UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

PJM Interconnection, L.L.C.	)))	Docket No. PL-19-3-000

REPLY 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 ("Market Monitor") for PJM Interconnection, L.L.C. ("PJM"),[2] submits these reply comments responding to comments filed June 26, 2019, in response to the Notice of Inquiry issued in the proceeding on March 21, 2019 ("NOI").[3]

I. BACKGROUND

A. Consistent with Section 219 of the Federal Power Act, Transmission Investment Should Be Attracted Through Competition.

The Market Monitor agrees with the comments stating that the opportunity to build projects is an adequate incentive to build transmission projects. Regulation through competition is the best way to ensure that transmission projects are built and are built at lowest cost. Contrary to the arguments of some, Section 219 of the Federal Power Act does

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1 18 CFR § 385.211 (2019).

2 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") or the PJM Reliability Assurance Agreement ("RAA").

3 *Inquiry Regarding the Commission's Electric Transmission Incentives Policy*, 166 FERC ¶ 61,208 (March 21, 2019).

not require administrative adders to transmission rates to encourage the building of new transmission facilities.[4] That Section 219 encourages transmission infrastructure investment does not change the fundamental purpose of the Federal Power Act to protect consumers and ensure just and reasonable rates.[5] In PJM, regulation through competition protects the public interest in access to electric power at the lowest possible cost. Regulation through competition should be extended more completely to transmission investments.

Section 219 is entirely consistent with regulation through competition, and, properly interpreted and applied, promotes competition in the transmission sector. Section 219 does not require continued cost of service ratemaking in the transmission sector. Section 219 promotes incentive based and performance based ratemaking.[6] Incentive based and performance based alternatives to cost of service ratemaking are both consistent with regulation through competition. Competition offers the most efficient vehicle to provide incentives both to new investment and new investment at the lowest cost. Section 219 specifies one and only one form of incentive as an adjustment to transmission rates: the incentive for joining an ISO/RTO (Transmission Organization).[7] The inclusion of the incentive for ISO/RTO membership in an environment where such membership is not yet mandatory demonstrates statutory support for regulation through competition. ISO/RTOs represent the implementation of regulation through competition that successfully incorporates both the generation sector and the transmission sector on the supply side. There has been substantial new investment in both generation and in transmission. The transmission sector has played a key role in ensuring the success of ISO/RTOs.

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[4] *See* 16 U.S.C. § 824s (2005).

[5] *See* 16 U.S.C. § 824s(d).

[6] See 16 U.S.C. § 824(a).

[7] *See* 16 U.S.C. § 824s(c).

Section 219 specifically requires that the rules:

- "[P]romote reliable and economically efficient transmission and generation of electricity by promoting capital investment in the enlargement, improvement, maintenance, and operation of all facilities for the transmission of electric energy in interstate commerce, regardless of the ownership of the facilities."

- "[P]rovide a return on equity that attracts new investment in transmission facilities (including related transmission technologies)."

- "[E]ncourage deployment of transmission technologies and other measures to increase the capacity and efficiency of existing transmission facilities and improve the operation of the facilities;

- "[A]llow recovery of— … all prudently incurred costs necessary to comply with mandatory reliability standards … and … related to transmission infrastructure development …"

The key provision concerning promoting new investment provides for a "return on equity that attracts new investment." This provision does not require incentives in the form of administrative adders to cost of service rates for transmission investment that would have occurred without such adders. The text of Section 219 makes clear that lower cost electric power and consumer protection remain the Federal Power Act's overriding objectives.[8]

The best way to determine the returns required to attract new investment are to create a competitive framework and let the market reveal the required level of returns. The current discussions in the PJM stakeholder process make it clear than nonincumbent transmission companies are willing to invest in new transmission facilities under Order No. 1000 and willing to make investments subject to cost cap provisions.

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[8] *See* 16 U.S.C. §§ 824s(a) (rule must establish "incentive-based … rate treatments for the purpose of benefitting consumers by ensuring reliability and reducing the cost of delivered power by reducing transmission congestion"), 824(d) ("All rates approved under the rules adopted pursuant to this section, including any revisions to the rules, are subject to the requirements of sections 824d and 824e of this title that all rates, charges, terms, and conditions be just and reasonable and not unduly discriminatory or preferential.").

One provision of Section 219 worthy of special attention is the objective of "promoting capital investment… regardless of the ownership of the facilities." Competition is the best way to promote capital investment, and increased competition for the opportunity to finance facilities could help achieve the goals of Section 219. Competitive financing can be implemented without regard to ownership. Rules permitting competition to provide financing for PJM and other RTO transmission expansion projects could reduce the cost of capital for transmission projects and significantly reduce total costs to customers.

Rules that allow incumbent owners to exclude, limit or condition the development of new or replacement transmission projects create barriers to competitive investment.

B. Incentives and Line Ratings.

The Market Monitor agrees with the comments that accurate transmission line ratings are essential. But the Market Monitor disagrees that increased payments to transmission owners as incentives to correctly state line ratings are an appropriate response. The Commission is separately addressing the issue of line ratings.[9]

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[9] *Managing Transmission Line Ratings*, Notice of Technical Conference, Docket No. AD19-15-000 (June 28, 2019).

II. CONCLUSION

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

Respectfully submitted,

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