

142 FERC ¶ 61,008
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Philip D. Moeller, John R. Norris,
Cheryl A. LaFleur, and Tony T. Clark.

PJM Interconnection, L.L.C.

Docket No. ER13-305-000

ORDER ACCEPTING PROPOSED TARIFF CHANGES

(Issued January 3, 2013)

1. On November 2, 2012, PJM Interconnection, L.L.C. (PJM) submitted proposed changes to the PJM Reliability Assurance Agreement (RAA), pursuant to section 205 of the Federal Power Act (FPA),¹ to add a new Locational Deliverability Area (LDA), for the Cleveland area in Ohio.² PJM states that its proposed tariff changes are also reflected in revisions approved for PJM Manual 14B. For the reasons discussed below, we accept PJM's proposed tariff changes, to become effective January 4, 2013, as requested.

I. Background

2. PJM states that the transmission grid in the Cleveland area has been historically constrained, due primarily to voltage and stability limitations, as transfers into the area rise. PJM asserts that these limitations have diminished the ability of Load Serving Entities to import capacity into the Cleveland area to serve their loads.³ PJM states that, under the RAA, LDAs are established and configured for the purpose of managing the operational needs of a given area. According to PJM, the LDAs that are evaluated as part

¹ 16 U.S.C. § 824e (2006).

² See RAA at Schedule 10.1 (identifying PJM's LDAs and addressing LDA requirements relative to PJM's capacity market).

³ PJM notes that the security of these transmission lines is currently monitored by PJM as an Interconnected Reliability Operating Limit (IROL), on a real-time basis, at the Cleveland Reactive Operational Interface (Cleveland Interface).

of its regional transmission planning process (Regional Transmission Expansion Plan or RTEP) are also evaluated as part of its capacity auctions (Reliability Pricing Model auctions or RPM auctions). PJM states, for example, that to determine locational capacity obligations, Schedule 10.1 of the RAA, lists all necessary zones, sub-zones, and/or zone combinations. PJM adds that, under Schedule 10.1, an LDA is required to be established for “those areas, identified by the load deliverability analyses conducted pursuant to the Regional Transmission Expansion Planning Protocol and the PJM Manuals that have limited ability to import capacity due to physical limitations of the transmission system, voltage limitations or stability limitations.”

3. To address the needs of the Cleveland area, PJM proposes to create a new LDA (Cleveland LDA). PJM states that the establishment of the Cleveland LDA is appropriate given the planning analyses conducted at the Cleveland Interface, and necessary for the purpose of addressing potential reliability concerns related to the voltage and stability limitations in the Cleveland area. PJM states that, as proposed, the Cleveland LDA will be wholly within the existing American Transmission Systems, Inc. (ATSI) LDA. PJM proposes an effective date of January 4, 2013 arguing that this date is required to include the Cleveland LDA in the planning parameters applicable to the May 2013 RPM Base Residual Auction. According to PJM, these parameters need to be posted by PJM no later than February 1, 2013.⁴

II. Notice of Filing and Responsive Pleadings

4. Notice of PJM’s filing was published in the *Federal Register*, 77 Fed. Reg. 67,641 (2012), with interventions and protests due on or before November 23, 2012. Timely-filed motions to intervene were submitted by Exelon Corporation, NRG Companies, Duke Energy Corporation, FirstEnergy Companies, the Public Utilities Commission of Ohio, PJM Power Providers Group, GenOn Parties, Buckeye Power, Inc. (Buckeye), American Municipal Power, Inc. (AMP), and Cleveland Public Power. Comments were filed by Buckeye, AMP, and Cleveland Public Power. Answers were filed on December 10, 2012, by Cleveland Public Power, on December 14, 2012, by PJM, on December 18, 2012, by Buckeye, and on January 2, 2013, by AMP.

A. Comments

5. Buckeye supports PJM’s proposal. Buckeye claims that with the existence of transmission constraints in the Cleveland area (where Buckeye has no load) and PJM’s existing inclusion of this area in the currently-configured ATSI LDA, Buckeye’s capacity

⁴ See PJM Open Access Transmission Tariff (OATT) at Attachment DD, section 5.11 and PJM Manual 18.

obligation charge, for the 2015-16 delivery year, will be \$16 million more than it would have been had there been both an ATSI LDA and a separate Cleveland LDA.⁵ Buckeye asserts that owners of generation located in the ATSI LDA but outside the Cleveland area, will be paid for capacity at rates affected by the Cleveland transmission constraints even though such capacity does not help manage these constraints. Buckeye states that it has no generation in the ATSI Zone and thus it will not be able to off-set its capacity auction purchase costs by using its own generation and/or selling into the capacity market. Buckeye concludes that, under these circumstances, the establishment of the proposed Cleveland LDA represents a constructive step forward that will ensure that the capacity costs of Load Serving Entities whose loads in the ATSI Zone are no longer skewed upwards by transmission constraints in the Cleveland area.

