Authority Area requires the output of the Facility, except during a local transmission reliability emergency per NERC Standards IRO-001-4 and TOP-001-3 and their respective successors; ...

This provision creates substantial uncertainty as to whether a pseudo tied external capacity resource can be available and under the dispatch control of PJM when needed. As a result, pseudo tied external capacity resources cannot be considered a complete substitute for internal capacity resources under this provision of the proposed pseudo tie rules. No exception to nonrecallability should be allowed for external generating resources seeking to sell capacity in PJM.

C. The Suspension Provisions Do Not Permit External Capacity Resources to Be Full Substitutes for Internal Capacity Resources.

The proposed provisions on Suspension include language that allows the pseudo tie of an external capacity resource to be suspended, with immediate notice, in the event certain criteria are met. The proposed provision states:

PJM reserves the right to suspend the Pseudo-Tie of the Facility if the Company no longer satisfies the PJM Governing Document requirements for Pseudo-Ties, criteria for participation in PJM's markets as an external resource, or other applicable regulatory, legal or reliability requirements, if Company commits a material default under this Agreement or has failed to cure any breach of this Agreement in accordance with section 14, or if PJM reasonably determines that the Pseudo-Tie of the Facility poses a risk to system reliability or risk of violation of established reliability criteria, by giving immediate notice of suspension. PJM

also reserves the right to suspend the Pseudo-Tie of the Facility if the Company fails to provide real-time Pseudo-Tie MW values in a timely manner pursuant to applicable tariff or business rule requirements of the Native Balancing Authority and/or PJM Balancing Authority, upon mutual agreement of the Native Balancing Authority and PJM Balancing Authority, and upon giving immediate notice to Company and Native Balancing Authority. In the event of such suspension for failure to provide real-time Pseudo-Tie MW values in a timely manner, the Company shall provide a remedy for the cause of the failure, which PJM shall review in order to determine whether the Pseudo-Tie of the Facility will be permitted to resume operation. Two suspensions of the Pseudo-Tie of the Facility within a thirty (30) day period shall constitute a breach under section 14 of this Agreement. In the event of two suspensions within a thirty (30) day period, this Agreement may be terminated, in accordance with section 18 of this Agreement, by mutual agreement of the Native Balancing Authority and PJM Balancing Authority; provided, however, that the Party seeking to exercise this right to terminate must provide notice of such termination within one hundred eighty (180) days of the second suspension. Except as otherwise expressly permitted under the PJM Governing Documents, the suspension of the Pseudo-Tie of the Facility shall not relieve the Company of any of its obligations owed to PJM, specifically including but not limited to, any energy market or RPM must-offer requirements or any capacity obligations for which it has committed the Facility to PJM in an RPM Auction or FRR Capacity Plan. During any suspension period, the Facility shall remain under the operational control of the Attaining Balancing Authority and shall not be under the operational control of the Native Balancing Authority.

This provision creates substantial uncertainty as to whether an external capacity resource can be available when needed. It is not clear if PJM will still have the rights to any energy produced by a pseudo tied unit during a suspension in the sense that the energy would automatically contribute to PJM's ACE. It is not clear how the manual dispatch of energy would be treated in the PJM ACE. It is not clear whether the output of a pseudo tied external capacity resource would need to be block scheduled using NERC Tags during a

suspension. If that were the case, it would make the unit ineligible to be a capacity resource in PJM.

The suspension provision creates uncertainty about the reliability of pseudo tied external capacity resources. No suspensions should be allowed for external generating resources seeking to sell capacity in PJM. The provisions should be removed from the new pro forma Agreements.¹²

D. The Notice of Termination Provisions Do Not Permit External Capacity Resources to Be Full Substitutes for Internal Capacity Resources.

The proposed provision on notice of termination includes language that allows for a pseudo tied external capacity resource to be terminated with as little as 60 days' notice under certain circumstances. The termination of a pseudo tied external capacity resource would mean that the capacity resource could no longer be a capacity resource. The proposed provision states:

Any Party shall have the right to terminate this Agreement, in its sole discretion, upon forty-two (42) months' notice prior to the commencement of a Delivery Year, subject to receiving all necessary regulatory approvals for such termination, if any. In addition, PJM shall have the right to terminate this Agreement, upon sixty (60) days' notice to Company and Native Balancing Authority, and the filing of a notice of cancellation with the Commission if required, if PJM experiences an emergency or other unforeseen condition which may impair or degrade the reliability of the Transmission System, a transmission constraint that impairs the reliability of PJM's or another transmission provider's system, or any adverse condition(s) or if the emergency condition causes the Facility to become undeliverable or unable to be restored, such as a major long-term transmission outage for example, and as a result in each case reliability issues arise such that the referenced Pseudo-Tie of the Facility raises concerns with regional reliability coordinators or NERC, or if Company no longer satisfies the PJM Governing Document requirements for Pseudo-Ties, criteria for

¹² See August 11th Filing, proposed new OATT Attachments MM and Attachment NN.

participation in PJM's markets as an external resource, or other applicable regulatory, legal or reliability requirements, or Company commits a material default under this Agreement or has failed to cure any breach of this Agreement in accordance with section 14 above, upon acceptance of such notice of cancellation by the Commission if required. If PJM suspends this Agreement for failure of the Company to provide real-time Pseudo-Tie MW values in a timely manner two times within a thirty (30) day period, as addressed in section 17 above, upon mutual agreement, PJM and Native Balancing Authority shall have the right to terminate this Agreement, upon sixty (60) days' notice to each Party, and the filing of a notice of cancellation with, and acceptance by, the Commission if required; provided, however, that the Party seeking to exercise this right to terminate must provide notice of such termination within one hundred eighty (180) days of the second suspension. Except as otherwise expressly permitted under the PJM Governing Documents, the termination of this Agreement shall not relieve the Company of any of its obligations owed to PJM, specifically including but not limited to, any energy market or RPM must-offer requirements or any capacity obligations for which it has committed the Facility to PJM in an RPM Auction or FRR Capacity Plan.

This provision creates uncertainty as to whether an external capacity unit can be available when needed. The provisions should be removed from the new pro forma Agreements.¹³

¹³ See August 11th Filing, proposed new OATT Attachments MM and Attachment NN.

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 September 1, 2017

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 1st day of September, 2017.



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