

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

Duquesne Light Company	)	Docket No. ER08-194-000
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**ANSWER OF PJM INTERCONNECTION, L.L.C.**

Pursuant to Rules 212 and 213 of the Federal Energy Regulatory Commission’s (“Commission”) Rules of Practice and Procedure, 18 C.F.R. §§ 385.212 and 385.213 (2007), PJM Interconnection, L.L.C. (“PJM”) submits this answer to the Emergency Request for Ruling filed on March 18, 2008, by the PJM Power Providers (“P3”) Group. Generation Capacity Resources in the Duquesne Light Company (“Duquesne”) Zone have recognized the issues posed in the P3 Group’s filing and have asked that PJM afford a solution that essentially would allow them to satisfy the requirements for external resources on a contingency basis and permit their participation as internal resources in the May 2008 Base Residual Auction for the procurement of capacity under the Reliability Pricing Model (“RPM”) for the 2011/12 Delivery Year and future auctions. This solution, which PJM concurs with, would not require any special action from the Commission other than, perhaps, confirmation in this proceeding that it is appropriate and based upon sound assumptions. The Commission could go significantly further to facilitate this solution, though, by encouraging a timely determination from Midwest ISO on whether it would recognize service by granted by PJM on the terms described below or by ordering that the intended results occur automatically, obviating the need for any of PJM, Midwest ISO or the affected owners of Generation Capacity Resources to effect these special arrangements.

Generation Capacity Resources have requested that PJM grant firm point-to-point service duplicative of the service that these resources now rely upon as the beneficiaries of the network service reserved by Load Serving Entities in the Duquesne Zone. In other words, this service is not currently needed by generation owners to provide energy or capacity to load, but it is needed in order to ensure a continuing ability to serve load in the event that load moves outside of the PJM Region. Generation Capacity Resource owners claim that PJM is the appropriate entity from whom to request such service because unless and until Duquesne exits PJM, it is the only entity authorized to provide service on the Duquesne system. This additional firm point-to-point service would have no adverse impact to PJM's operation of the system or the markets, but presumably would convert, at the time of any transition of the Duquesne Zone to Midwest ISO, into firm point-to-point transmission service to the PJM border. The Commission has been reluctant to disturb pre-existing transmission contracts in the context of the integrations of entities into Regional Transmission Organizations ("RTOs"), and PJM can see no reason why the same policy would not apply to a transition from one RTO to another.<sup>1</sup> It would be helpful to PJM if the Midwest ISO would confirm its willingness to convert service granted in this manner prior to the May 2008 Base Residual Auction.

The P3 Group argues (at 6) that PJM should not allow Generation Capacity Resources in the Duquesne Zone to participate in the May 2008 Base Residual Auction because they most likely will be external in the 2011/12 Delivery Year and will not be able

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<sup>1</sup> See, e.g., *Regional Transmission Organizations*, Order No. 2000, FERC Stats. & Regs. ¶31,089, at p. 31,205 (1999) ("In our examination of existing contracts, we intend to balance the preference for preservation of existing contracts with the importance of consistency in transmission pricing and the elimination of pancaked rates"), *order on reh'g*, Order No. 2000-A, FERC Stats. & Regs., ¶31,092 (2000), *aff'd sub nom. Public Utility District No. 1 of Snohomish County, Washington v. FERC*, 272 F.3d 607 (D.C. Cir. 2001). This issue apparently did not arise in the context of Louisville Gas and Electric Company's exit from the Midwest ISO, and, as far as PJM is aware, this is an issue of first impression.

to obtain from the Midwest ISO the firm point-to-point transmission service necessary to establish deliverability, perhaps an impossible task given the reported lack of available transmission capacity (“ATC”) in the Midwest ISO (See P3 Group at 4). One consequence of that result would be a shorter market for capacity and a likelihood of higher capacity prices. This differential would not fairly reflect fundamentals of supply, demand or deliverability in the Duquesne Zone because this shorter market results only from the as-yet unrealized contingency of the transition between RTOs. Consequently, PJM believes that this result is worth averting if a solution can be found that does not compromise reliability or unfairly burden other parties.

