

PJM Queue Reform Transition Proposal: Based on Input From a Coalition of PJM Renewable Industry Companies

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Presentation by Open Road Renewables



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Background

- On September 15, 2021 PJM released its proposal for queue reform designed to expedite the processing of existing and future generation interconnection queues. On Friday September 17, PJM modified their proposal to include an Alternate Transition Option.
- PJM proposes switching from the existing “serial” cost allocation rules to a new “cluster” cost allocation approach (similar to MISO)
- As part of stakeholder process, PJM conducted a poll of participants and presented the findings at the 8/23 stakeholder meeting. The results were inconclusive, and importantly, did not include responses from **the majority** of renewable energy developers with active queue positions.
- Both of PJM’s proposed Transition Options would subject AE1 and newer queue projects to new cost allocation rules that would inject new risk and uncertainty, and delay critical development milestones (i.e. PPA execution) on hundreds of projects that do not trigger network upgrades under existing rules.
- Notably, consideration of harm to mature projects, fairness, and vested rights has been missing from the PJM stakeholder group’s “Guiding Principles” in PJM’s stakeholder process, despite this being a common theme in the FERC-approved transition plans that other RTOs have pursued.

PJM Utility-Scale Renewables Poll on Transition

- Because the majority of PJM renewable Interconnection Customers had not participated in PJM’s Task Force efforts, a poll focused on the potential transition options was presented to industry groups representing the majority of renewable energy developers and IPPs active in PJM (see Appendix for more details).
 - 30 poll responses to date (67% response rate), with an additional 6 respondents declining to respond due to short timeframe between the PJM proposals and Sept 20 Stakeholder Meeting.
 - No “affiliate” votes (i.e. each company gets 1 vote).
- Result was ***overwhelming support for “grandfathering” most/all projects with SIS in hand*** to continue under existing serial cost allocation rules
 - This result is generally consistent with PJM’s stakeholder poll result (noting the lack of support for Transition Option 1 on the Aug 23 poll results) despite lack of IC representation in that process.
 - This result is consistent with precedent that’s been established in the FERC-approved MISO, SPP, PSColorado, and Duke Transition plans

PJM Utility-Scale Renewables Poll Cont...

- Coalition Poll responses in favor of grandfathering projects with SIS results:
 - **29 out of 30 respondents support broad grandfathering of existing serial cost allocation rules based on an SIS milestone:**
 - 19 respondents in favor of letting projects with SIS in hand choose whether to be studied serially or under new transition cluster
 - Additional 6 respondents in favor of automatically grandfathering all projects with SIS studies in hand from new rules
 - Additional 4 respondents in favor of applying a minimal cost threshold for projects with SIS to be studied serially (ex. \$0 network upgrades, small network upgrades, etc.)
 - A number of poll responders commented that they would have elected to grandfather a broader list had the poll allowed it (ex. all projects that applied to the queue under existing rules)
 - Additionally, over 95% of respondents expressed support for transition to new cluster cost allocation process as well as willingness to expedite the serial process by moving up timing of securitization for “grandfathered” projects

Poll Results and Concept of “Transitional Equity”

- From the coalition poll results, a tangible definition of “Transitional Equity” has emerged for the group’s consideration as a Guiding Principle
 - **“Transitional Equity”** is achieved by allowing those companies with queue positions that have SIS report in-hand at time of FERC approval should have the option to keep the current serial cost allocation methodology.
 - Some poll respondents pointed out that some projects would have SIS studies in hand if not for PJM delays
 - Some poll respondents would go further and give all active queue positions the option of continuing under the existing rules.
- PJM’s current proposal does not achieve Transitional Equity

ORR Transition Proposal: How would it work?

- All projects with SIS in hand at the time of FERC approval would have the choice to continue under existing rules or to move to transition cluster
- Projects that stay under existing rules would keep their Traditional Serial cost allocation methodology and proceed under the current serial cost allocation rules
 - Many of these projects will have zero network upgrades and thus will not require restudy
 - Opportunities to expedite these serial studies could include increased 'Readiness' obligations like early securitization based on estimated costs and/or reduced timeline to execute ISA/post security to enable
- Projects that opt into the transition cluster would be studied after the serial cost allocation process is completed
 - One or more clusters including portions of AE1-AG1 queues (and AG2 queue if AG2 projects have SIS in hand at time of FERC approval) would be studied, and costs would be reallocated based on new cluster-based allocation rules

ORR Transition Proposal - Transitional Serial: Preserving Inter-queue funding in Transitional Serial for upgrades that exceed \$5M. An Example:

