UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

North Carolina Electric Membership Corporation Complainant, v. PJM Interconnection, L.L.C., Respondent.	)))))))	Docket No. EL25-79-000

ANSWER OF PJM INTERCONNECTION, L.L.C.

PJM Interconnection, L.L.C. ("PJM"), pursuant to Rule 213 of the Federal Energy Regulatory Commission's ("Commission") Rules of Practice Procedure[1] and the Commission's May 9, 2025 Notice,[2] answers the May 9, 2025 complaint ("Complaint") of North Carolina Electric Membership Corporation ("NCEMC" or "Complainant")[3] in the above-captioned proceeding. Complainant asserts that its pseudo-tied, external Capacity Resources must receive the Dominion Locational Deliverability Area ("LDA") Capacity Resource Clearing Price ("Dominion LDA Clearing Price") rather than the Rest-of-RTO Capacity Resource Clearing Price ("Rest-of-RTO Clearing Price"), even though its resources are, in fact, *not* located in the Dominion LDA.[4] PJM's treatment of NCEMC's external Capacity Resources is the same as Capacity Resources that are within PJM but outside of a constrained LDA (in this case the Dominion LDA). By contrast, NCEMC's

[1] 18 C.F.R. § 385.213.

[2] *N.C. Elec. Membership Corp. v. PJM Interconnection, L.L.C.*, Combined Notice of Filings #1, Docket Nos. EL25-79-000, et al., at 1 (May 9, 2025).

[3] *N.C. Elec. Membership Corp. v. PJM Interconnection, L.L.C.*, Complaint of North Carolina Electric Membership Corporation, Docket No. EL25-79-000 (May 8, 2025) ("Complaint").

[4] Complaint at 3, Attachment B (Dynamic Transfer Agreement Rate Schedule No. 202) at 1 (Recitals), and Attachment C (Dynamic Transfer Agreement Rate Schedule No. 348) at 1 (Recitals) (Complainant's pseudo-tied, external Generation Capacity Resources are located in Hamlet, North Carolina in the CPLE BAA and York County, South Carolina in the DEC BAA).

proposal would, if anything, create an unsubstantiated discriminatory preference for the pricing associated with NCEMC's external Capacity Resources that is not just and reasonable.

Granting Complainant's request would subvert locational pricing based on LDAs, which the Commission has long held is "a central element" of PJM's Reliability Pricing Model ("RPM") capacity market design.[5] Indeed, in support of creating the current RPM construct, the Commission found that "the lack of a locational element [prior to implementation of the RPM, was] a contributing factor to reliability problems within PJM."[6] Thus, the PJM Open Access Transmission Tariff ("Tariff") now requires the Capacity Resource Clearing Price of an LDA to be assigned to only cleared Capacity Resources physically located in the LDA.[7] Locational pricing "reflect[s] the actual costs of capacity resources within specific service areas[,]"[8] i.e., LDAs consisting of sub-regions or Zones within the larger PJM Region, which "create accurate price signals . . . in the locations where they are most needed" to serve reliability needs.[9] In this case, the

[5] *PJM Interconnection, L.L.C.*, 119 FERC ¶ 61,318, at P 67 (2007).

[6] *PJM Interconnection, L.L.C.*, 115 FERC ¶ 61,079, at PP 6, 49 (2006), *clarified by* 119 FERC ¶ 61,318.

[7] PJM Open Access Transmission Tariff, Attachment DD, section 5.14(a) ("The Capacity Resource Clearing Price for each LDA will be the marginal value of system capacity for the PJM Region, without considering locational constraints, adjusted as necessary by any applicable Locational Price Adders[.]").

[8] *PJM Interconnection*, 119 FERC ¶ 61,318 at PP 2, 66-87 (noting rejection of previous capacity market proposal because "the lack of a locational element is a contributing factor to reliability problems within PJM" and finding that "the creation of [LDAs]" are necessary and essential to sending "accurate price signals to incent new generation, transmission and demand response in the locations where they are most needed. … Not all capacity in PJM is deliverable to all locations in PJM," the Commission held, "and it is unreasonable to allow [a Load Serving Entity ("LSE")] in one location to satisfy its capacity requirement with resources whose energy is not deliverable to the LSE.")

[9] *Id.* P 67.

Dominion LDA is geographically equivalent to the Dominion Transmission Zone within PJM.[10]

That Complainant's external resources are pseudo-tied to PJM does not exempt such resources from the locational pricing rules. Rather, PJM's pseudo-tie rules do not affect the pricing rules at all, but set forth the eligibility criteria that external resources (i.e., resources located outside of the PJM Region) must meet to be considered Capacity Resources so that "external resources bidding into the [capacity] auction are comparable to internal resources in assuring that they will be *deliverable* to PJM's system when needed."[11] PJM's pseudo-tie rules are designed to ensure that external Capacity Resources provide a capacity product comparable to internal Capacity Resources (i.e., resources located inside the PJM Region).[12] Thus, as the Commission has held, "pseudo-tied generation resources . . . are treated like internal generation, *subject to redispatch and locational pricing*."[13] That is, the locational pricing rules apply equally to all Capacity Resources, whether external or internal to PJM. When an LDA is constrained such that "PJM cannot select lower-priced capacity offers from Capacity Resources outside of the

[10] *See 2025/2026 Base Residual Auction Report*, PJM Interconnection, L.L.C. (July 30, 2024), https://www.pjm.com/-/media/DotCom/markets-ops/rpm/rpm-auction-info/2025-2026/2025-2026-base-residual-auction-report.pdf ("2025/2026 Base Residual Auction Report").

[11] *PJM Interconnection, L.L.C.*, 161 FERC ¶ 61,197, at P 18 (2017) ("Pseudo-Tie Enhancement Order") (emphasis added), *order on reh'g*, 170 FERC ¶ 61,217 (2020) ("Pseudo-Tie Enhancement Rehearing Order") (together "Pseudo-Tie Enhancement Orders").

[12] Indeed, the current pseudo tie rules were adopted in 2017 to "address the operational and deliverability concerns of external resources" in response to "challenges with pseudo-ties being accurately modeled during real-time assessments of [PJM's] system due to: (1) modifications to the external physical bulk electric system that are not reflected in PJM's [Energy Management System] model; (2) unplanned and planned outages of data links with external entities; and (3) external telemetry data quality and availability." Pseudo-Tie Enhancement Order, 161 FERC ¶ 61,197, at PP 5, 27. Specifically, the pseudo tie requirements adopted in Docket No. ER17-1138 provide better interregional coordination, resolved modeling challenges for resources located far beyond the PJM border, established limits on the number of coordinated flowgates, avoided modeling errors with relevant coordinating entities, provided unit-specific visibility on external resources, and ensured deliverability into PJM. *See generally id.*

[13] *PJM Interconnection, L.L.C.*, 150 FERC ¶ 61,041, at P 4 (2015) (emphasis added).

constrained Locational Deliverability Area to meet capacity needs within that area . . . the clearing price for the constrained Locational Deliverability Area can exceed the Rest-of-RTO's clearing price[,]"[14] i.e. price separate. In accordance with the Tariff, Capacity Resources inside an LDA that price separates receive the LDA clearing price.[15] All Capacity Resources not located inside an LDA that price separates receive the Rest-of-RTO Clearing Price.[16] This is necessary to allow the capacity market to provide the appropriate locational price signals for resources physically located within a constrained LDA, in which only so much energy can be delivered into the constrained location due to physical transmission limitations. Accordingly, it is just and reasonable and not unduly discriminatory or preferential for pseudo-tied, external resources not located inside an LDA that price separates to likewise receive the Rest-of-RTO Clearing Price.

