

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

PJM Interconnection, L.L.C.

)
)
)

Docket Nos. ER15-1966-000

**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 PJM (“Market Monitor”), submits this answer to, and moves for leave to answer, the answer filed in this proceeding by Dominion Resources Services, Inc., on July 28, 2015 (“Dominion”). The arguments raised by Dominion opposing long needed reforms of the rules for calculating locational opportunity cost (LOC) have no merit. PJM’s proposed reforms together with those included in the Market Monitor’s comments filed July 14, 2015, should be approved.

I. ANSWER

A. The PJM Stakeholder Process Failed To Approve Comprehensive Reform of the LOC Rules.

Dominion argues (at 3) that the Market Monitor’s assertions about the current LOC calculations are incorrect. Dominion continues to justify the current errors as “a reflection of the evolution of PJM Markets and the balancing of varied interests of market participants.”

¹ 18 CFR §§ 385.212 & 385.213 (2014).

The Market Monitor filed comments on July 14, 2015, that include (at 2–6) a detailed description of the evolution of all LOC calculations in the Energy Market and Ancillary Services Markets. The only error consciously and explicitly agreed to by stakeholders was the calculation of the regulation LOC based on the lower of cost and price-based offers. All other mistakes were simply oversights by PJM and its stakeholders, oversights that once found should have been corrected .

Dominion (at 4) and PJM (at 4) suggest that the Market Monitor should bring these issues to the stakeholder process before they are evaluated by the Commission. Dominion and PJM fail to recognize the fact that the Market Monitor has repeatedly brought these issues to the stakeholders.

On January 11, 2012, the PJM Markets Implementation Committee (MIC) adopted an Issue Charge, wherein PJM acknowledged:

As PJM’s market rules have evolved, it has been necessary to determine a resource’s energy-related Opportunity Cost for various purposes. As each such occasion has occurred, the energy-related Opportunity Cost calculation was developed without regard to consistency. PJM staff believes that PJM’s market rules would benefit from such consistency.²

The MIC met a dozen times to consider the issue during 2012. At these meetings, PJM staff made presentations explaining some of the inconsistencies in the LOC calculations, focusing on the different methods used in the Ancillary Services Markets.³ The

² See Issue Charge: Consistency of Energy-Related Opportunity Cost Calculations, which has been provided as Attachment B and can be accessed at: <http://www.pjm.com/committees-and-groups/issue-tracking/issue-tracking-details.aspx?Issue=%7B8BDD3AD9-2832-4E47-A2C0-1B896B6ECA6F%7D>.

³ See PJM’s Consistency of Energy-Related Opportunity Cost Calculations, which can be accessed at: <http://www.pjm.com/~/media/committees-groups/committees/mic/20120411/20120411-item-05b-opportunity-cost-calculation-educational-paper.ashx>.

Market Monitor made presentations explaining issues with LOC calculations in the Energy Market.⁴

After nearly a year of discussions among PJM, the Market Monitor and market participants, the stakeholders voted at the MRC meeting of December 20, 2012, “to postpone indefinitely voting on this issue.”⁵ Stakeholder activity to comprehensively address the LOC issue terminated.

Throughout the stakeholder discussions in 2012, no plausible support for why the status quo is just, reasonable and non-discriminatory was offered. No plausible defense was raised counter to the plainly flawed and inconsistent approach included in the current LOC rules.

On the December 6, 2013, at the Market Monitoring Unit Advisory Committee, the Market Monitor presented proposed corrections to the inconsistent and inaccurate LOC calculations. During the meeting the Market Monitor indicated that after the failure of the stakeholder process in 2012, it had decided to prepare a filing at the FERC to address these issue.⁶ After the meeting no stakeholder or PJM provided formal feedback or any recommendation regarding the Market Monitor’s proposed changes.

The arguments regarding the use of the stakeholder process to address the LOC calculation issues have no merit. All of the issues raised by the Market Monitor have been under discussion in the stakeholder process for years. The Market Monitor circulated a

⁴ See Monitoring Analytics Energy LOC Proposal, which can be accessed at: <http://www.pjm.com/~media/committees-groups/committees/mic/20121019/20121019-loc-session-ma-energy-loc-proposal.ashx>.

⁵ See Minutes from PJM Market and Reliability Committee December 20, 2012 meeting, which can be accessed at: <http://www.pjm.com/~media/committees-groups/committees/mrc/20130131/20130131-draft-minutes-mrc-20121220.ashx>.

