UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

OFFICE OF ENERGY MARKET REGULATION

In Reply Refer To:
PJM Interconnection, L.L.C.
Docket No. ER13-535-000
2/5/13

Paul M. Flynn
Wright & Talisman, P.C.
1200 G. St. N.W., Suite 600
Washington, D.C. 20005

Reference: PJM Minimum Offer Price Rule Revisions

Dear Mr. Flynn:

On December 7, 2012, PJM Interconnection, L.L.C. (PJM), submitted proposed revisions to Attachment DD, section 5.14(h), and related provisions of its Open Access Transmission Tariff (OATT), pursuant to section 205 of the Federal Power Act (FPA).[1] PJM states that its proposed revisions are designed to provide a better-defined and more transparent process for granting exemptions to its Minimum Offer Price Rule (MOPR), in place of PJM's existing unit-specific review process, as approved by the Commission in 2011.[2]

Please be advised that the filing is deficient and that additional information is necessary to process the filing. In order to evaluate PJM's proposal, please provide the following information:

1) Please explain why it is reasonable for a resource that fails to qualify for either the competitive entry exemption or the self-supply exemption to be mitigated to a default offer price even if that unit may have lower competitive costs than those assumed in determining the default offer price.

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[1] 16 U.S.C. § 824d (2006).

[2] *See PJM Interconnection, L.L.C.*, 135 FERC ¶ 61,022 at P 37 (2011), *order on compliance filing, rehearing, and technical conference,* 137 FERC ¶ 61,145 (2011), *order on reh'g,* 138 FERC ¶ 61,194 (2012), *appeal pending*, Case No. 11-4245, *et al.* (3rd Cir.).

2) With respect to the proposed self-supply exemption:

   a. Please provide the basis supporting the development of each net short and net long threshold for each customer class;

   b. Please provide a study to support the thresholds in your filing that will show the minimum amount of non-self-supply that would render subsidies cost-effective for load serving entities of different sizes. Please provide a separate analysis for each Locational Deliverability Area that has a separate Variable Resource Requirement curve and for the unconstrained portion of the RTO. Assume that in determining whether subsidizing uneconomic entry is cost-effective, a load serving entity would compare: (i) the additional cost from the subsidy, with (ii) the benefit, i.e., the reduction in the load serving entity's bill resulting from purchasing the non-self-supplied portion of its capacity requirement from RPM. Assume further that the benefit depends on the reduction in the price resulting from the subsidized entry (which depends on the slope of the applicable Variable Resource Requirement curve for the applicable Locational Deliverability Area and the size of the Locational Deliverability Area), and the amount of non-self-supplied capacity purchased by the load serving entity.

   c. Please explain whether PJM's proposal may allow resources to evade the net-short threshold, and thus receive a MOPR exemption, by contracting for capacity on a short-term basis. Explain whether a load serving entity that meets the net-short threshold, in part, or in whole, with short-term contracts, would have an incentive to reduce the RPM price by subsidizing uneconomic entry. If so, explain what the minimum contract term should be in order to remove this incentive.

   d. Please explain why a resource associated with a load serving entity that does not qualify for the self-supply exemption should not be entitled to this exemption if it otherwise meets the relevant net short and net long thresholds. In this regard, please explain why a non-self-supply load serving entity that meets these thresholds would still have an incentive to reduce the Reliability Pricing Model (RPM) auction clearing price. Please provide your explanation based on both the proposed net-short and net-long requirements.

3) Please provide a justification for why PJM proposes to apply the MOPR to integrated gasification combined cycle plants.

This letter is issued pursuant to delegated authority, 18 C.F.R. § 375.307 (a) (1)(v) and is interlocutory. This letter is not subject to rehearing pursuant to 18 C.F.R. § 385.713. PJM must respond to this letter within 30 days of the date of this letter by making an amendment filing in accordance with the Commission's electronic tariff requirements.[3] Please also email an additional electronic copy of the response to Mr. John M. White at johnm.white@ferc.gov.

Failure to respond to this deficiency letter within the time period specified may result in an order rejecting your filing. Until receipt of the amendment filing, a filing date will not be assigned to your filing.

Sincerely,

Jignasa Gadani, Director
Division of Electric Power
Regulation – East

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[3] *Electronic Tariff Filings*, 130 FERC ¶ 61,047, at P 3-8 (2010) (an amendment filing must include at least one tariff record even though a tariff revision might not otherwise be needed).