Perhaps in tacit recognition of these basic market design tenants, Complainant argues, in the alternative, that by virtue of being legacy[17] Prior CIL Exception External Resources (i.e., a resource that pseudo-tied to PJM before the current pseudo-tie rules were adopted in 2017), their external resources "merit special treatment."[18] According to Complainant, fairness and equity demand that Complainant's external resources, while located outside the Dominion LDA, nonetheless receive the Dominion LDA Clearing

[14] *Ill. Mun. Elec. Agency v. PJM Interconnection, L.L.C.*, 178 FERC ¶ 61,045, at PP 2-3 (2022) ("This occurs because PJM cannot select lower-priced capacity offers from Capacity Resources outside of the constrained [LDA] to meet capacity needs within that area due to transmission constraints. As a result, the clearing price for the constrained [LDA] can exceed the Rest-of-RTO's clearing price. In the event of such price separation, PJM pays the Capacity Resources in the constrained [LDA] the higher Zonal Capacity Price and pays the Capacity Resources outside the constrained [LDA] the lower Zonal Capacity Price or Rest-of-RTO clearing price.").

[15] *See* Tariff Attachment DD, section 5.14(a).

[16] *See, e.g.*, 2025/2026 Base Residual Auction Report.

[17] Complainant describes these legacy resources as "grandfathered" throughout the Complaint. *See, e.g.* Complaint at 3, 4.

[18] *Id.* at 22.

Price.[19] No such preferential treatment is warranted. Indeed, being a legacy Prior CIL Exception External Resource is simply one way that a resource may *participate* in the RPM as a Capacity Resource; it does not and should not confer any special exemption from locational pricing. In short, that Complainant's external resources qualify as "legacy" resources does not override the Tariff provisions related to price formation within a constrained LDA.

Complainant has historically used its pseudo-tied, external resources as a hedge against capacity prices in the Dominion LDA by self-supplying megawatts from Capacity Resources physically located outside the PJM Region and outside the Dominion LDA. However, in the Base Residual Auction for the 2025/2026 Delivery Year, the Dominion LDA price separated from Rest-of-RTO, and Complainant's hedging strategy did not provide the perfect hedge that NCEMC may have desired. A hedge, by definition, *offsets or reduces* risk of loss.[20] It is not a guarantee, and nothing in PJM's governing documents or the law demands that a hedging strategy will always succeed. Nevertheless, Complainant now asks the Commission to direct PJM to revise its region-wide capacity market rules to effectively ensure Complainant's strategy succeeds in future capacity market auctions by requiring that both sides of Complainant's hedge receive the same price.

[19] Complaint at 22.

[20] *See, e.g.*, *Hedge*, Merriam-Webster Dictionary, https://www.merriam-webster.com/dictionary/hedge (3a: "to buy or sell commodity futures as a protection against loss due to price fluctuation") (last visited June 6, 2025); *Hedge: Definition and How It Works in Investing*, Investopedia, https://www.investopedia.com/terms/h/hedge.asp ("Hedging is a strategy to limit investment risks. Investors hedge an investment by trading in another that is likely to move in the opposite direction.") (last visited June 6, 2025).

Complainants simply have not provided a basis for the Commission to find, under Section 206 of the Federal Power Act ("FPA"),[21] PJM's Tariff unjust and unreasonable. Indeed, making such a finding would require the Commission to abandon long-standing locational pricing principles that have applied to price formation in constrained LDAs. The record in this case does not support such a sweeping change so as to effectively guarantee that Complainant's hedge succeeds in the future. Accordingly, PJM requests that the Commission deny the Complaint.

I. BACKGROUND

A. Locational Pricing Is a Fundamental Element of PJM's Capacity Market Design and Is Implemented Through Modeling LDAs in Capacity Auctions.

A basic purpose of the RPM is to make physical limits on the movement of capacity visible to market participants through price signals. "Not all capacity in PJM is deliverable to all locations in PJM, and it is unreasonable to allow an LSE in one location to satisfy its capacity requirement with resources whose energy is not deliverable to the LSE."[22] Prior to the RPM, PJM's previous capacity market did not recognize such transmission limitations, which resulted in "generating capacity located in congested areas [] not receiv[ing] sufficient revenues to keep them in operation," meaning that "sufficient revenues [were] not being provided to incent new entrants to locate in these areas."[23] To address this issue, the capacity market rules were revised to include a locational pricing element "as a means of attracting new resource investment in the locations where it is

[21] 16 U.S.C. § 824e.

[22] *PJM Interconnection*, 115 FERC ¶ 61,079 at P 49.

[23] *PJM Interconnection, L.L.C.*, 117 FERC ¶ 61,331, at P 50 (2006), *order on reh'g*, 119 FERC ¶ 61,318.

needed most."[24] That is, following the implementation of the revisions to the capacity market that gave rise to the RPM, the capacity market now "addresses the Commission's concerns that appropriate price signals are available to provide incentives to construct facilities necessary for regional reliability by assuring that the market value of resources used to meet the capacity requirements reflect actual deliverability and availability of the capacity resource within the specific region relying on that resource."[25]

1. LDAs are the building blocks of PJM's location-sensitive capacity pricing model and whether a Generation Capacity Resource is in an LDA is determinative of the price it receives.

Locational pricing is implemented through the LDAs. When a transfer limit from one LDA to another "binds" in the auction, PJM can no longer serve the constrained LDA with capacity from another LDA, and the resources in the constrained LDA that can serve the LDA's load will receive a locational price premium. In other words, "as the transmission capacity to import energy into a Locational Delivery Area becomes constrained, price separation will occur in capacity prices,"[26] with higher clearing prices inside the LDA signaling the need for additional capacity needs to be developed inside the LDA, as the transmission system's ability to import energy has been reached. In this way, "[t]he PJM Reliability Pricing Model (RPM) uses a locational capacity pricing design which allows capacity market clearing prices to differ between Locational Deliverability Areas and the unconstrained PJM region which is referred to as the 'Rest-of-RTO.'"[27]

[24] *PJM Interconnection*, 115 FERC ¶ 61,079 at P 49.

[25] *PJM Interconnection*, 117 FERC ¶ 61,331 at P 68.

[26] *Id.* P 29.

[27] *Ill. Mun. Elec. Agency v. PJM Interconnection*, 178 FERC ¶ 61,045 at P 2; *see also id.* PP 3-4 ("This occurs because PJM cannot select lower-priced capacity offers from Capacity Resources outside of the constrained [LDA] to meet capacity needs within that area due to transmission constraints. As a result, the clearing price for the constrained [LDA] can exceed the [Rest-of-RTO's] clearing price. In the event of such price separation, PJM pays the Capacity Resources in the constrained [LDA] the higher Zonal Capacity Price and

Thus, in approving RPM's market design, the Commission found that "with its locational component and downward-sloping demand curve, [RPM] will send price signals more effectively than the [prior] construct."[28]

To implement locational pricing, PJM's capacity market rules make clear that whether a Capacity Resource is located inside or outside one of PJM's specified LDAs—*not* whether the resource is an internal or external resource—is the key factor for determining the applicable clearing price. Capacity Resources located within an LDA that price separates from Rest-of-RTO receive the clearing price applicable to that LDA; Capacity Resources located in an LDA that does not price separate receive the Rest-of-RTO Clearing Price.

2. PJM models LDAs based on transmission import capabilities and determines the amount of capacity required to meet resource adequacy objectives.

Mechanically, as the Commission has recognized, "PJM determines which LDAs to model in each auction by, inter alia, comparing the import limit of an LDA to the amount of capacity that needs to be imported into an LDA to remain within a loss-of-load expectation"[29] based on an area's share of the RTO's expected unserved energy.[30] In the

pays the Capacity Resources outside the constrained [LDA] the lower Zonal Capacity Price or [Rest-of-RTO] clearing price.").

