

H-P Energy Resources LLC

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October 31, 2011

Via Electronic Mail

New Jersey Board of Public Utilities
attn: Office of the Secretary
44 South Clinton Avenue
Trenton, New Jersey 08625

Re: Capacity and Transmission Investigation
Docket No. EO11050309

Dear New Jersey Board of Public Utilities:

H-P Energy Resources LLC (H-P) respectfully submits these comments in this proceeding. H-P requests that the New Jersey Board of Public Utilities (BPU) consider merchant transmission procurement, in addition to merchant generation procurement, in addressing New Jersey's electricity costs and reliability concerns. The last Base Residual Auction (BRA) conducted by PJM Interconnection, L.L.C. (PJM) makes it possible to estimate the potential benefit of merchant transmission projects for New Jersey under PJM's Reliability Pricing Model (RPM).

Specifically, H-P is developing merchant transmission projects X2-009 and X2-055,¹ which are reconducting upgrades of the two Cedar Grove-Clifton-Athenia 230 kV circuits. The Cedar Grove F – Clifton K 230 kV line was the limiting facility for the PS North Locational Deliverability Area (LDA) in the last BRA.² H-P's transmission consultancy has determined that the next limiting facilities into the PS North LDA are, in order, Cedar Grove B – Clifton B 230 kV, Clifton K – Athenia 230 kV, and Clifton B – Athenia 230 kV lines, and that upgrading these four lines as proposed by H-P would increase the Capacity Emergency Transfer Limit (CETL) into the PS North LDA by 180 MW.³

¹ These projects are posted on the PJM web site here, <http://www.pjm.com/planning/merchant-transmission/trans-queue-active.aspx>. Feasibility studies for these projects are due October 31, 2011, pursuant to Section 36.2 of the PJM Tariff.

² The 2014-2015 BRA planning parameters with the limiting facilities for each LDA are posted here, <http://www.pjm.com/markets-and-operations/rpm/~media/markets-ops/rpm/rpm-auction-info/rpm-bra-planning-parameters-2014-2015.ashx>.

³ H-P has designated Athenia as the secondary point of interconnection sink for the feasibility studies. H-P intends to elect Athenia as the sink for the system impact studies.

A 180 MW increase in the PS North CETL in the last BRA would have reduced the PS North LDA clearing price by roughly \$60/MW-day, with an overall reduction in PS North LDA costs of approximately \$83,600,000.⁴

H-P notes that the reduced PS North LDA costs of \$83,600,000 are based on the parameters and supply offers in past BRAs. The PS North LDA may not be constrained in the next BRA and, if constrained, may have a limiting facility other than the facilities that are the subject of these projects.

Other considerations include the potential reduction in overall energy Locational Marginal Prices from reduced congestion, as well as the fact that these upgrades may be necessary in future years to address reliability violations. LDA constraints usually appear as reliability violations in later years.

Also importantly, the projects can be offered into the next BRA as "Qualifying Transmission Upgrades" such that if there is no cost-reduction benefit the projects would not "clear" and would not be obligated to continue. Consequently, these projects offer a low-risk way to hedge against very large RPM costs.

H-P further notes that the circuits that are the subject of the X2-009 and X2-055 projects also were limiting facilities for the PS LDA. The PS LDA was not constrained in the last BRA, but may be constrained in future BRAs.

Consideration should be given to the potential effects of the Susquehanna-Roseland transmission project. It is unknown if the Susquehanna-Roseland project will be reflected in the parameters for the next BRA under the applicable RPM rules.⁵ H-P would note that PJM's past projection of the CETL benefit of the Susquehanna-

⁴ Increasing the PS North CETL by 180 MW reduces the "Locational Price Adder" for the PS North LDA by an estimated \$60/MW-day based on the supply and demand curves for the 2012-2013 BRA (PS North LDA did not bind in the 2013-2014 BRA and supply-demand curves for the 2014-2015 BRA are not yet available). Applying that price reduction to the 3,817.5 MW of "Cleared Capacity" paid the PS North LDA clearing price provides the estimated cost reduction of \$83.6 million (\$60/MW-day x 365 days x 3,817.5 MW). H-P notes that the PS North LDA clearing price is spread across the entire PS zone so the savings would be as well. H-P also notes that there would be a small increase in the MAAC LDA clearing price from a small transfer of MAAC resources into the PS North LDA due to the increased PS North CETL.

⁵ Section 5.11A of Attachment DD of the PJM Tariff.

Roseland project for the PS North LDA is 172 MW and for the PS LDA is 105 MW,⁶ whereas our projected CETL benefit of the X2-009 and X2-055 projects for the PS North LDA is 180 MW and for the PS LDA is 330 MW. The X2-009 and X2-055 projects are a cost effective way to increase CETL in lieu of, or in addition to, the Susquehanna-Roseland project.

H-P requests consideration of these projects in New Jersey's procurement process for reasons analogous to those for merchant generation projects. These merchant transmission projects appear desirable from a load perspective, but they are problematic from a merchant perspective because RPM is a one-year auction and in an LDA as small as PS North they could in and of themselves reduce or eliminate a clearing price differential which in turn would reduce or eliminate revenue support.⁷

H-P recognizes that the PJM stakeholder process is considering reform of the New Entry Price Adjustment mechanism in RPM, and that merchant transmission projects such as these might be included in such reform. However, there is no assurance that this will occur in a timely and meaningful manner.

If the Board concludes that merchant transmission projects X2-009 and X2-055 may be of value to New Jersey consumers, one path forward would be to direct Public Service Electric and Gas Company to enter into discussions with H-P regarding the projects and either procure the projects for purposes of offering into the next BRA or submit a report to the Board on why such procurement would not be prudent from a consumer perspective.

Thank you for the opportunity to provide these comments.

Respectfully submitted,

/s/ Robert J. Patrylo
Chief Executive Officer

cc: Service List

⁶ These CETL values are based on the PJM scenarios posted here, <http://www.pjm.com/markets-and-operations/rpm/~media/markets-ops/rpm/rpm-auction-info/scenario-analysis-results.ashx>, comparing the "Base" CETLs with the "Simulation 19" CETLs.

⁷ Merchant transmission projects such as these are dependent upon revenue from Incremental Capacity Transfer Rights that are valued at the difference in price between the constrained LDA and the source LDA. If there is no price difference the value of the Incremental Capacity Transfer Rights is zero.