Enhancing PJM's CIR Transfer Efficiency

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Level-Setting: What this is NOT

- The proposed PS/IC is not intended to impact the FERC approved PJM interconnection queue reform and PJM's efforts to reduce the queue backlog.
- East Kentucky Power Cooperative and Elevate Renewable Energy have supported, and continue to support, those efforts.
- Rather, our focus is narrowly focused on enhancing the CIR transfer process, which was not changed by the queue reform.

Overview: PJM's Current CIR Transfer Process

- PJM currently permits CIRs to be transferred from deactivating "Generation Capacity" to new generation resources.
- CIR transfers may involve new capacity not located at the same Point of Interconnection (POI) as the existing generation.
- PJM studies the system to determine how the replacement resource may benefit from the existing resource's CIRs and identifies any additional grid reinforcements that may be necessary to grant the requested level of CIRs at the requested POI.
- If the CIR transfer process is not initiated within one year from deactivation date, the CIRs of the existing Generation Capacity are forfeited.

The Problem: A Confluence of Issues

- PJM's current CIR transfer process relies on PJM's standard queue process, which currently is significantly backlogged.

- When the rules were initially developed, it was reasonable to assume the PJM study process could be completed in sufficient time to match a replacement project's schedule.

- The reality is that with accelerated retirements, diminished reserve margins, and a significantly backlogged queue of new resources, there is a timing misalignment that may impact reliability and resource adequacy in PJM.
    - Misalignment may result in PJM needing to consider pursuing an RMR with the deactivating resource and/or transmission reinforcements to maintain reliability.
        - There may be transmission cost/cost allocation implications and even resource adequacy implications.
    - Misalignment may result in LSEs effectively losing their ability to hedge market prices.

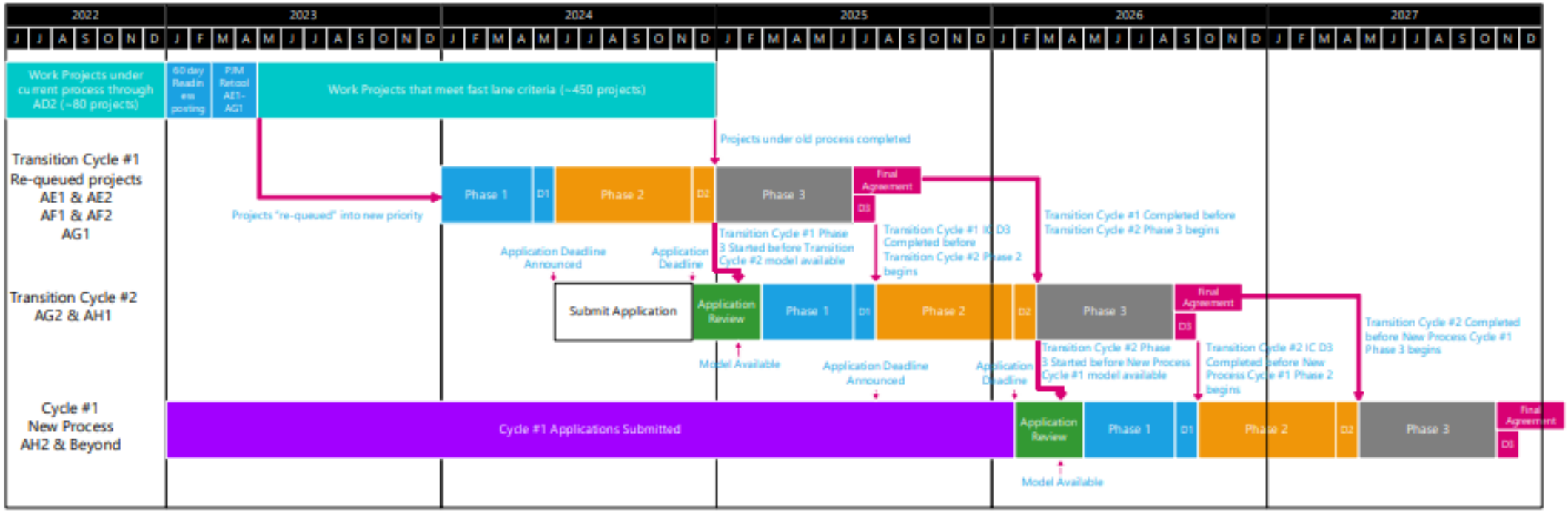
The Problem (cont.)