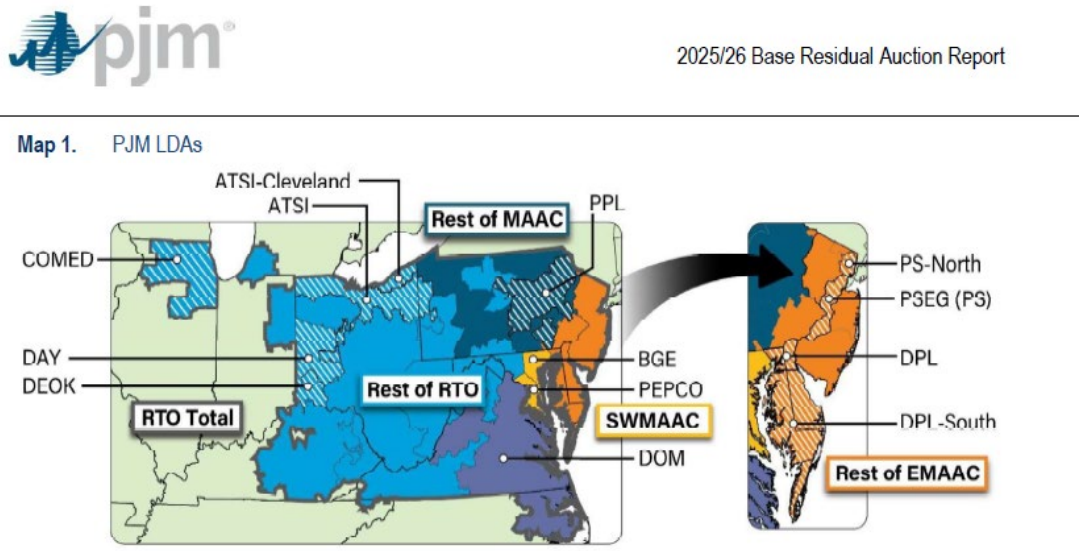
[28] *PJM Interconnection*, 117 FERC ¶ 61,331 at P 138.

[29] *Commonwealth of Pa. v. PJM Interconnection, L.L.C.*, 191 FERC ¶ 61,066, at P 6 n.13 (2025).

[30] *See* PJM Reliability Assurance Agreement among Load-Service Entities in the PJM Region, Article 1, Definitions ("RAA") ("Beginning with the 2025/2026 Delivery Year, [a Capacity Emergency Transfer Objective ("CETO")] shall mean the amount of electric energy that a given area must be able to import in order to satisfy a normalized expected unserved energy for the area that is equal to forty percent of the normalized expected unserved energy for the RTO when at the annual reliability criteria, where normalized expected unserved energy is the expected unserved energy (for the area or RTO, as appropriate) divided by the forecasted annual energy (for the area or RTO, as appropriate), when the area is experiencing a localized capacity emergency, as determined in accordance with the PJM Manuals."); *see also* PJM Manual 20A, section 1.3.

2025/2026 Base Residual Auction, for example, the LDAs modeled in the PJM Region or BAA were as follows:[31]

Figure 1. 2025/2026 Base Residual Auction LDAs



First, to calculate the amount of capacity needed in the PJM Region to meet demand, PJM determines the Installed Reserve Margin for the Delivery Year, i.e., the level of installed Capacity Resources that will provide an acceptable level of reliability consistent with the PJM Reliability Principles and Standards. The Installed Reserve Margin assumes that transmission within the Regional Transmission Organization ("RTO") Region is unconstrained such that generation can be delivered to any load.[32]

Second, PJM conducts a Load Deliverability analysis to assess the impact of transmission limitations on each modeled LDA. For each modeled LDA, PJM determines "a separate target capacity reserve level and a maximum limit on the amount of capacity

[31] 2025/2026 Base Residual Auction Report at 2.

[32] *PJM Manual 18: PJM Capacity Market*, PJM Interconnection, L.L.C., at 20 (June 1, 2025).

that it can import from resources located outside of the LDA."[33] To conduct the Load Deliverability analysis, a Capacity Emergency Transfer Objective ("CETO") is determined for each LDA[34] and is used to determine the amount of generation needed to meet the locational reliability standard.[35] Notably, the CETO value is driven by the performance of resources that are located *inside* an LDA as well as the load levels *inside* the LDA.[36] Next, an import capability limit, or Capacity Emergency Transfer Limit ("CETL"),[37] is determined for each modeled LDA using transmission analysis models.[38] An LDA will be considered constrained if the LDA's CETL value is less than 1.15 times its CETO value. When the transfer limit into an LDA falls near or below the transfer objective, more transmission capability into that LDA may be needed.[39] If the CETL value for an LDA is less than the LDA's CETO value, transmission upgrades may be planned under the Regional Transmission Expansion Planning Process. "However, higher than anticipated load growth and unanticipated retirements … with no lead time to build transmission upgrades to increase CETL value[]" can result in locational constraints.[40] The ultimate purpose of this exercise is to produce LDAs that reflect the physical limitations of the

[33] 2025/2026 Base Residual Auction Report at 1.

[34] *See* RAA, Article 1, Definitions (Capacity Emergency Transfer Objective).

[35] *See* PJM Manual 18 at 20; *PJM Manual 20: PJM Resource Adequacy Analysis*, PJM Interconnection, L.L.C., at 33 (June 27, 2024); *PJM Manual 20A: Resource Adequacy Analysis*, PJM Interconnection, L.L.C., at 24 (May 21, 2025).

[36] PJM Manual 20A at 24.

[37] *See* RAA, Definitions ("'CETL' shall mean the capability of the transmission system to support deliveries of electric energy to a given area experiencing a localized capacity emergency as determined in accordance with the PJM Manuals.").

[38] PJM Manual 18 at 21.

[39] *Id.* at 23.

[40] *Id.* at 21.

transmission system to bring sufficient power from the PJM Region into a constrained area to meet expected peak loads.

Once PJM determines which LDAs to model for a given RPM Auction, PJM determines a distinct Variable Resource Requirement curve for those LDAs for use in the auction clearing process based on the LDA Reliability Requirement. The LDA Reliability Requirement is calculated using the "projected *internal* capacity in the [LDA] plus the Capacity Emergency Transfer Objective."[41] Thus, as relevant here, the Complainant's external resources were appropriately not modeled in the determination of the Dominion LDA's CETO or LDA Reliability Requirement because they are not internal capacity within the LDA and must import capacity into the LDA.

B. Complainant's Hedging Strategy

The hedging strategy at the heart of this Complaint is premised on a straightforward assumption—that the Rest-of-RTO Clearing Price awarded by PJM's capacity market to Complainant's external Capacity Resources will consistently match the price charged to Complainant to self-supply load physically located in the PJM Region within the Dominion LDA (in which NCEMC is located).[42] Historically, this hedging strategy worked because physical and market conditions supported Complainant's assumption, i.e., historically, the Dominion LDA did not price separate from the Rest-of-RTO region.

Conditions changed in the 2025/2026 Base Residual Auction. The Dominion LDA cleared as a constrained LDA and its clearing price separated from the Rest-of-RTO region.[43] Consequently, the Dominion LDA Clearing Price was higher than the

[41] Tariff, Definitions L-M-N, Locational Deliverability Area Reliability Requirement (emphasis added).

[42] *See* RAA Schedules 10.1 and 15.

[43] Complaint at 3; 2025/26 Base Residual Auction Report at 6.

unconstrained, Rest-of-RTO Clearing Price.[44] In other words, contrary to Complainant's expectation, the two Capacity Resource Clearing Prices separated in the 2025/2026 Base Residual Auction such that Complainant's external Capacity Resources received the lower, unconstrained Rest-of-RTO Clearing Price, while Complainant will be charged a higher Locational Reliability Charge (based on the higher Dominion LDA Clearing Price)[45] for its capacity obligation during the 2025/2026 Delivery Year. As a result, Complainant's hedging strategy was unsuccessful for the 2025/2026 Delivery Year.[46]

C. Pseudo-Tied, External Generation Capacity Resources Are Treated Comparably to Internal Generation Capacity Resources and Are Subject to the Same Locational Constraints as Internal Generation Capacity Resources.