⁶ See Monitoring Analytics Lost Opportunity Cost in PJM presentation, which can be accessed at: <http://www.pjm.com/~media/committees-groups/committees/mmuac/20131206/20131206-item-03-lost-opportunity-cost-in-pjm.ashx>.

draft complaint in 2014 after that process had definitively failed. The Market Monitor delayed filing the complaint when the EMUSTF process took up the issue in 2015. The 2015 EMUSTF process concluded with PJM's filing some rule changes in this proceeding. PJM's decision to file some elements of a solution constitutes progress on the issue, but the proposal is incomplete without the additional reforms included in the Market Monitor's answer.

The stakeholder process has failed to protect market participants harmed by faulty LOC compensation and the public interest in efficient and rationally designed markets. The proposed corrections are long overdue and they should be approved in their entirety.

B. Dominion's Arguments Are Inconsistent.

Dominion argues (at 5–6) that the Market Monitor's proposal to calculate LOC based on segments of hours instead of hour by hour ignores the possibility that flexible units might turn on during profitable hours and turn off during unprofitable hours. While that is unlikely, there is nothing wrong with units responding to market prices. Ironically, Dominion argues that large fast-start CTs must run for at least four hours before coming offline. These two arguments are inconsistent and are incorrect.

It is also unclear why Dominion makes the unsupported and inaccurate assertion that CTs must run for at least four hours before coming offline. The Market Monitor's investigations have shown that there is no physical reason why a CT has to remain online after reaching its base output. The use of minimum run times is entirely an economic decision.

Dominion argues (at 6) that the Market Monitor has speculatively stated the current rules are an incentive for gaming and that the Market Monitor is suggesting that the decision by PJM not to call a resource in real time is inappropriate. Market Sellers seek to maximize profits following established rules such as the incorrect LOC calculation. The Market Monitor did not state that PJM's decision not to run a resource in real time is

inappropriate, but that Market Sellers have an incentive to inflate the flawed LOC payments.

Dominion claims (at 7), “the Market Monitor fails to show why it is inappropriate for a Market Seller to submit a price-based offer below its cost-based offer for a product that PJM explicitly values and that can reduce prices and costs for consumers.” The Market Monitor does not assert that price-based offers should not be lower than cost-based offers. The Market Monitor has explained that PJM rules can result in cost-based offers that are higher than competitive offers, and that participants facing competitive conditions can and do submit lower price-based offers that reflect their true short run marginal costs.⁷ The purpose of Dominion’s argument is unclear. Both PJM and the Market Monitor agree that pool-scheduled resources should be paid LOC based on the offer on which they are scheduled or committed regardless of the difference between the resources’ cost and price-based offers.

II. MOTION FOR LEAVE TO ANSWER

The Commission’s Rules of Practice and Procedure, 18 CFR § 385.213(a)(2), do not permit answers to answers or protests unless otherwise ordered by the decisional authority. The Commission has made exceptions, however, where an answer clarifies the issues or assists in creating a complete record.⁸ In this answer, the Market Monitor provides the Commission with information useful to the Commission’s decision-making process and

⁷ See, e.g., Protest of the Independent Market Monitor for PJM, Docket No. EL14-36 (April 18, 2014).

⁸ See, e.g., *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); *N.Y. Independent System 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).

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 answer as the Commission resolves the issues raised in this proceeding.

Respectfully submitted,



Jeffrey W. Mayes

Joseph E. Bowring
Independent Market Monitor for PJM
President
Monitoring Analytics, LLC
2621 Van Buren Avenue, Suite 160
Valley Forge Corporate Center
Eagleville, Pennsylvania 19403
(610) 271-8051
joseph.bowring@monitoringanalytics.com

General Counsel
Monitoring Analytics, LLC
2621 Van Buren Avenue, Suite 160
Valley Forge Corporate Center
Eagleville, Pennsylvania 19403
(610) 271-8053
jeffrey.mayes@monitoringanalytics.com

Dated: July 31, 2015

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 31st day of July, 2015.



Jeffrey W. Mayes
General Counsel
Monitoring Analytics, LLC
2621 Van Buren Avenue, Suite 160
Valley Forge Corporate Center
Eagleville, Pennsylvania 19403
(610) 271-8053
jeffrey.mayes@monitoringanalytics.com