

## Enhancing Capacity Interconnection Rights (CIR) Transfer Efficiency

### Problem / Opportunity Statement

Owners of existing Generation Capacity Resources in PJM are permitted to transfer their Capacity Interconnection Rights (CIRs) to an affiliated or non-affiliated entity. (See, PJM OATT, Section 230.3.3) They may do so by submitting a deactivation request in concert with associating the CIRs with an Interconnection Customer's application to construct a new Generation Capacity Resource. The new Generation Capacity Resource is not required to be located at the same Point of Interconnection (POI) of the existing Generation Capacity Resource. The existing Generation Capacity Resource owner must initiate the CIR transfer within 1 year after the actual deactivation date of its resource; if not, then the CIRs are terminated one year from the deactivation date. PJM must receive written notification that the transferred CIRs will be used by the Interconnection Customer on or before the Interconnection Customer's execution of the System Impact Study Agreement. The transfer is tied to the interconnection study process.

Although the queue reform is reducing the backlog and progressing well, the timeline for new projects to be studied under the new, reformed rules will result in a significant delay for any resources that seek to deactivate and transfer their CIRs. Under the current expected timeline for the implementation of the new interconnection process rules and procedures approved by the Federal Energy Regulatory Commission, any new Interconnection Customer application will not begin to be studied until at least 2026. Any Generation Capacity Resource seeking to deactivate between the years 2023 and 2026 may experience a delay in the use of the transferred CIRs of up to 4 years or more.

Although the CIRs can be held longer than 1 year post resource deactivation, provided that the CIR transfer process was initiated within 1 year after deactivation, the delay may result in reliability and cost impacts. Those impacts affect the existing resource owner and load serving entities, and may even affect resource adequacy for the PJM region should the pace of retirements exceed the current pace of replacement.

PJM's current process does not appropriately acknowledge that existing Generation Capacity Resources are not similarly situated with prospective Generation Capacity Resources seeking CIRs. Existing resources have already gone through the interconnection study process and bore cost responsibility for any network upgrades that may have been necessary. Recent FERC decisions have addressed the distinction between existing resources and new resources, upholding different treatment/different processes for interconnection.

Inefficiency in the CIR transfer process results in unnecessary additional cost to customers served by these Generation Capacity Resources. Load serving entities may need to seek alternatives and may find inadequate hedges to mitigate market price exposure should CIR transfers not be efficiently executed.

Also, the inefficiency could result in PJM needing to rely on RMR agreements and/or the transmission reinforcements to address reliability issues resulting from generation deactivation that otherwise would not be necessary if CIR transfers could be more efficient. These measures result in cost to load, and the allocation of such costs may extend beyond the zone in which the deactivating generation is located.

Moreover, the inefficiency could result in resource adequacy concerns. Generation deactivations may be initiated as soon as 2023 in response to certain state policies that effectively necessitate deactivation of fossil fuel facilities. Other state and federal policies and PJM market signals may be the impetus for additional deactivations in the next several years. PJM has acknowledged concerns with the potential for significant generation retirements over the next ten years: “For the first time in recent history, PJM could face decreasing reserve margins should these trends continue. The amount of generation retirements appears to be more certain than the timely arrival of replacement generation resources and demand response. . . .”<sup>1</sup> A more efficient process is needed to mitigate these concerns. Efficiency enhancements are needed to both mitigate the potential for additional costs and reliability or resource adequacy concerns associated with the deactivation of generation, especially over the next several years.

Additionally, the inefficient CIR transfer process also may stymie state and federal energy policy achievement.

Any effort to consider enhancements to the process efficiency should consider clarifying to which resources the process applies. The current CIR transfer process pertains to “Generation Capacity Resources.” Although PJM sought to comply with FERC Order No. 841 accommodating energy storage in all of its markets, and accounted for energy storage in interconnection requirements, the use of the term “Generation Capacity Resources” does not explicitly reference energy storage or hybrid resources in its definition. Additional clarification is needed to avoid confusion and ensure that the CIR transfer process may be implemented in a non-discriminatory fashion.

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<sup>1</sup> [Energy Transition in PJM: Resource Retirements, Replacements & Risk](#) (Feb. 24, 2023) at 3, posted at [energy-transition-in-pjm-resource-retirements-replacements-and-risks.ashx](#)

## **Excerpt of OATT provided for reference:**

### **230.3.3 Replacement of Generation:**

In the event of the Deactivation of a Generation Capacity Resource (in accordance with Tariff, Part V and any Applicable Standards), or removal of Capacity Resource status (in accordance with Tariff, Attachment DD, section 6.6 or Tariff, Attachment DD, section 6.6A), any Capacity Interconnection Rights associated with such facility shall terminate one year from the Deactivation Date, or one year from the date the Capacity Resource status change takes effect, unless the holder of such rights (including any holder that acquired the rights after Deactivation or removal of Capacity Resource status) has submitted a new Generation Interconnection Request up to one year after the Deactivation Date, or up to one year from the date the Capacity Resource status changes take effect, which contemplates use of the same Capacity Interconnection Rights. The Interconnection Customer must provide written notification to the Transmission Provider that it intends to utilize such Capacity Interconnection Rights on or before the date the Interconnection Customer executes the System Impact Study Agreement associated with the Generation Interconnection Request for which it intends to utilize such Capacity Interconnection Rights. Notwithstanding the previous sentence, Interconnection Customers in the New Services Queue prior to May 1, 2012 must provide written notice of intent to utilize such Capacity Interconnection Rights when it executes its Facilities Study Agreement or, if it has already executed its Facilities Study Agreement, then by November 1, 2012. Such notification of transfer of Capacity Interconnection Rights shall be posted on Transmission Provider's public website. Such new Generation Interconnection Request may include a request to increase Capacity Interconnection Rights in addition to the replacement of the previously deactivated amount, or amount removed from Capacity Resource status, as a single Generation Interconnection Request. Transmission Provider may perform thermal, short circuit, and/or stability studies, as necessary and in accordance with its manuals, due to any changes in the electrical characteristics of any newly proposed equipment, or where there is a change in Point of Interconnection, which may result in the loss of a portion or all of the Capacity Interconnection Rights as determined by such studies.

Upon execution of an Interconnection Service Agreement reflecting its new Interconnection Request, the holder of the Capacity Interconnection Rights will retain only such rights that are commensurate with the size in megawatts of the replacement generation, not to exceed the amount of the holder's Capacity Interconnection Rights associated with the facility upon Deactivation or removal of Capacity Resource status. Any desired increase in Capacity Interconnection Rights must be requested in the new Generation Interconnection Request and be accredited through the applicable procedures in Tariff, Part IV and Tariff, Part VI. In the event the new Interconnection Request to which this section refers is or is deemed to be terminated and/or withdrawn for any reason at any time, the pertinent Capacity Interconnection Rights shall not terminate until the end of the one year period from the Deactivation Date, or the end of the one year period from the date the Capacity Resource status change takes effect.

### **230.4 Transfer of Capacity Interconnection Rights:**

Capacity Interconnection Rights may be sold or otherwise transferred subject to compliance with such procedures as may be established by the Transmission Provider regarding such transfer and notice to the Transmission Provider of any generation facilities that will use the Capacity Interconnection Rights after the transfer. The transfer of Capacity Interconnection Rights shall not itself extend the periods set forth in section 230.3 above regarding loss of Capacity

Interconnection Rights.