PJM believes that the solution proposed to PJM by Generation Capacity Resources would avoid consideration of any future controversy over the apportionment of ATC by the Midwest ISO in the future, and instead allow Generation Capacity Resources to specifically reserve firm point-to-point service parallel to the network service that they have been using to date. The network service presently used to deliver the Duquesne Zone generation resources to load is service that today is obtained by load in PJM. It is unclear whether this service would automatically convert to firm point-to-point service in the Duquesne Zone (Midwest ISO) for the benefit of the affected Duquesne Zone generation resources given the transition of the Duquesne Zone to the Midwest ISO. If PJM grants requests for firm point-to-point transmission service by Generation Capacity Resources in the Duquesne Zone, this service presumably would convert during a transition. PJM could grant such service without performing any reliability studies because no usage of the system is contemplated here beyond the current use.

Alternatively, the Commission could determine in this proceeding that network service held by Transmission Customers would automatically include conversion to firm

point-to-point service for generation resources that have been the historic beneficiaries of this pre-transition network service. This approach would yield the same result described above with less administrative burden to PJM or the Midwest ISO and considerably less administrative and potential financial burden to the affected generation resources. If the Commission is unwilling to adopt this comprehensive and more efficient approach, PJM plans, unless directed otherwise, to accommodate requests from Generation Capacity Resource owners in the Duquesne Zone for firm point-to-point transmission service in anticipation that such service would convert to service in the Midwest ISO post transition on the same basis as any other firm point-to-point service granted by PJM. Moreover, PJM intends to rely on the conversion of such service in any future transition of the Duquesne Zone to Midwest ISO in evaluation of whether Generation Capacity Resources meet the applicable criteria in RPM for establishing deliverability.

In addition to firm point-to-point service, the RPM rules require that an external resource desiring to participate in RPM (i) provide to PJM a letter of non-recallability that affirms, among other things, that the capacity value of the resource has not been sold anywhere else and (ii) meet certain credit requirements. PJM does not anticipate any difficulties with resources in the Duquesne Zone providing letters of non-recallability satisfactory to PJM or, should it be determined to be necessary, with posting the required credit. PJM notes that if the Commission were to affirm through an order in this docket that the network service currently utilized by the load in the PJM Region to deliver the Duquesne Zone generators to the aggregate PJM load automatically will convert to firm point-to-point service on the Midwest ISO system should Duquesne transition to the Midwest ISO, then PJM will consider the transmission service requirement met and the credit requirement need not apply.

On the basis of the foregoing, PJM respectfully requests that, should the Commission take any action on this matter in response to this motion, the Commission here order that PJM may accommodate requests that it pursue the above-described arrangement (granting firm point-to-point service now and relying upon a possible future conversion to satisfy RPM requirements regarding deliverability) at the request of Generation Capacity Resource owners in the Duquesne Zone, or that it go on to take the above-identified alternative steps whereby the Commission could obviate the need to take such actions. Either course of action would eliminate the attendant uncertainty regarding how PJM will administer the May 2008 Based Residual Auction and ensure that loads in PJM will pay capacity prices most accurately reflecting true supply, demand and deliverability conditions in the Duquesne Zone.

Respectfully submitted,



Craig Glazer  
Vice President Federal Government Policy  
PJM Interconnection, L.L.C.  
Suite 600  
1200 G Street, N.W.  
Washington, D.C. 20005  
(202) 423-4743 (cell)  
*glazec@pjm.com*

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Jeffrey W. Mayes  
Senior Counsel  
PJM Interconnection, L.L.C.  
955 Jefferson Avenue  
Valley Forge Corporate Center  
Norristown, Pennsylvania 19403-2497  
(610) 666-8878  
*majesj@pjm.com*

Dated: March 26, 2008

**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 Norristown, Pennsylvania  
this 26<sup>th</sup> day of March, 2008.



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Jeffrey W. Mayes  
Senior Counsel  
PJM Interconnection, L.L.C.  
955 Jefferson Avenue  
Norristown, Pennsylvania 19403  
(610) 666-8878  
*majesj@pjm.com*