One side of Complainant's hedging strategy involves pseudo-tied, legacy external Capacity Resources that qualify as Prior CIL Exception External Resources, as adopted by the Commission in the Pseudo-Tie Enhancement Order and subsequent Pseudo-Tie Enhancement Rehearing Order.[47] As noted above, *external* Capacity Resources are those located outside the PJM Region. *Internal* Capacity Resources are those located within the PJM Region, but may be inside or outside an LDA.

To participate in the RPM, an external Capacity Resource must, *inter alia*, be pseudo-tied into PJM,[48] which means that control of the resource can be transferred in real-time from the Balancing Authority in which the resource is physically located to the PJM

[44] Complaint at 3; 2025/26 Base Residual Auction Report at 6.

[45] RAA, Article 7.2 ("The Locational Reliability Charge shall equal such Party's Daily Unforced Capacity Obligation in a Zone, as determined pursuant to RAA, Schedule 8, times the Final Zonal Capacity Price for such Zone, as determined pursuant to Tariff, Attachment DD.").

[46] *See* Complaint at 4.

[47] *Id.* at 7 (citing Pseudo-Tie Enhancement Order, 161 FERC ¶ 61,197 at PP 5-7).

[48] *PJM Interconnection, L.L.C.*, 151 FERC ¶ 61,208, at P 97 (2015) (Capacity Performance Order), *order on reh'g*, 155 FERC ¶ 61,157 (2016); *see also* Tariff, Attachment DD, section 5.5A(b)(i); PJM Manual 18 at 58.

Region and be subject to Capacity Import Limits, which recognize limitations to the amount of capacity that can be reliably imported into PJM.[49]

In the Pseudo-Tie Enhancement Orders, the Commission accepted PJM's proposed Tariff changes to enhance pseudo-tie requirements and address operational and deliverability concerns. That is, the pseudo-tie rules "impose various engineering requirements and tests on external resources to ensure the reliable delivery of external capacity into PJM."[50]

Pursuant to the Pseudo-Tie Enhancement Order, "any generator (whether internal or external) that wishes to be a Capacity Resource serving PJM load [is required] to meet the same requirement for deliverability to that load."[51] As a general matter, among other requirements,[52] pseudo-tied, external resources must be supported by firm point-to-point transmission service "from the unit-specific physical location of the resource to PJM load" and "as to transmission within PJM . . . Network External Designated Transmission Service."[53] That is, the Capacity Market Seller must enter into two discrete transmission arrangements: (1) for firm transmission to the metered bounds of the PJM Region, and (2) for network service within PJM "to import power and energy from an identified Generation

[49] *PJM Interconnection, L.L.C.*, 161 FERC ¶ 61,313, at P 2 (2017); *see also* Glossary of Terms Used in NERC Reliability Standards, North American Electric Reliability Corporation (Feb. 26, 2025), https://www.nerc.com/pa/stand/glossary%20of%20terms/glossary_of_terms.pdf. A pseudo-tie is defined as "A time-varying energy transfer that is updated in Real-time and included in the Actual Net Interchange term (NIA) in the same manner as a Tie Line in the affected Balancing Authorities' control ACE equations (or alternate control processes)." Glossary of Terms Used in NERC Reliability Standards, North American Electric Reliability Corporation (Feb. 26, 2025), https://www.nerc.com/pa/stand/glossary%20of%20terms/glossary_of_terms.pdf; *see also* Tariff, Attachment DD, section 5.5A.

[50] Pseudo-Tie Enhancement Order, 161 FERC ¶ 61,197 at P 19.

[51] *Id.* P 103.

[52] *See* Tariff, Attachment DD, section 5.5A(b).

[53] *Id.*, section 5.5A(b)(ii).

Capacity Resource located outside the PJM Region."[54] Additionally, external pseudo-tied resources must satisfy certain minimum Electrical Distance impedance standards and minimum flow distribution impacts.[55] In other words, just as internal resources participating in the capacity market are subject to deliverability considerations and requirements based on physical location, pseudo-tied, external resources are also subject to similar considerations and requirements based on physical location. For purposes of locational pricing based on LDAs, both external and internal resources are evaluated based on physical location inside or outside an LDA.

Alternatively, PJM's capacity market rules provide an exception to those rules for external resources with legacy, pseudo-tie arrangements in place prior to the adoption of the generally applicable rules in 2017. The legacy exception allows a Capacity Market Seller of a Prior CIL Exception External Resource that is either (1) owned by a Load Serving Entity to self-supply; or (2) the subject of a contract for energy or capacity or equivalent written agreement entered into on or before June 1, 2016 for a term of ten years or longer with a purchaser that is an internal PJM load customer, to offer such resources into the RPM Auctions without meeting the additional requirements specified in Tariff, Attachment DD, section 5.5A(b).[56] Thus, some pseudo-tied, external resources, such as Complainant's, may be offered into the RPM pursuant to their legacy status. In other

[54] Network External Designated Transmission Service is "the quantity of network transmission service confirmed by PJM for use by a market participant to import power and energy from an identified Generation Capacity Resource located outside the PJM Region, upon demonstration by such market participant that it owns such Generation Capacity Resource, has an executed contract to purchase power and energy from such Generation Capacity Resource, or has a contract to purchase power and energy from such Generation Capacity Resource contingent upon securing firm transmission service from such resource." RAA, Definitions.

[55] Tariff, Attachment DD, section 5.5A(b).

[56] *Id.*, section 5.5A(c); *see also* Pseudo-Tie Enhancement Order, 161 FERC ¶ 61,197 at P 120.

words, some legacy external resources, including Complainant's, are exempt from Capacity Import Limits, because they qualify as a Prior CIL Exception External Resource and are: (1) subject to a legacy agreement for capacity or energy entered into on or before June 1, 2016 for ten years or longer with a purchaser that is an internal PJM load customer; or (2) owned by a Load Serving Entity that, pursuant to a legacy agreement, uses the external resource to self-supply the Load Serving Entity's load in the PJM Region.[57]

The external resources at issue here, used in one side of Complainant's hedge, are the Catawba Unit 1 nuclear plant, located in York County, South Carolina and the gas-fired Hamlet Units 2, 3, and 6, located in Hamlet, North Carolina.[58] Indisputably, each of Complainant's external resources are physically located outside of the PJM Region (and in another Balancing Authority Area) and Complainant has secured the requisite firm point-to-point transmission service "to the PJM Balancing Authority Area"[59] from the local transmission provider.[60] Therefore, such Capacity Resources are physically outside of the Dominion LDA.[61] On the other side of Complainant's hedge is its load that is physically located in the Dominion LDA.

[57] *See* Tariff, Attachment DD, section 5.5A(c); RAA, Definitions; Capacity Performance Order , 151 FERC ¶ 61,208 at P 97; Pseudo-Tie Enhancement Order, 161 FERC ¶ 61,197 at P 120.

[58] Complaint, Attachment B at 1 (Recitals); Complaint, Attachment C at 1 (Recitals).

[59] *Id.*

[60] *See id.*, Attachment B, section 2.1.2 (NCEMC has secured "Long-term firm point-to-point transmission service has been procured to sufficiently deliver 55 MW of capacity for each of Hamlet Units 2, 3, and 6 to the PJM BAA . . . "); Complaint, Attachment C, section 2.1.3 (NCEMC has secured "Long-term firm point-to-point transmission service has been procured to sufficiently deliver 100 MW of capacity and energy from Catawba Unit 1, to the PJM BAA . . . ").