- Projects A and B are under facility study in the AE1 queue. Each contribute 50% to a \$1m overload (Overload 1) and to a \$10m overload (Overload 2). Assume that either project alone would trigger these overloads.
- Project A elects to remain in the serial process and Project B elects to move to the transition cluster.
- Project A is allocated the full cost Overload 1 and Overload 2
 - Similar to if Project B had queued out under existing rules
- Project A bears the full cost of Overload 1
 - Consistent with existing rules for <\$5m upgrades
- Project B and any project in future queues for next 5 years that contribute to Overload 2 reimburse Project A for their allocation of cost of Overload 2
 - Consistent with existing rules for >\$5m upgrades

ORR Transition Proposal: Opportunities to Expedite Serial Studies via New Security Requirement

- Require interconnection security for projects under facility study as a condition of remaining in serial queue
 - This would allow PJM to proceed through serial queues without the need to wait for the ISA security decision point
 - Securities (amount as a % of network upgrade TBD) needed for network upgrades would be at risk, security for facilities upgrades would be refundable
 - Uncertainty around facilities study cost could be addressed using conservative estimates
 - While this represents a change of rules for existing projects, it provides the opportunity to preserve the cost allocation methodology for late-stage projects, which is consistent with FERC precedent in the four most recent cases (MISO, SPP, PSColorado, Duke)

ORR Requested Next Steps

- Provide an additional opportunity for updated proposals with more time for analysis and discussion
 - Reflects lack of participation by ICs, broad disapproval of PJM’s current proposals, and mismatch between stakeholder poll results and PJM’s proposals.
- Task Force Poll #2
 - Conduct a revised poll of stakeholder group focused on the transition options only
 - One vote per company (no affiliate votes) to better reflect view of majority of companies
 - Eliminate a forced vote on all proposals (flaw in 8/23 PJM poll)
 - Provide instructions for how to vote for various proposals
 - Re-design poll and include Renewable Coalition poll questions shared in Appendices below
 - See critiques of PJM 8/23 poll in Appendices below
- Task Force Outreach
 - Add outreach to ICs and renewable industry groups (ex. MAREC, USSEC, CHESSA, etc) to PJM outreach effort on this stakeholder process, as these are most impacted groups by a retroactive change in rules and have been underrepresented in stakeholder process to date
- Task Force Group Guiding Principles
 - Add “Transitional Equity” concept to guiding principles

Appendix: Renewable Coalition Poll Details

- Renewable Energy Trade association calls were held on 9/16 and 9/17 with USSEC OH, CHESSA and MAREC members to discuss the Task Force efforts and review PJM's proposal
- From these calls, it became evident that the majority of renewable energy developers and IPPs were not aware of the possibility of material change to the cost allocation rules for existing queue positions
- Following these calls, a poll was assembled with the questions included on the following slides

Appendix: Renewable Coalition Poll Questions

1. Do you support the overall concept of moving the PJM interconnection process to a cluster process vs. a serial process?
2. Do you agree or disagree that existing queue positions with completed System Impact Studies should have the right to proceed under existing cost allocation rules (i.e. they should be grandfathered from new cost allocation rules)? Pick all options that apply.
 - Agree, all projects with completed SIS should be grandfathered.
 - Agree, but let developers choose whether to join the transitional cluster for each queue.
 - Agree, but only those queue positions with minimal network upgrade costs.
 - Agree, but only those queue positions with zero network upgrade costs.
 - Disagree, there are too many projects with SIS to grandfather.
3. In the interest of preserving existing cost allocation rules for projects that have their completed System Impact Studies, would you support accelerated securitization obligations that may allow PJM to more quickly process the existing serial queues?
4. Do you believe that one of PJM's guiding principles in this process should be to minimize harm to and consider the equity of changing the rules for advanced queued projects that have System Impact Studies in hand?
5. Do you have anything else to add about the transition to a new PJM queue regime?

Appendix: Renewable Industry Poll Invitees

Number	Company Name	Number	Company Name	Number	Company Name
1	Acciona	16	EDF	31	National Grid
2	Algonquin/Liberty	17	EDPR	32	Navisun LLC
3	Arevon	18	Enel	33	Nextera
4	Avangrid	19	Engie	34	North Ridge Resources
5	BayWa	20	Eolian	35	Open Road Renewables
6	Borrego	21	Foundation Solar Partners	36	Orsted
7	Brookfield	22	FSLR	37	Pattern Energy
8	Candela	23	Geenex	38	Pine Gate Renewables
9	Capital Power	24	Hecate	39	Primergy
10	Clearway	25	Heelstone	40	RWE
11	Community Energy	26	Hexagon Energy	41	Savion
12	ConnectGEN LLC	27	Innergex	42	SolUnesco
13	Cypress Creek Renewables	28	Invenergy	43	sPower/AES
14	Dakota Power Partners	29	Leeward	44	Urban Grid
15	DESRI	30	LightSource BP	45	Vesper

The poll was shared via multiple individual emails to the above list of companies and with a broader group of companies via MAREC, USSEC, and CHESSA utility-scale company lists.

