



## **I. ANSWER**

### **A. PJM's Proposed Recovery of Incremental Black Start Cost Requires Documentation**

The Commission's first inquiry sought further clarification relative to the level of documentation that would be required by black start unit owners to recover non-NERC incremental costs,<sup>3</sup> since, by the Commission's evaluation, it did not appear that PJM's proposal required such black start unit owners to provide documentation supporting those costs. Citing to the specific PJM Open Access Transmission Tariff ("Tariff") provisions in support, PJM maintained that all black start unit owners are required to document their costs before they are eligible to recover those costs as contemplated in PJM Tariff Schedule 6A.

In its Comments, the IMM characterized PJM as failing to respond to the inquiry because it had not "...provide[d] [any] documentation/examples of costs that cannot be documented."<sup>4</sup> However, the IMM failed to acknowledge, as PJM had in its response, that since all incremental capital costs must be documented in order to be eligible for recovery, PJM could not provide any examples of non-NERC incremental costs that could not be documented.

Nevertheless, PJM acknowledges that its initial response to the Commission's inquiry may not have directly addressed the latter part of the first question, although, implicitly, the answer to the first part of the question provides the answer to the second. In this regard, PJM notes that, in order to be eligible for recovery of its expended capital costs, new black start units would be required to document all capital costs of black start equipment. Otherwise, the black

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<sup>3</sup> Deficiency Letter, Question 1: "PJM's proposed recovery of non-NERC incremental costs does not require documentation. Please explain and provide documentation/examples of costs that cannot be documented. Explain why new black start units should be allowed to avoid documenting all capital costs of black start equipment."

<sup>4</sup> IMM Comments, p. 1.

start unit owner would be limited to recovery under the proxy Base Rate Formula set forth in Schedule 6A which, presumably, would be insufficient to adequately and reasonably compensate the black start unit owner for its costly investment.<sup>5</sup>

As stated by PJM previously, the proposals offered in the present filing, among other things, provide black start service providers the opportunity to recover documented CIP-specific NERC-related capital costs as an additive, or incremental, to the existing Base Formula Rate. All incremental black start capital costs above this base recovery (and all variable costs, regardless of recovery methodology) must be documented and approved as set forth in PJM Tariff Schedule 6A.

**B. The “Cost Proxy” Base Formula Rate is an Accepted Proxy for a Black Start Unit Owner to Recover its Historic and Nominal Ongoing Capital Investment**

Turning to an analysis of PJM’s response to the Commission’s second inquiry<sup>6</sup>, the IMM contends that the “cost proxy” Base Formula Rate never expires and, as such, means that the black start unit owner would eventually over recover its capital investment. If it could be assumed that the Base Formula Rate was designed solely to compensate the unit owner for historic investment, then, perhaps, the IMM’s contention might have merit. However, the Base Formula Rate was designed, and accepted, to be “evergreen,” since, as a proxy rate, it was intended to compensate the unit owner for its putative historic and present capital investment, but

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<sup>5</sup> In fact, the proxy Base Formula Rate is intended to provide a base, capital cost recovery for older units and provides a black start unit owner with its assumed fixed capital costs utilizing a straight formula based upon the units attributes and not upon actual documented cost incurrence. As such, it would be unreasonable to assume that a unit owner with significant capital investment in a new black start unit would opt to utilize a proxy cost rate, as opposed to a cost recovery rate.

<sup>6</sup> Deficiency Letter, Question 2: “In the case of older, fully depreciated units that have no investment to recover, please explain why the Capital Cost Recovery Rate – NERC-CIP Specific Recovery equation, which includes the black box equation for existing investment would not result in over-recovery of costs.”

was never intended to provide recovery for significant capital expenditures that might be needed to allow the unit to operate in compliance with mandatory Reliability Standards.<sup>7</sup> At its fundamental base, the proxy cost Base Formula Rate assumes token ongoing capital investment. As such, the proxy cost rate, at that time, was considered a reasonable means to compensate that owner for its historic and present capital costs.

However, the additional allowance of providing capital cost recovery for incremental NERC CIP-specific capital costs does not run afoul of the basic principle upon which the proxy cost rate was constructed. The unit owner is receiving nominal proxy cost recovery for the historic and present black start investment and, under the present proposal, would have the additional opportunity to document incremental capital costs it expends to bring its black start unit in compliance with mandatory Reliability Standards. The capital investment recovery is incremental, or additive, not compounded.

The proxy cost Base Formula Rate assumes that a black start unit owner will incur ongoing, present capital improvement costs, but does not contemplate the significant capital improvements that may be necessary to ensure that the black start unit is compliant with all mandatory Reliability Standards. At the same time, a black start unit owner should be afforded the opportunity to recover incremental capital improvement costs above that nominal, proxy cost allowance which are necessary for it to maintain compliance with those mandatory Reliability Standards. As such, allowing a black start unit owner the opportunity to recover its costs under the proposed, additive NERC CIP-specific capital cost recovery rate should be considered a

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<sup>7</sup> And, recognize, black start rate revenue provided by the Base Formula Rate is only a small allowance of the unit's overall putative capital costs. As set forth in PJM's previous Motion for Leave to Answer and Answer to Protest, a relatively large 100 MW CT unit, providing black start service in the ComEd zone would net approximately \$117,000 in annual fixed black start capital costs, whereas a more typical, 20 MW CT unit would yield approximately \$23,470 annually.

reasonable means to ensure the black start unit owners are compensated for their overall investment.

**C Implementation of the Proposed Tariff Revisions Would Not Alter Any FERC-approved Black Start Rates**

In evaluating PJM's response to the Commission's fourth question,<sup>8</sup> the IMM maintains that "...the proposed tariff revisions would allow the formula rates to modify, without any further opportunity for review or approval by the Commission, rates for black start service separately and specifically approved by the Commission in a prior proceeding."<sup>9</sup> However, this is simply wrong. The proposed tariff revisions do not contemplate, whatsoever, allowing PJM or the black start unit owner the ability to restructure or modify any prior existing FERC-approved rate for black start service.

What the tariff revisions do contemplate is allowing black start unit owner, with a FERC-approved rate which allows it the opportunity to recover historic capital investment, the additional ability to seek recovery of new, incremental capital costs incurred by it which were not considered in the FERC-approved rate. As such, a unit owner that opted to seek recovery of its initial investment under a FERC-approved rate would be permitted the opportunity to include additional capital improvements (including those designed to ensure its compliance with mandatory Reliability Standards) as an additive to the FERC-approved rate, but it would not alter the underlying FERC-approved rate.

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<sup>8</sup> Deficiency Letter, Question 4: "Please clarify what is meant by the phrase, "if applicable", in the definition of "FERC-approved rate" included in the Capital Cost Recovery Rate equation."


<sup>9</sup> IMM Comments, p. 4.

## II. CONCLUSION

The Commission should consider the foregoing Answer in the evaluation of PJM's proposal in this proceeding.

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**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.

Date at Norristown, Pennsylvania this 16<sup>th</sup> day of December, 2011.



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