[61] *Id.*, Attachment B (Dynamic Transfer Agreement Rate Schedule No. 202), at 1 (Recitals) and Attachment C (Dynamic Transfer Agreement Rate Schedule No. 348), at 1 (Recitals) (Complainant's pseudo-tied, external Generation Capacity Resources are located in Hamlet, North Carolina in the CPLE BAA and York County, South Carolina in the DEC BAA); *see also* Complaint at 6, 10, 11, 15, 16.

Complainants point to a number of other characteristics of its external resources, but, as discussed below, none are dispositive for purposes of determining which clearing price Complainant's pseudo-tied resources should receive. Specifically, Complainant emphasizes that its external resources are legacy resources and, pursuant to legacy agreements, Complainant is a Load Serving Entity that self-supplies Capacity Resources in the PJM Region using its external resource. These characteristics support Complainant's ability to offer its external resources into the capacity market as Prior CIL Exception External Resources. However, none of these characteristics are relevant to which clearing price should be awarded for these external resources, as they do not change the fact that Complainant's legacy external Capacity Resources are physically located outside the Dominion LDA and therefore should not receive the Dominion LDA Clearing Price.

D. The Dominion LDA Clearing Price in the 2025/2026 Base Residual Auction Cleared Higher Relative to Rest-of-RTO in Accordance with Physical and Market Conditions.

In the 2025/2026 Base Residual Auction, the Dominion LDA's CETL value was less than 1.15 times the CETO value. The Dominion LDA was therefore determined to be constrained, i.e., to have limited transmission import capability into the LDA due to transmission facility or voltage limitations. The constrained Dominion LDA failed to clear enough capacity to meet the LDA's Reliability Requirement. Therefore, the Dominion LDA Clearing Price separated from (and exceeded) the Rest-of-RTO Clearing Price as a signal that additional capacity is needed within the Dominion LDA.[62] As a result, for the 2025/2026 Delivery Year, the clearing price paid to Capacity Resources located within the

[62] Specifically, in the 2025/2026 Base Residual Auction, the Dominion LDA Clearing Price separated from the Rest-of-RTO Clearing Price. The Rest-of-RTO Clearing Price was $269.92/MW, *see* 2025/26 Base Residual Auction Report at 6, but due to constraints in the Dominion LDA, PJM's optimization algorithm adjusted the Dominion LDA Clearing Price by applying a Locational Price Adder of $174.34/MW to yield a Clearing Price for the Dominion LDA of $444.26/MW.

Dominion LDA, as well as the amount charged to load for capacity in the Dominion LDA, was higher relative to the Rest-of-RTO Region, including relative to all External Capacity Resources. Such locational pricing is "designed to ensure the adequate availability of necessary resources that can be called upon to ensure the reliability of the grid[]" by sending forward capacity market price signals to support infrastructure development and evaluate ongoing reliability requirements.[63]

Because the Dominion LDA cleared capacity short of its Reliability Requirement, PJM's optimization algorithm adjusted the Dominion LDA Clearing Price by applying a Locational Price Adder of $174.34/MW-Day on top of the Rest-of-RTO Clearing Price of $269.92/MW-Day to yield a Dominion LDA Clearing Price of $444.26/MW-Day.[64] Thus, Complainant's assumption that the Rest-of-RTO Clearing Price awarded by PJM's capacity market to Complainant's pseudo-tied external Capacity Resources would consistently match the price charged to Complainant to self-supply load physically located in the PJM Region within the Dominion Zone, did not bear out.[65]

E. PJM Provides Load Serving Entities a Pro Rata Credit for Contributions of Imported Resources into a Constrained LDA.

A Load Serving Entity such as the Complainant is charged the Locational Reliability Charge[66] to meet self-supply load obligations in a constrained LDA. But, because a portion of the self-supply load obligations in the constrained LDA is nevertheless met by resources *imported* into the constrained LDA at the Rest-of-RTO Clearing Price,

[63] PJM Manual 18 at 11.

[64] *See* 2025/26 Base Residual Auction Report at 6.

[65] *See* RAA, Schedules 10.1 and 15.

[66] *Id.*, Article 7.2 ("The Locational Reliability Charge shall equal such Party's Daily Unforced Capacity Obligation in a Zone, as determined pursuant to RAA, Schedule 8, times the Final Zonal Capacity Price for such Zone, as determined pursuant to Tariff, Attachment DD.").

which is lower than the constrained LDA clearing price, Capacity Transfer Rights ("CTRs") are allocated among all Load Serving Entities within the constrained LDA. CTRs offset a portion of the Locational Price Adder included in the Locational Reliability Charge that is charged to load in Constrained LDAs, thus accounting for the import capability into constrained LDAs by redistributing monies to the Load Serving Entities in the constrained LDA. CTRs are allocated to Load Serving Entities in a constrained LDA in the amount equal to the unforced capacity imported into the LDA based on the results of the Base Residual Auction and redistributed pro rata among those Load Serving Entities.[67] In this way, CTRs provide a cost offset for the Load Serving Entities within a constrained LDA such that they effectively pay a price lower than the LDA clearing price for a portion of the capacity imported before the transmission constraints bind. As a result, the Complainants benefit from allocated CTRs, which are a cost offset that recognizes the import capability into a constrained area (i.e., the Dominion LDA).

II. ARGUMENT

A. It Is Just and Reasonable and Not Unduly Discriminatory or Preferential for Complainant's Pseudo-Tied External Generation Capacity Resources to Receive the Rest-of-RTO Clearing Price and Not an LDA-Specific Clearing Price, Because Complainant's Pseudo-Tied External Generation Capacity Resources Are Not Located Within an LDA.

1. Complainant's pseudo-tied external Generation Capacity Resources are treated comparably to internal Generation Capacity Resources located outside of an LDA.

Complainant asserts that PJM has treated Complainant's external "resources differently from internal Capacity Resources physically located in an LDA, without sufficient justification for doing so."[68] Not so.

[67] Tariff, Attachment DD, section 5.15.

[68] Complaint at 16.

As discussed above, generally, in section I.A.2, and more specifically with respect to Complainant's resources in section II.A.2., below, there is good reason to treat in-LDA Capacity Resources differently from Capacity Resources located outside of the LDA for purposes of determining clearing price applicable to a Capacity Resource. Therefore, such treatment is not unduly discriminatory or preferential.[69] Specifically, the key factor for determining what price a Capacity Resource will receive is whether it is located inside or outside one of the price-separated LDAs in an RPM Auction. Capacity Resources located in unconstrained areas receive the Rest-of-RTO Clearing Price regardless of whether they are external or internal to PJM; Capacity Resources located within an LDA that price separated receive that LDA's clearing price.[70]

External resources are not considered to be within *any* LDA, but are considered part of the unconstrained Rest-of-RTO region. Thus, external Capacity Resources such as Complainant's are analogous to any internal Capacity Resources that are located *outside* an LDA—not, as Complainant argues—"internal capacity resources physically located *in* an LDA[.]"[71] Accordingly, pseudo-tied resources such as Complainant's receive the Rest-of-RTO Clearing Price just like internal Capacity Resources located outside the LDAs that do not price separate in the auction. Table 1, below, provides a brief summary of these important distinctions:

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[69] Under the FPA, undue discrimination is "when there is a difference in rates or services among similarly situated customers that is not justified by some legitimate factor." *City of Anaheim*, Opinion No. 483, 113 FERC ¶ 61,091, at P 130 (2005); *see PacifiCorp Elec. Operations*, 54 FERC ¶ 61,296, at 61,855 (1991) ("Moreover, undue discrimination can only occur when two similarly situated customers are treated differently, and there is no justification for the differing treatment.").

[70] *See* Tariff, Attachment DD, section 5.14(a) ("If a Capacity Resource is located in more than one [LDA], it shall be paid the highest Locational Price Adder in any applicable LDA in which the Sell Offer for such Capacity Resource cleared.").

[71] Complaint at 16 (emphasis added).