Notable Poll Responder Comments

- “It would not be “just and reasonable” if the new rules caused material damage to those who were playing fairly by the old rules. In other words, PJM’s proposed solution should not pull the rug out from under advanced stage projects (those with a completed SIS) that in some cases have had millions of dollars of investment sunk into them based on the current network cost allocation rules.”
- “Companies signed up for a known process and should live by the rules. If PJM wants to change the rules, it should be for projects going forward. I think having developers have a choice of whether or not they want to join the transitional cluster would be a good compromise, but it also would depend on how those rules work and whether or not clean interconnects would be impacted.”
- “Changing the process and increasing uncertainty for projects that are further in the process (SIS complete with clean results) would greatly harm invested value for developers.”
- “There should be a method to transition to a transitional serial process or a transitional cluster process. This is something with significant FERC precedent in other regions. One critical aspect of this is that PJM has a Facilities Study backlog larger than any other region in history. PJM's current proposal is benefiting later queued projects because it is creating massive transitional clusters. PJM should complete Feasibility Studies for all projects before queue reform was announced (AG2 and earlier) and allow clean projects to provide readiness to stay in a serial process.”
- “Ideally our position would actually go further than the multiple choice allows. We think that any project that has entered the feasibility study process should be grandfathered or have the option to stay in the serial queue process. All of those sites submitted for feasibility were selected and pursued based on proprietary investment theses that were developed with investments of time and money to determine optimal siting. Throwing these projects into a cluster, arbitrarily and capriciously negates the strategic benefits of those projects.”

Notable Poll Responder Comments, Cont...

- “The projects that should be allowed to move forward should not be dependent on other projects upgrades and should also have no upgrades (outside of IF and new switchyards as these are technically NUs).”
- “if securitization pre-ISA helps address PJM's concerns about the pace of serially processing facilities studies before they can move on to the cluster, then that's better than pulling the rug out from under billions of dollars in mature projects!”
- “The cleanest way to do this is to simply grandfather the projects with clean SIS results and no network upgrades. Any other way is too controversial and there will not be consensus among developers.”
- “An unexpected increased cost for older projects is unjust.”
- “Minimize harm to all projects, not just those with SIS in hand. The concern is that many projects should have received their SIS by now and have not. It doesn't seem equitable to treat projects in the same queue group differently simply because some have received their SIS and some have not.”
- “The precedent queue reform transition plans submitted to FERC by MISO, SPP, Duke and Colorado all grandfathered in projects with a completed SIS. We strongly advocate that PJM follows this precedent and believe it is within its members best interest and will be much more likely to receive FERC approval.”
- “Any PJM queue regime changes should be for any queue positions after AG to minimize harm to investment value for developers.”
- “PJM’s guiding principles in this process should be to minimize harm to developers and letting them choose whether to join the transitional cluster for each queue. Also, all projects with completed System Impact Studies should be grandfathered.”

Notable Poll Responder Comments, Cont...

- “From our experience with SPP, hiring additional contractors to help get through the backlogged projects before moving on to new cluster studies will be critical to ensuring that PJM's goal of speeding the process up is achieved.”
- “We would support even higher readiness deposit requirements in the transition queue if that would help clear the backlog quicker and help move the serious projects forward quickly.”
- “[COMPANY NAME REDACED] is a long-time PJM member and has been successfully developing wind and solar projects in PJM since 2001. We support PJM queue reform generally and an orderly transition to a cluster study approach to cost allocation. We are VERY troubled, however, that PJM would consider changing cost allocation rules in the middle of the game for projects that have been diligently investing in development based on existing generator interconnection rules. Project developers have invested tens of millions of dollars in advancing projects based on the PJM process as we have known it for many years. PJM’s current proposal literally throws many viable projects out the window and changes the rules of the game midstream. At best, PJM is placing tens of millions of dollars of investment at risk. At worst, this change will cause repercussions that could lead to the failure of projects and even whole companies. All projects meeting the existing rules of generator interconnection must be grandfathered under the existing process or have the option to do so. If not, the entire queue reform process will be at risk of litigation at FERC, and will end up taking even longer to resolve than if an orderly process is agreed to up front.”

Critiques of PJM 8/23 Poll

- Poll choices did not reflect preferred options of many ICs to give transition choice to developers with SIS in hand
- Rank order format forced votes for options that respondents did not support at all
- Insufficient participation by renewable ICs who are most impacted by retroactive rule changes skewed poll responses
- Affiliate votes skewed poll responses
- PJM proposal to minimize grandfathering did not reflect 8/23 stakeholder poll outcome