

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

PJM Interconnection, L.L.C.)	Docket No. EL15-738-000
)	
PJM Interconnection, L.L.C.)	Docket No. EL15-739-000
)	(not consolidated)
)	

COMMENTS OF THE INDEPENDENT MARKET MONITOR FOR PJM

Pursuant to Rule 211 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 these comments on two related filings submitted in the above captioned proceedings by PJM Interconnection, L.L.C. (“PJM”) on December 24, 2014 (“December 24th Filing”). PJM submitted these filings to prepare for foreseeable potential reductions in the level of resources that will be available to it in the 2015/2016 Delivery Year. The Market Monitor supports granting the relief requested in both filings because it is in the public interest, subject to certain conditions.

In its filing in Docket No. ER15-738, PJM states that, if granted, the waiver would permit PJM to avoid rules that would otherwise “require PJM to offer to release approximately 2,000 megawatts of capacity previously committed to the PJM Region for the 2015/2016 Delivery Year—in the face of significant uncertainty and concerns about resource adequacy for that Delivery Year.” The Market Monitor agrees that PJM has valid concerns about whether it will be able to rely on the full amount of resources that it has procured for

¹ 18 CFR § 385.211 (2014).

the 2015/2016 Delivery Year and that it would be prudent to retain all of them despite a lower load forecast since the auction that procured those resources.

Accordingly, the Market Monitor agrees that the PJM should not be required to sell back 2,000 MW of capacity in the Third Incremental Auction for the 2015/2016 Delivery Year when PJM has identified risks potentially affecting the availability of resources to meet load in the 2015/2016 Delivery Year.²

In its filing in Docket No. ER15-739, PJM states that, if granted, the waiver would permit PJM “to enter into, and recover the costs of, capacity agreements secured outside the Reliability Pricing Model (“RPM”) Auctions ... for the specific purpose of alleviating resource adequacy concerns during the 2015/2016 Delivery Year.”

The Market Monitor agrees that PJM has valid concerns about whether it will be able to rely on the full amount of resources that it has procured for the 2015/2016 Delivery Year and that it would be prudent to ensure that it has authorization to procure resources if it is determined that they are needed for reliability. Accordingly, subject to certain identified conditions, the Market Monitor supports PJM’s proposal.

The prudence of a particular purchase, and the terms and conditions of any such purchases, should be subject to careful review against defined standards. PJM explains (at 1), “All such agreements will be subject to case-by-case review and approval by the Commission under FPA section 205.” Because any such filings likely will be emergency purchases and expedited proceedings are likely to be requested, granting the waiver should be conditioned on a predefined process for any such special procurements and predefined standards for determining the appropriate price and other terms and conditions. PJM notes that an auction would not be appropriate because there would be inadequate competition

² Although the Market Monitor agrees with the substance of the relief sought by PJM and believes that it is in the public interest that the requested waiver be granted, the Market Monitor takes no position here on whether the legal requirements to grant a waiver have been met.

for a market mechanism.³ The sellers in this situation would have very significant market power regardless of whether a market mechanism or a bilateral agreement is used to procure capacity. In the admitted absence of competitive pressures, there must be a standard for payment that PJM cannot exceed. Sellers can determine whether that standard provides adequate compensation.

The OATT already defines the standards that should be applied for this purpose: the provisions for calculating Deactivation Avoidable Cost Credits (“DACCC”) for reliability-must-run (RMR) units should be applied for determining the maximum payment to be made under PJM’s identified “capacity agreements.”⁴

In addition, as is the case for comparable reviews identified elsewhere in the tariff, the Market Monitor should have a specific defined role in Attachment M–Appendix in the review, prior to PJM signing and prior to PJM filing, of any special capacity procurement contracts.⁵ That role should, including the ability to obtain information from a prospective supplier on a timely basis.⁶ The proposed language is based directly on section 12A of the OATT. Approval of the filing in Docket No. ER15-739 should be conditioned on PJM filing the following revision to Attachment M–Appendix to the OATT:

When PJM determines that it needs to enter into contracts to procure services on behalf of PJM customers, including, without limitation, ancillary services, black start services and special agreements for capacity, PJM shall notify the Market Monitoring Unit of such determination, afford the Market Monitoring Unit reasonable opportunity to participate in the negotiations for the duration of the negotiations, provide the Market Monitoring Unit

³ PJM concludes (at 11): “That relatively thin potential supply might therefore produce little competitive pressure, even if PJM employed a “market” mechanism.

⁴ See OATT §§ 114, 115. The rules for calculating DACCC allow for the recovery of going forward costs and an incentive adder, but do not permit recovery of fixed costs.

⁵ See, e.g., OATT § 12A.

⁶ See OATT Attachment M–Appendix § II.E, Attachment DD § 6.7.

reasonable opportunity to obtain information on and verification of cost and other related information from prospective suppliers, and provide advance notification (no less than five business days) to the Market Monitoring Unit of the date that an agreement will be filed with the Commission and the terms of such agreement. Parties negotiating with the Office of the Interconnection will cooperate in good faith with and provide timely responses to requests for information from the Market Monitoring Unit. The Market Monitoring Unit shall, within a reasonable time and prior to the filing of an agreement with the Commission, inform the Office of the Interconnection and other parties to such agreement of the Market Monitoring Unit's determination on whether the provisions of such agreement, including, without limitation, the proposed levels of compensation, raise market power related concerns.

The Market Monitor respectfully requests that the Commission afford due consideration to these comments as the Commission resolves the issues raised in these proceedings.

Respectfully submitted,



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Dated: January 14, 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 14th day of January, 2015.



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