Table 1. Complainant's Resources Analogous to Generation Capacity Resources Outside LDAs

	TYPE	LOCATION (PJM)	LOCATION (LDA)	CLEARING PRICE
Complainant's Generation Capacity Resources are:	External Generation Capacity Resources	External to PJM Region/BAA	Outside LDAs that price separate	Rest-of-RTO
Analogous to:	Internal Generation Capacity Resources	Internal to PJM Region/BAA	Outside LDAs that price separate	Rest-of-RTO
Not Analogous to:		Internal to PJM Region/BAA	Inside LDAs that price separate	LDA

2. PJM's capacity market rules do not "arbitrarily choose" when a pseudo-tied resource is considered within an LDA, and the determination that Complainant's pseudo-tied resources are not within an LDA is not arbitrary.

Complainant has not supported its bald assertion that PJM's current practice is to "arbitrarily choose when a pseudo-tied resource is considered to be within an LDA."[72] In fact, as Complainant itself notes, Tariff "[s]ection 5.14(a) indicates that a capacity resource will receive the LDA market clearing price of the applicable LDA *in which the generator is located*."[73] PJM's capacity market is focused on reliability considerations within the PJM Region and, more specifically, within specific locations, or LDAs, that may potentially be constrained. As explained, the RPM Auction clearing process rests on a model of the transmission system that reflects the system's physical characteristics,

[72] Complaint at 17.

[73] *Id.* at 18 (citing PJM OATT, Attachment DD, Section 5.14(a) ("The Capacity Resource Clearing Price for each LDA will be the marginal value of system capacity for the PJM Region, without considering locational constraints, adjusted as necessary by any applicable Locational Price Adders . . . . If a Capacity Resource is located in more than one [LDA], it shall be paid the highest Locational Price Adder in any applicable LDA in which the Sell Offer for such Capacity Resource cleared.").

including limits on the system's ability to transfer capacity from one LDA to another (i.e., the CETL).

Because Complainant's pseudo-tied resources are located outside the Dominion LDA and are, in fact, outside any specified LDA, they are not within a modeled LDA and are appropriately excluded in the CETL/CETO evaluation or the LDA Reliability Requirement.[74] That Complainant's external resources are designated, by agreement, to "sink" in the Dominion LDA is not determinative.[75] In fact, Complainant's firm transmission service agreements only provide for service "to the PJM BAA" and do not provide for any transmission service to a specific point within PJM.[76] Complainant has a separate agreement with PJM transmission service once the energy enters PJM's metered boundary (i.e., Network External Designated Transmission Service).[77]

In the context of the CETL/CETO review for Locational Deliverability, which measures physical, locational limits within the PJM system, the fact that, contractually, a particular LDA is designated as a "sink" for a particular pseudo-tied resource, will not change whether, under constrained conditions, the pseudo-tied resource will actually be able to physically serve load in a constrained LDA. That is, a load sink designation is merely a contractual agreement that a resource's energy will be consumed by a particular load. Such a contractual agreement does not change the fact that the external resources are physically located outside of the Dominion LDA and must bring energy into the LDA

[74] *See* PJM Manual 20A at 24 (section 3.1); *see also* RAA, Definitions ("'CETL' shall mean the capability of the transmission system to support deliveries of electric energy to a given area experiencing a localized capacity emergency as determined in accordance with the PJM Manuals.").

[75] Complaint at 18.

[76] *See id.*, Attachment B, section 2.1.2 and Attachment C, section 2.1.3.

[77] *See id.*, Attachment I (Affidavit of James Wilkins on Behalf of North Carolina Electric Membership Corporation) at ¶ 7 ("NCEMC's pseudo-tied resources have firm point-to-point transmission into PJM, and network external designated transmission service within the Dominion LDA.").

subject to limitations on the transmission system. In short, like other internal Capacity Resources *outside* the Dominion LDA, while Complainant's external resources can be said to contribute to meeting the RTO-wide reliability requirement and to an extent the Dominion LDA reliability requirement, those pseudo-tied resources are not necessarily deliverable to the Dominion LDA at all times when the Dominion LDA is constrained.[78]

External resources may conceivably overcome transmission import limitations to become electrically considered part of the Dominion LDA as an internal resource, but to do so, those external resources would need to be become directly interconnected to the Dominion system through a transmission facility upgrade that increases the CETL of the Dominion LDA.[79] This would effectively extend the boundaries of the LDA to encompass Complainant's resources. Regardless, Complainant has not directly interconnected its external resources to the Dominion system. Complainant has only secured firm point-to-point transmission service over other entities' transmission systems to the PJM boundary, as opposed to over dedicated transmission facilities to a point within the Dominion LDA.

3. Complainant's focus on similarities between internal Generation Capacity Resources physically located in PJM and pseudo-tied external Generation Capacity Resources is wide of the mark.

Complainant's assertion that internal and external Capacity Resources are treated the same and, by implication, that external resources must receive an LDA-specific

[78] *See, e.g.*, *PJM Interconnection, L.L.C.*, 162 FERC ¶ 61,159, at P 45 (2018) ("The capacity of a resource located in the RTO-wide [LDA] but outside of EMAAC receives the RTO-wide price and contributes to meeting the RTO-wide reliability requirement. It does not, however, contribute to meeting the local EMAAC reliability requirement, because it is not necessarily deliverable to EMAAC at all times during the delivery year[.]").

[79] *See, e.g.*, Tariff, section 234 (setting forth rules for obtaining Incremental Capacity Transfer Rights). In addition, a Capacity Market Seller may effectively transform an external Capacity Resource into internal resources by directly interconnecting its external resources into an LDA by virtue of building a dedicated line (e.g., a radial line) that feeds directly into the LDA.

clearing price in the capacity market,[80] is based on an inaccurate reading of Commission precedent and PJM's capacity market rules.

As Complainant points out, the Commission has observed that requiring external Capacity Resources to be pseudo-tied allows external Capacity Resources to be held "to equivalent standards as internal resources in PJM" because "the pseudo-tie requirements address the operational and deliverability concerns of external resources" without creating unreasonable barriers to entry.[81] Complainant furthermore asserts that, because PJM's capacity market rules do not distinguish, for pricing purposes, between generators physically located in PJM (internal Capacity Resources), and those that are pseudo-tied to PJM (external Capacity Resources),[82] this necessarily means that Complainant's pseudo-tied resources must receive an LDA-based clearing price.

But while the Commission has noted that pseudo-tied external Capacity Resources may be treated comparably with internal Capacity Resources, Complainant makes an unsubstantiated leap when it asserts that the Commission and PJM's Tariff require pseudo-tied resources to be treated like internal resources *inside an LDA*, rather than internal resources in the RTO Region but *outside that LDA*. Likewise, the implication that, for purposes of capacity pricing, pseudo-tied resources are comparable, not only to internal resources in the RTO Region, but also *inside an LDA*, is unsupported. As detailed above, LDAs permit PJM to recognize the locational value of Capacity Resources within the PJM Region. Complainant's focus only on whether a Capacity Resource is external or internal

[80] *See* Complaint at 16.

[81] *Id.* at 7-8 (citing Pseudo-Tie Enhancement Order, 161 FERC ¶ 61,197 at P 27).

[82] *Id.* at 9.

to the PJM Region would upend the locational pricing that is fundamental to PJM's capacity market design.

In fact, Complainant undermines its own position when it asserts that "[o]nce the pseudo-tied resource has demonstrated generation deliverability into PJM RPM, it is effectively the same as any other capacity resource located within the RPM."[83] But even within PJM, deliverability *to* an LDA is not the same as being *inside* the LDA.

