

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

PJM Interconnection, L.L.C.)
)
) Docket No. EL14-94-000

**ANSWER AND MOTION FOR LEAVE TO ANSWER OF THE
INDEPENDENT MARKET MONITOR FOR PJM**

Pursuant to Rules 212 and 213 of the Commission’s Rules and Regulations,¹ Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor for PJM² (“Market Monitor”), submits this answer and motion for leave to answer the reply brief filed in this proceeding by FirstEnergy Solutions Corporation (“FirstEnergy”) on December 3, 2014.³ This proceeding concerns the calculation of PJM Projected Market Revenues or net revenues, which are used to calculate the Market Seller Offer Caps that apply in Reliability Pricing Model (RPM) Auctions.

The Commission recently clarified Section 6.8(d) to mean that cost-based offers in the energy market must be used as the measure of marginal costs even in hours where lower market-based offers have been submitted.

¹ 18 CFR § 385.212 & 385.213 (2014).

² Capitalized terms used herein and not otherwise defined have the meaning used in the PJM Open Access Transmission Tariff (“OATT”).

³ In support of its reply brief, FirstEnergy attaches a Declaration of Dr. Shaun D. Ledgerwood (“Ledgerwood”). PJM Providers Group and Electric Power Supply Association also filed a reply brief in this proceeding on December 3, 2014 (“Power Providers”). Because Power Providers essentially supports PJM’s brief filed November 3, 2014, the Market Monitor has addressed those arguments in its reply brief submitted December 3, 2014.

FirstEnergy supports maintaining this rule. But FirstEnergy does not argue that the cost-based offer is an accurate measure of marginal costs for the units directly at issue in this proceeding. FirstEnergy does not even argue that the cost-based offer is an accurate measure of marginal costs in most circumstances. FirstEnergy's sole argument is that there may be a non-zero market-based offer lower than a cost-based offer which does not reflect marginal cost. FirstEnergy ignores the other logical possibilities.

Section 6.8(b) of Attachment DD to the OATT ("Section 6.8(d)") is unjust and unreasonable because it would result in the understatement of net revenues, the overstatement of capacity market offer caps and the exercise of market power.

The Market Monitor's recommended approach addresses all the issues with Section 6.8(d), including FirstEnergy's issue, in an easy to implement manner that is based on the economic fundamentals. Accordingly, the current 6.8(d) should be found unjust and unreasonable and replaced with the Market Monitor's recommended approach.

I. ANSWER

A. FirstEnergy's Argument is Unrelated to FirstEnergy's Behavior in This Case.

FirstEnergy's argument on brief, supported by its witness Dr. Shaun Ledgerwood's declaration, is that "generators have legitimate business reasons to submit price-based offers that are below their cost-based offers."⁴

FirstEnergy nowhere asserts that the hypothetical advanced by Dr. Ledgerwood actually describes the actions of FirstEnergy which resulted in this Section 206 proceeding. The Market Monitor's position is that the hypothetical does not describe the actions of FirstEnergy which resulted in this proceeding.

FirstEnergy's defense of Section 6.8(d) depends entirely on how application of that rule would avoid the hypothetical results explained by Dr. Ledgerwood. FirstEnergy does

⁴ See FirstEnergy at 10-12; Ledgerwood at para. 23.

not attempt to defend against all of the other unjust and unreasonable outcomes that will result from application of Section 6.8(d)

B. The Market Monitor's Approach Addresses All the Potential Outcomes

There are four logical possibilities relevant to choosing between cost-based offers and market-based offers in the calculation of net revenues: (i) A unit's actual short run marginal costs ("SRMC") are equal to its cost-based offer and greater than its market-based offer; (ii) a unit's actual short run marginal costs are less than its cost-based offer and greater than its market-based offer; (iii) a unit's actual short run marginal costs are less than its cost-based offer and equal to its market based offer; and (iv) a unit's actual short run marginal costs are less than its cost-based offer and less than its market-based offer.

FirstEnergy and Dr. Ledgerwood focus solely on the first possibility and ignore the other three. The Market Monitor agrees that FirstEnergy identifies a logical possibility.

It is incorrect and illogical to assume that the other possibilities cannot and do not occur. It is the Market Monitor's experience working with market participants since 1999 to calculate offer caps, that possibilities (iii) and (iv) can and do occur.

FirstEnergy offers no rationale for ignoring the other logical possibilities. FirstEnergy does not explicitly address the other logical possibilities, but the effect of adopting FirstEnergy's position would be to ignore them. FirstEnergy does assert (at 14–15) that it would be too difficult or require IMM discretion to do anything other than to assume that the first possibility is the only possibility.