- PJM's recently approved queue reforms do not change the CIR transfer process.
- Given the evolving factors that influence generation deactivations, it is unlikely that the envisioned replacement resources for deactivation decisions not yet made are in the queue. As such, a new queue request would be needed under the current process.
  - Under the current Interconnection reforms, a new request would be studied only after PJM completes the transition phases (no earlier than 2026 would the study initiate).

- However, as PJM pointed out transfers will need to occur in the next few years to avoid resource adequacy and reliability issues.
  - See PJM's study: *Energy Transition in PJM: Resource Retirements, Replacements & Risk*

The Problem: PJM Queue Reform Process Timeline

FIGURE 9: TRANSITION PERIOD SEQUENCING AND PROCESS



Source: PJM filing in Docket No. ER22-2110-000

The Problem: Terminology Confusion

- The CIR transfer rules use the defined term “Generation Capacity” – both as to who may transfer and who may receive CIRs.

- Although the term “Generation Capacity” is envisioned to apply to storage and hybrid resources due to FERC Order No. 841, greater clarity in the Tariff and RAA may be necessary to prevent unnecessary confusion and potential discrimination.

Impacts of Current CIR Transfer Process Inefficiency

- Increases challenge of satisfying reliability obligation and increases unhedged market price exposure for LSEs who own deactivating generation.
- Increases commercial risk for existing capacity resource owners seeking replacement.
- May incent more “speculative” projects in queue due to anticipation of the generation retirement (distorting market price signals and creating planning uncertainty).

Impacts of Current CIR Transfer Process Inefficiency (cont.)

- May create resource adequacy or locational reliability concerns:
  - Will projects timely replace retirements in those locations and provide sufficient reliability contribution?
  - If not, may drive costs associated with RMR agreements & transmission upgrades.
- Creates barriers to modernizing and decarbonizing the generation fleet.

Benefits of More Efficient CIR Transfer Process

- Greater assurance of resource adequacy/reliability
  - Replacement in location where it is needed
  - Greater assurance that the replacement resource will be constructed
- Lower overall cost of energy/capacity
- Lower overall cost of transmission
  - No unnecessary transmission reinforcements to replace deactivating generation that may be efficiently replaced
  - Mitigates need for RMR to retain needed generation

Considerations for a More Efficient Process

- A CIR is a property right acknowledged to have value at a minimum until 1 year post deactivation.
    - Inefficiencies in the process should not effectively reduce the benefit of them for generation owners, including those who also have load serving obligations.

Considerations for a More Efficient Process: Recent FERC Orders

Existing Capacity resources are not similarly situated to projects currently in the queue.

- **FERC Commissioner Clements' Concurrence in Vistra (Docket No. ER22-2632)**

  "It is the fact that an existing generator possesses interconnection rights in a particular location on the transmission system and in a specific type and quantity that is relevant to whether a separate, fast-track interconnection process may be warranted for replacing that generator." (Clements)

- **PacifiCorp Order (Docket No. ER23-407-000**

  "establishment of a separate, resource-neutral generator replacement process for owners of existing generation, administered by the Independent Coordinator, does not provide an undue preference to the transmission provider's existing generation"

  - "such owners have already gone through an interconnection process and faced cost responsibility for any network upgrades that may have been necessary"
  - "owners of existing generation resources . . . Already own their interconnection facilities, have site control, and may have existing power purchase agreements"
  - "PacifiCorp's proposal . . . create[s] a separate process for replacing any existing entity's generators where the replacement *does not have a material impact on the transmission* system and makes this replacement process more efficient and less costly, which we find to be consistent with or superior to the pro formal LGIP."

  "new interconnection requests are not similarly situated to existing generation facilities"

Proposed Issue Charge

- **Key Work Activities:**
  - Education on PJM's process (including the reliability analysis PJM must perform and responsibility for transmission reinforcements that may be needed) for transferring CIRs from deactivating generation resources to replacement resources.
  - Develop a solution that enhances PJM's process for transferring CIRs from deactivating resources that both improves the efficiency of the process and clarifies that it applies to all energy-injecting capacity resource types.
- **Expected Deliverables:**
  - Revisions to PJM's OATT and RAA (definitions)
  - Potential conforming manual changes
- **Out of Scope:**
  - Changes to the current process of transferring CIRs when the replacement resource locates at a different POI from the existing deactivating resource

Next Steps

- **First Read of Issue Charge**: May 9, 2023 Planning Committee meeting
- **Approve Issue Charge**: June 6, 2023 Planning Committee meeting

- Work the issue in the **Interconnection Process Subcommittee**