Consider, for example, a Capacity Resource located in southwestern Pennsylvania, in the unconstrained Rest-of-RTO region, as depicted in Figure 1 above. The resource is an internal Capacity Resource deliverable throughout the PJM Region. Now consider that the internal Capacity Resource is owned by a Load Serving Entity located entirely within the Dominion LDA. The Load Serving Entity offers the internal Capacity Resource as self-supply in the 2025/2026 Base Residual Auction. Although the internal Capacity Resource was offered by the Load Serving Entity to meet demand in the Dominion LDA, the resource is only eligible to receive the Rest-of-RTO Clearing Price. The internal Capacity Resource is not eligible to receive the Dominion LDA Clearing Price, because the resource is not located in the Dominion LDA. This is for the simple reason that only resources within an LDA for which transmission limits have bound can provide capacity toward meeting the reliability requirement. In this way, the rules treat *all* Capacity Resources the same. A Capacity Resource, regardless of whether it is internal or external to PJM, must be physically located within the boundary of an LDA to receive that LDA's

[83] Complaint at 9 (citing Pseudo-Tie Enhancement Order, 161 FERC ¶ 61,197 at PP 27-28 ("Because the pseudo-tie requirements address the operational and deliverability concerns of external resources, they do not create unreasonable barriers to entry. We find that external resources should serve as comparable substitutes for internal resources and to achieve this, PJM's pseudo-tie requirements account for the deliverability of an external resource to PJM load.").

clearing price. Thus, once an external resource has demonstrated generation deliverability, it is effectively treated like internal Capacity Resources in that internal Capacity Resources that are not located inside an LDA receive the Rest-of-RTO Clearing Price. In short, the test for whether a Capacity Resource receives the Rest-of-RTO Clearing Price or LDA-specific price is whether or not it is located inside an LDA. External Capacity Resources are simply not located within an LDA.

Finally, Complainant's claim that PJM assigns pseudo-tied resources an LDA-specific Clearing Price for purposes of determining Non-Performance Charges is a red herring and inaccurate.[84] External and internal Capacity Resources are subject to the same Tariff provisions setting forth when resources are assessed Non-Performance Charges. Under the Tariff, the performance of a Capacity Resource, whether internal or external, is measured for performance during a Performance Assessment Interval to the extent it "would have helped resolve the declared Emergency Action."[85] Thus, external resources, like internal resources, are appropriately assessed for non-performance if the external resources' performance would have helped resolve an Emergency Action.

Further, contrary to the Complainant's assertion that its bonus performance payments from Winter Storm Elliott "were calculated for the Dominion LDA because PJM had assigned NCEMC's pseudo-tied resources to the Dominion LDA for Non-Performance Assessment purposes[,]"[86] the Non-Performance Charge rate for all external resources is based on an RTO Net CONE value. More specifically, through the 2025/2026 Delivery Year, the Non-Performance Charge rate for external resources is based on the average of

[84] *See* Complaint at 18.

[85] Tariff, Attachment DD, section 10A(c).

[86] Complaint at 23-24.

the Net CONE across all CONE areas within the PJM footprint. And, beginning with the 2026/2027 Delivery Year, the Non-Performance Charge rate for all Capacity Resources, regardless of location, will be based on an RTO Net CONE value.[87]

The Complainant's claim rests on the incorrect premise that "bonus payments were calculated for the Dominion LDA." Bonus performance payments are not calculated for any LDA. As set forth in the Tariff, bonus performance payments are based on the total revenues collected from resources that have been assessed Non-Performance Charges and allocated among owners of resources that overperformed during a Performance Assessment Interval.[88] In short, the assessment of Non-Performance Charges based on an RTO Net CONE value is entirely consistent with paying external Capacity Resources the Rest-of-RTO Clearing Price.

B. There Is Nothing Unique About Complainant's Pseudo-Tied Resources that Merit Special Treatment for Capacity Pricing Purposes.

1. Characteristics of Complainant's external Generation Capacity Resources, other than location, are not relevant for resolving this complaint.

Complainant asserts, alternatively, that "equitable concerns" demand that Complainant's resources should receive the Dominion LDA Clearing Price.[89] Complainant's sole basis for such preferential treatment is the "special status" of Complainant's legacy external resources with exemptions to the 2014 Capacity Import Limit rules.[90]

[87] Tariff, Attachment DD, section 10A(e).

[88] *Id.*, section 10A(g).

[89] Complaint at 22.

[90] *Id.* at 21.

But neither being exempt from Capacity Import Limits as Prior CIL Exception External Resources, nor any of the resource characteristics that qualify Complainant's external Capacity Resources for such an exemption (as previously enumerated in Section I(C), above), alters the fact that Complainant's external Capacity Resources are located physically outside of PJM and its LDAs. Indeed, none of the characteristics of Complainant's external Capacity Resources, as enumerated by Complainant, are relevant to whether those external Capacity Resources are available "to meet capacity needs *within* [the] area due to transmission constraints."[91]

First, the fact that Complainant's pseudo-tied external Capacity Resources are exempt from Capacity Import Limits simply means that the resources meet certain criteria to be exempt from PJM's rules limiting the amount of capacity that their external resources can import. But this does not exempt such resources from the physical limitations of the grid that ultimately set locational pricing. Indeed, one of the characteristics exempting certain external resources from the Capacity Import Limit, as previously adopted by the Commission, is that "they are *pseudo-tied generation resources*; that is, they are *treated like internal generation, subject to . . . locational pricing*[.]"[92] Being legacy resources does not change the fact that Complainant's pseudo-tied, external Generation Resources are not physically located in the Dominion LDA.

Second, the fact that Complainant, in addition to self-supplying external Capacity Resources, is a Load Serving Entity with load in the constrained Dominion LDA likewise

[91] *Ill. Mun. Elec. Agency v. PJM Interconnection*, 178 FERC ¶ 61,045 at P 3 (emphasis added).

[92] *PJM Interconnection*, 150 FERC ¶ 61,041 at P 4.

does not change the fact that Complainant's external Generation Resources are not physically located in the Dominion LDA.

Third, the contractual agreements pursuant to which Complainant's external resources provide capacity do not change the resources' physical location outside the Dominion LDA, and importantly, such agreements do not provide a dedicated radial line for delivery to a point within the Dominion LDA. Indeed, as discussed, below, in light of the physical location of the external resources being outside of the Dominion LDA, granting Complainant's resources special treatment would directly undermine PJM's goals of treating all Capacity Resources fairly and equitably—and undermine the locational pricing element central to PJM's capacity market design.

2. It is fair and equitable to assign the Dominion LDA Clearing Price only to resources that are inside the Dominion LDA.

Granting Complainant's external resources "special treatment," as Complainant requests,[93] would directly undermine the fair and equitable assignment of Capacity Resource Clearing Prices based on a resource's location inside or outside of an LDA. In fact, if Complainant's "legacy" external resources were to receive the higher, constrained Dominion LDA Clearing Price as if the resources were actually located within the constrained Dominion LDA, rather than the unconstrained Rest-of-RTO Clearing Price, all Load Serving Entities within the Dominion LDA would be required to pay more for capacity, but *only* the Complainant would benefit. In other words, if the Complainant's external Capacity Resources are paid the higher constrained, all load within the Dominion LDA would effectively pay the higher constrained Dominion LDA Clearing price.

[93] *See* Complaint at 22.

Moreover, as the Commission has explained, "[w]hen a[n LDA] is constrained, the higher price paid by the Load Serving Entities is partially offset by providing each Load Serving Entity a share of the import capability into that [LDA]," through what are known as Capacity Transfer Rights ("CTRs").[94] Load Serving Entities in constrained LDAs are "eligible to receive [CTRs] to offset their *pro rata* share of the costs of capacity imported into the [LDA] (equal to the Locational Price Adder times their respective *pro rata* shares)."[95] CTRs are provided to recognize that lower-priced imported resources (such as Complainant's pseudo-tied external Capacity Resources) contribute to lowering the overall cost to Load Serving Entities of serving load in a constrained LDA. Thus, all Load Serving Entities in the Dominion LDA will receive CTRs for the 2025/2026 Delivery Year to help offset the LDA's higher capacity prices.

