

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

Virginia Electric and Power Company)	
)	
v.)	Docket No. EL16-109-000
)	
PJM Interconnection, L.L.C.)	
PJM Settlement, Inc.)	
)	

**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 to the answer submitted on October 5, 2016, by Virginia Electric and Power Company (“Dominion”). Much of Dominion’s answer repeats arguments addressed in the Market Monitor’s comments filed on September 30, 2016. This answer is limited to explaining how allowing the behavior at issue here would make markets inefficient and vulnerable to manipulation.

¹ 18 CFR §§ 385.212 & 385.213 (2016).

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

I. ANSWER

A. Interpreting Section 3.2.3 as Dominion Argues Would Undermine Market Efficiency and Expose the Markets to Manipulation.

Dominion argues (at 4) that the provisions in Section 3.2.3 of Schedule 1 to the OA “are exceptions to the general rule that a resource’s costs are limited to its offer.” No such exceptions exist. Costs not included in offers submitted to PJM are not within the scope of make whole payments under Section 3.2.3. The offers submitted and used by PJM to make dispatch decisions limit a resource’s compensation. It is not relevant that suppliers actual costs differ from the costs represented in its offer. Section 3.2.3 makes this clear:

Credits received pursuant to this section [3.2.3 e)] shall be equal to the positive difference between a resource’s total offered price for start-up (shutdown costs for Demand Resources) and no- load fees and energy, determined on the basis of the resource’s scheduled output, and the total value of the resource’s energy in the Day-ahead Energy Market plus any credit or change for quantity deviations, at PJM dispatch direction, from the Day-ahead Energy Market during the Operating Day at the real- time LMP(s) applicable to the relevant generation bus in the Real- time Energy Market. The foregoing notwithstanding, credits for segment 2 shall exclude start up (shutdown costs for Demand Resources) costs for generation resources.

Maintaining an efficient and competitive market requires that PJM limit make whole payments to actual offers submitted and selected and not costs that are asserted only after the fact. Compensation based on costs that are not known to PJM at the time of commitment and dispatch would make it impossible to have a least cost dispatch.

Allowing generators to submit one offer and receive compensation based on another, regardless of the commitment reason, would expose the market to manipulation. Offers could be submitted artificially low in order to clear, but final compensation could be determined by an expensive fuel cost that is only revealed after the fact. Customers would not be able to avoid paying the resulting uplift. Lower cost options could be ignored.

B. Dominion's Failure to Submit a Complete Offer Is Relevant.

Dominion argues that the Ladysmith units' failure to make cost-based energy offers available in the system is irrelevant because the units were committed for reliability. Dominion is incorrect. All offers are relevant as they have the potential to impact LMP, uplift and the unit commitment decision.

Dominion claims that the Ladysmith units did not set the LMP. The Market Monitor does not agree, and does not understand the basis for Dominion's claim. More importantly, whether Dominion set price with the offers from the Ladysmith units is not relevant.

All offers can affect LMP, whether by directly setting LMP, by providing an inframarginal offer as part of the supply curve or by offering high enough to not be dispatched.

It is inconsistent with the functioning of a competitive market to compensate units for offers that were never made.

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.³ In this answer, the Market Monitor provides the Commission with information useful to the Commission's decision-making process and

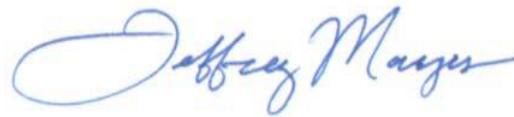
³ See, e.g., *PJM Interconnection, L.L.C.*, 119 FERC ¶61,318 at P 36 (2007) (accepted answer to answer that "provided information that assisted ... decision-making process"); *California Independent System Operator Corporation*, 110 FERC ¶ 61,007 (2005) (answer to answer permitted to assist Commission 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,



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Dated: October 31, 2016

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 October, 2016.



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