6. AMP questions the need for a separate Cleveland area LDA. AMP claims that PJM's proposal, at the time it was considered by PJM's stakeholders, failed to take into account the status of the Cleveland area as an Environmental Protect Agency (EPA) "nonattainment area." AMP argues that if the Cleveland LDA is given nonattainment status, it will effectively be "off limits" to new generation no matter how high capacity prices rise inside the new LDA. AMP asserts that, under these circumstances, exposing load in the Cleveland area to higher prices in PJM's capacity auctions represents a penalty without a purpose. AMP further argues that PJM made its filing without fully identifying each of the Load Serving Entities that will fall within the borders of the proposed LDA, thus impeding the ability to fully evaluate PJM's proposal and further impeding the ability of market participants to make informed planning decisions in advance of the first capacity auction to which the new LDA will apply.

7. Cleveland Public Power concurs with AMP. Specifically, Cleveland Public Power endorses AMP's comments and adds that Cuyahoga County, in which Cleveland is located, is an EPA-designated non-attainment area for lead and particulate matter and is designated as "marginal" under the EPA's eight-hour ozone standard.⁶ Cleveland Public Power further adds that, with one exception, each of the immediately-surrounding counties is designated by the EPA as a non-attainment area for three monitored air pollutants. Cleveland Public Power concludes that the ability of an entity seeking to

⁵ Buckeye clarifies, in its answer (as discussed below), that this cost impact would, in fact, be less than \$16 million, based on subsequent clarifications provided by PJM.

⁶ See Cleveland Public Power Protest at 4 (citing U.S. Environmental Protection Agency, *Green Book* (July 2012), available at: www.epa.gov/airquality/greenbook/ancl.html#OHIO).

construct new generation in the Cleveland LDA – and obtaining the necessary air quality permits – is unlikely.

B. Answers

8. Cleveland Public Power characterizes as unsupported Buckeye's assertion that Buckeye would have saved \$16 million had the Cleveland area not been included in the ATSI LDA as part of the 2015-16 capacity auction. Cleveland Public Power argues that, without any indication from Buckeye as to the methodology underlying this asserted cost impact, Buckeye's impact analysis must be rejected. Cleveland Public Power also argues that, based on PJM's scenario analysis for this auction (an analysis which considered the hypothetical existence of the Cleveland LDA, as of the 2015-16 auction), only a minimal amount of price separation from the rest of the ATSI LDA would have occurred, while the ATSI LDA capacity clearing price would have been unchanged. Cleveland Public Power asserts that, under PJM's analysis, the residual clearing price for the ATSI LDA would have been \$357.00 while the residual clearing price for the Cleveland LDA would have been \$358.22.⁷

9. PJM, in its answer, adds that it gave full and adequate consideration to the Cleveland area's status as an EPA nonattainment area when designing the proposed Cleveland LDA. PJM asserts, however, that these EPA designations will not prohibit new generation in the Cleveland LDA. PJM notes, for example, that a new emissions source, such as a new power plant, can offset its emission of certain pollutants by acquiring emission reduction offsets from a source in the nonattainment area that has either reduced its emissions or shut down its operations. PJM points out that 1,332 MW of existing generation was deactivated as of September 2012, and that an additional 1,424 MW of existing generation resources are expected to retire as of June 1, 2015.

10. PJM further argues that the proposed Cleveland LDA is required by the guidelines established under Schedule 10.1 of the RAA. Specifically, PJM asserts that, under Schedule 10.1, LDAs are required to be based on transmission constraints, and PJM is required to make a filing with the Commission to create a new LDA "[I]f such new [LDA] is projected to have a capacity emergency transfer limit less than 1.15 times the capacity emergency transfer objective of such area, or if warranted by other reliability concerns consistent with the Reliability Principles and Standards." PJM adds that the establishment of a Cleveland LDA is required to address potential reliability concerns

⁷ See Cleveland Public Power Answer at 4 (citing <http://www.pjm.com/markets-and-operations/rpm/~media/marketsops/rpm/rpm-auction-info/sensitivity-scenario-analysis-results.ashx>, as posted November 12, 2012).

related to the voltage and stability limitations in the Cleveland area. PJM asserts that, under these circumstances, the Commission need not, and should not, consider collateral issues arising under the authority of the EPA.