If Complainant's pseudo-tied external Capacity Resources were instead paid the higher Dominion LDA Clearing Price (assuming the LDA separates from the Rest-of-RTO), such resources would be counted as in-LDA Capacity Resources, which would result in all Load Serving Entities in the constrained Dominion LDA effectively receiving a smaller offset to their Locational Price Adders through CTRs distributed on a *pro rata* basis.[96] By reducing the CTR offsets distributed to each Load Serving Entity, all Load

[94] *Ill. Mun. Elec. Agency v. PJM Interconnection*, 178 FERC ¶ 61,045 at P 6; Tariff, Attachment DD, section 5.15.

[95] *Id.*

[96] Load Serving Entities in a constrained LDA with pseudo-tied external resources that are used in self-supply arrangements receive, by design, a *pro rata* share of CTRs, not CTR credits representing 100% of their respective pseudo-tied resources' capabilities, because the physical limits on imports into the constrained LDA mean that these pseudo-tied external Capacity Resources are not deliverable 100% of the time into the constrained LDA. There is no reason that Complainant's pseudo-tied external Capacity Resources are not subject to the same limitations.

Serving Entities in the Dominion LDA would effectively be charged *more* for capacity.[97] However, only the Complainant would benefit financially from this arrangement, as payments to Complainant's pseudo-tied, external resources would increase from the Rest-of-RTO Clearing Price to the Dominion LDA Clearing Price. In other words, all other Load Serving Entities in the Dominion LDA would pay more to ensure Complainant's hedge succeeds.

3. The Tariff is not without a means for entities to receive the full hedging benefit of pseudo-tied generation for load within constrained zones.

Complainant essentially asks, without adequate justification, for a special benefit to be conferred upon its Capacity Resources. In arguing that PJM's capacity market rules must be changed just so that Complainant's external resources receive the same clearing price as resources physically located within the Dominion LDA, Complainant essentially makes an end-run around the ways in which Complainant may achieve the same result within the bounds of the existing rules—and *without* imposing costs upon other Load Serving Entities and other owners of external resources.

So that the picture is complete, PJM also notes that the Tariff provides potential avenues for entities to increase the likelihood of success of a hedge such as NCEMC's,

[97] For example, assume the Dominion LDA had a Final Unforced Capacity Obligation of 22,000 MW, of which 20,000 MW was satisfied from Capacity Resources located within the Dominion LDA. The difference of 2,000 MW would set the MW amount of CTRs for the Dominion LDA. Those CTRs would be allocated to the Load Serving Entities in the LDA to partially offset Locational Reliability Charges (assuming no ICTRs). Assuming all else stays equal and assuming NCEMC's pseudo-tied resources (about 250 MW) also received the higher Dominion clearing price, the amount of CTRs that could be allocated would be reduced by 250 MW (i.e., 22,000 MW UCAP Obligation – 20,000 MW of internal Dominion Capacity Resources – Pseudo-tie Cleared MW (about 250 MW), or 19,750 MW). In this circumstance, the offsetting CTR credit to Load Serving Entities would decrease or the net charge of capacity for all other Load Serving Entities in Dominion would increase.

albeit not in time for this upcoming auction.[98] For instance, as previously noted above, owners of external Capacity Resources may effectively transform their resources into internal resources by directly interconnecting its external resources into the Dominion LDA through construction of a dedicated line that feeds directly into the Dominion LDA.[99] By contrast, an external Capacity Resource connected to more than one LDA and/or connected to the PJM Region generally, are treated as equivalent to resources internal to the PJM Region but *external* to any one specified LDA,[100] because from an electrical perspective, there is no mechanism by which the pseudo-tied, external Capacity Resource, when faced with import limits into the constrained LDA, may circumvent the constraint.[101]

Alternatively, the Commission has explained that customers or generators "that build transmission facilities or network upgrades which increase a Locational Deliverability Area's import capability are eligible to receive Incremental Capacity Transfer Rights ("ICTR") based on whether those network upgrades result in the increased transmission capacity of a constrained Locational Deliverability Area."[102] "An ICTR is based on the incremental increase in import capability for a constrained Locational Deliverability Area that is eased by the transmission facility or upgrade."[103] While CTRs are distributed *pro rata* to represent the impact of available capacity imported into a constrained area, ICTRs represent the specific contribution—through the building of

[98] PJM acknowledges the examples provided below are likely not short-term remedies but should be recognized as alternatives under existing rules for load serving entities to hedge their capacity obligations with external resources in the longer term.

[99] *See, e.g.*, Complaint, Attachment H (Nebiat Tesfa, *Illustration Showing Impact of Pseudo-Tie Resource vs. PJM Internal Capacity Resource on an LDA*, PJM Interconnection, L.L.C. (May 7, 2025)) at 2.

[100] *See, e.g.*, *id.* at 3.

[101] *See, e.g.*, *id.*

[102] *Ill. Mun. Elec. Agency v. PJM Interconnection*, 178 FERC¶ 61,045 at P 7.

[103] *Id.* P 8; Tariff, Definitions (Incremental Capacity Transfer Right); Tariff, Attachment DD, section 5.16(a).

transmission facilities or upgrades—that results in an incremental increase in import capability into that specific, constrained LDA, and are granted solely to the entity causing the increased transfer capability.[104]

Even if Complainant does not build transmission facilities or upgrades that incrementally increase the import capability of the constrained LDA, ICTRs may be bought and sold. A customer may elect to purchase available ICTRs from a selling generator or customer that would ensure that Complainant's pseudo-tied, external resources are treated as if they were inside the constrained LDA. Again, however, the purchased and sold ICTRs exist to reflect the actual, physical incremental increase into a constrained LDA, and therefore reinforce the fundamental locational pricing framework of PJM's capacity market construct.

C. Complainant's Claims Are the Subject of Ongoing Stakeholder Review.

The issue raised in NCEMC's complaint is the subject of an ongoing PJM stakeholder review process[105] and is more appropriately considered through that process.[106] However, NCEMC instead filed the Complaint in the above-captioned docket and deferred the first read of its proposal at the Markets and Implementation Committee that had been planned for June 2, 2025. This deprived stakeholders of the opportunity to further discuss and ultimately vote on NCEMC's proposal. Thus, in addition to being without sufficient support on the merits, the Complaint is premature, lacks the necessary evidentiary

[104] *Ill. Mun. Elec. Agency v. PJM Interconnection*, 178 FERC¶ 61,045 at P 8.

[105] *See* Complaint at 4 (noting "NCEMC has attempted to resolve through the PJM stakeholder process the mismatch in pricing between its pseudo-tied resources and its load charges[.]"); External Resource Capacity Clearing Issue Tracker, PJM Interconnection, L.L.C., https://www.pjm.com/committees-and-groups/issue-tracking/issue-tracking-details.aspx?Issue=f513fcda-a819-4a1d-92ba-b11f06c776f6 (last visited June 6, 2025).

[106] *See* Pseudo-Tie Enhancement Order, 161 FERC ¶ 61,197 at P 192.

foundation as to the upcoming 2026/2027 Base Residual Auction and subsequent capacity market auctions, and should be dismissed.

III. ADMISSIONS AND DENIALS

In accordance with Rule 213(c)(2) of the Commission's Rules of Practice and Procedure,[107] except as stated in this Answer, PJM does not admit any facts in the form and manner stated in the Complaint. To the extent that any fact or allegation in the Complaint is not specifically admitted in this answer, it is denied.

IV. CONCLUSION

WHEREFORE, for the reasons discussed herein, the Commission should dismiss the Complaint.

Respectfully submitted,

/s/ *Vivian W. Chum*

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Dated June 9, 2025

[107] 18 C.F.R. § 385.213(c)(2).

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 Washington, D.C., this 9th day of June 2025.

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