The Market Monitor's December 3rd reply brief describes (at 9–12) a method for distinguishing among the logical possibilities and selecting the correct outcome based on objective metrics and without the exercise of discretion.

The Market Monitor's position is that non-zero, market-based offers reveal a unit's actual marginal costs when lower than cost-based offers and for that reason should be used in the net revenue calculation rather than the higher cost-based offers, under defined conditions. More specifically, the best way to determine net revenues is to use the lower of

a unit's cost-based offer or market-based offer, if the market-based offer is greater than or equal to marginal costs based on fuel and emissions costs, while providing the seller the opportunity to support the assertion that its lower market-based offer is less than its marginal costs. This approach would be reliable, transparent and accurate and entirely consistent with the defined roles of the Market Monitor, PJM and the Commission.⁵

The Market Monitor's proposal (at 9–12) addresses all four logical possibilities, including the one identified by FirstEnergy.

If the first logical possibility were correct (Ledgerwood's hypothetical), the Market Monitor's approach would result in the use of the cost-based offer, consistent with FirstEnergy's position.

If the second logical possibility were correct, the Market Monitor's approach would result in the use of the cost-based offer, consistent with FirstEnergy's position. In this case, the Market Monitor's approach would result in a net revenue calculation that is conservatively low and thus in an RPM offer cap that is conservatively high.

If the third logical possibility were correct, the Market Monitor's approach would result in the use of the market-based offer.

If the fourth logical possibility were correct, the Market Monitor's approach would result in the use of the market-based offer. In this case also, the Market Monitor's approach would result in a net revenue calculation that is conservatively low and thus in an RPM offer cap that is conservatively high.

Each of these outcomes from the Market Monitor's approach would be fully consistent with economic logic and just and reasonable. FirstEnergy's solution would be correct for the first two logical possibilities and incorrect for the second two logical possibilities.

⁵ See OATT § 12A.

The approach defended by FirstEnergy is not just and reasonable and cannot be reasonably relied upon to develop accurate net revenues or accurate capacity market offer caps. The Market Monitor’s proposal is just and reasonable because it calculates net revenues based on the best available data on marginal costs which will result in correctly calculated capacity market offer caps. The Market Monitor’s proposal fully addresses the circumstances identified by FirstEnergy. Section 6.8(b) should be modified as the Market Monitor proposes.

Table 1 summarizes the logical possibilities, the outcome under FirstEnergy’s approach and the outcome under the Market Monitor’s proposed approach.

Table 1 Outcomes of FE and IMM approaches to offer structures

Relevant Circumstances	FirstEnergy Outcome	IMM Outcome
SRMC = Cost-Based Offer and > Market-Based Offer	Cost-Based Offer Applies	Cost-Based Offer Applies
SRMC < Cost-Based Offer and > Market-Based Offer	Cost-Based Offer Applies	Cost-Based Offer Applies
SRMC < Cost-Based Offer and = Market-Based Offer	Cost-Based Offer Applies	Market-Based Offer Applies
SRMC < Cost-Based Offer and < Market-Based Offer	Cost-Based Offer Applies	Market-Based Offer Applies

II. MOTION FOR LEAVE TO ANSWER

The Commission’s Rule 213 does not permit answers to answers or protests unless otherwise ordered by the decisional authority.⁶ The Commission has made exceptions, however, where an answer clarifies the issues or assists in creating a complete record.⁷ In this answer, the Market Monitor provides the Commission with information useful to the

⁶ 18 CFR § 385.213(a)(2).

⁷ See, e.g., *N.Y. Indep. Sys. Operator, Inc.*, 121 FERC ¶61,112 at P 4 (2007) (answer to protest accepted because it provided information that assisted the Commission in its decision-making process); *PJM Interconnection, L.L.C.*, 119 FERC ¶61,318 at P 36 (2007) (accepted answer to answer that “provided information that assisted ... decision-making process”); *California Independent System Operator Corporation*, 110 FERC ¶ 61,007 (2005) (answer to answer permitted to assist Commission in decision-making process); *New Power Company v. PJM Interconnection, L.L.C.*, 98 FERC ¶ 61,208 (2002) (answer accepted to provide new factual and legal material to assist the Commission in decision-making process).

Commission's decision-making process and which provides a more complete record. Accordingly, the Market Monitor respectfully requests that this answer be permitted.

III. CONCLUSION

The Market Monitor respectfully requests that the Commission afford due consideration to this pleading as the Commission resolves the issues raised in this proceeding.

Respectfully submitted,



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Dated: December 18, 2014

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 Eagleville, Pennsylvania,
this 18th day of December, 2014.



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