11. Finally, PJM disputes AMP's claim that relevant information regarding the effect of the Cleveland LDA on Load Serving Entities has been unreasonably withheld by PJM. PJM states that, in August 2012, PJM identified the generators and load buses that would be included in the Cleveland LDA. PJM acknowledges that, due to on-going analyses, this posting did not include certain limited information, i.e., the zip codes/physical locations of certain demand response customers in the Ohio Edison service area (an area comprising only five percent of the Cleveland LDA). PJM states, however, that this information was subsequently posted by PJM on December 12, 2012.

12. In its answer, Buckeye clarifies that it erred in claiming a \$16 million cost impact attributable to its capacity charge obligations for the 2015-16 delivery year. Buckeye states that its calculation was based on a comparison of the clearing price for the ATSI LDA, inclusive of the Cleveland area, and the PJM-wide clearing price. Buckeye claims that it would have paid less for capacity in the 2015-16 delivery had a Cleveland LDA been in place, albeit less than \$16 million.

13. AMP, in its answer, disputes PJM's assertion that there will be ample emission reduction offsets available for siting new generation in the proposed Cleveland LDA. AMP argues that PJM's claims ignore the permitting challenges identified by AMP, in its comments, and rely on ill-founded assumptions about the availability of offsets in the Cleveland area.

III. Discussion

A. Procedural Matters

14. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2012), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2012), prohibits an answer to a protest or an answer to an answer unless otherwise ordered by the decisional authority. We will accept the answers filed by Cleveland Public Power, PJM, Buckeye, and AMP because they have provided information that assisted us in our decision-making process.

B. Commission Determination

15. For the reasons discussed below, we accept PJM's filing, to become effective January 4, 2013, as requested. Schedule 10.1 of the RAA requires PJM to establish a new LDA when a region has limited import capabilities and/or if reliability concerns

have been identified in that region. PJM has demonstrated, and no party contests, that the area comprising the new Cleveland LDA faces both limited import capabilities as well as voltage and stability limitations. Accordingly, we find that the Cleveland LDA, as proposed, satisfies the requirements of Schedule 10.1.

16. The Commission has determined that a properly functioning capacity market should provide price signals adequate to ensure the availability of energy resources in local areas sufficient to meet reliability needs.⁸ PJM asserts, and we agree, that due to the import and other limitations in the Cleveland area, creating a separate Cleveland LDA will improve price signals and create an incentive for additional supply resources, if necessary, to meet future reliability needs. Even assuming, as Cleveland Public Power claims, that price separation will initially be small between the new Cleveland LDA and the ATSI LDA, we cannot conclude that this initial condition will persist, given PJM's demonstration of limitations on import capabilities.

17. We reject AMP's and Cleveland Public Power's arguments that EPA nonattainment designations in the Cleveland area will necessarily prevent the entry of new generation to serve this area, or otherwise expose Load Serving Entities to unreasonably high capacity costs. Even assuming that EPA nonattainment designations may prevent, or limit, the construction of certain types of new generation in the Cleveland area, having a separate price zone is even more important to ensure reliability because higher prices will create incentives for resources other than fossil fuel-fired generation, such as demand response resources, renewable resources, and energy efficiency. In fact, capacity payments will flow to *any* eligible resource capable of meeting Cleveland's energy supply needs, not just a generation resource. Moreover, properly defining LDAs, and establishing appropriate price signals, is intended to not only attract new resource entry when needed, but also to ensure prices adequate to retain existing resources.

18. Finally, we reject AMP's argument that PJM's failure, at the time PJM made its filing, to provide Load Serving Entities with certain information regarding all buses to be included in the Cleveland LDA, at the time that PJM made its filing, renders PJM's proposed LDA unjust or unreasonable. PJM explains, in its answer, that the modeling of its proposed LDA was ongoing, but that all relevant information was provided, when available. We agree that, under these circumstances, PJM provided sufficient support for its filing.

⁸ See *PJM Interconnection, L.L.C.*, 115 FERC ¶ 61,079, at P 29 (2006).

The Commission orders:

PJM's filing is hereby accepted, as discussed in the body to this order, to become effective January 4, 2013, as requested.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.