UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

	)	
PJM Interconnection, L.L.C.	)	Docket No. ER19-80-000
	)	

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 ("Market Monitor") for PJM Interconnection, L.L.C. ("PJM"),[2] submits this answer to the answer submitted by PJM Interconnection, L.L.C. ("PJM") on January 28, 2019, ("January 28th Answer"), in response to the Market Monitor's comments filed January 11, 2019.

I. COMMENTS

A. PJM's Misunderstands the Market Monitor's Arguments and the Basis of the Market Monitor's Objection to the PJM Proposal.

PJM argues (at 4) that the Market Monitor's arguments "that PJM's proposal does not generate a level playing field for comparing project proposals with different in-service dates" are based on "incorrect assumptions." PJM argues (at 6) that the Market Monitor's conclusion is based on the erroneous assumption "that the data relied upon to show increasing benefit/cost ratios in the out years are comparable to the benefits based on

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1 18 CFR §§ 385.212 & 385.213 (2018).

2 Capitalized terms used herein and not otherwise defined have the meaning used in the PJM Open Access Transmission Tariff ("OATT"), the PJM Operating Agreement ("OA") or the PJM Reliability Assurance Agreement ("RAA").

PROMOD simulations for the 15-year planning period." PJM argues (*id*.) that the Market Monitor fails to recognize that, "unlike the 15-year planning period, the benefits considered outside that period are beyond the PROMOD study year and, therefore, based on a trend line without regard to any other analysis that might affect the transmission system, which is why those benefits are characterized as 'speculative' and 'risky.'"

The Market Monitor disagrees. The Market Monitor's conclusion is not based on the assumption that the benefit/cost ratios and data derived from the trend line are better or worse than the benefit/cost ratios and data used to derive the trend line. Assuming that PJM has a reasonable method for computing benefit/cost, the Market Monitor is arguing that PJM's current method for comparing the benefit/cost of RTEP projects is flawed and that PJM's proposal to truncate the benefit/cost ratio calculation at 15 years beyond RTEP 0 does not improve the analysis and does not make a more level playing field for comparing transmission projects. The Market Monitor's argument is that the effect of PJM's proposed truncation could be positive or negative for a project's evaluation, based on the trend line of analysis beyond the PROMOD study year. PJM does not and cannot refute this self evident point.

PJM states (at 5) that all projected "economic benefits are based on the calculation of unknown, future benefits that are inherently uncertain, all efforts to levelize the evaluation of project proposals would have pros and cons." While true, this does not lead to a conclusion that truncating the analysis at year RTEP +14 will improve the comparison of projects.

Put simply, the effect of PJM's proposal on a project's benefit/cost ratio depends on whether the projected annual benefits calculated by PJM are increasing or decreasing for that project. PJM does not refute this. If the projected benefits of a project are increasing due to expectations about future congestion costs, excluding years beyond RTEP+14 will disadvantage the project because every year past RTEP+14 would be adding years with increasing benefit to cost ratios. The evaluations all use a levelized cost approach so that changes in the benefit/cost ratio over time are entirely a function of changes in benefits over time.

PJM's proposal does not, therefore, generate a more level playing field for comparing "project proposals with different in-service dates." It merely hurts some projects or helps others depending on the trend line of the cost/benefit ratio. Relative to projects with RTEP (year zero) in service dates, PJM's proposal disadvantages projects with later in service dates that show benefits that would increase over time. Relative to projects with RTEP (year zero) in service dates, PJM's proposal advantages projects with later in service dates that show benefits that would decrease over time.

Assuming PJM's modeling and analysis provide reasonable results, PJM's proposal is counterproductive to any effort to improve the benefit/cost ratio analysis used to evaluate and compare competing projects on a benefit/cost ratio basis. All projections and forecasts, positive or negative, are speculative. Projects with increasing benefits should not be disadvantaged relative to projects with decreasing benefits, based on the same speculative analysis. There is no basis for an argument that PJM's proposal will remove an unfair advantage or disadvantage to any particular project.

B. PJM's Assertions About Effect of the Market Monitor's Proposal Are Incorrect.

PJM argues (at 5–6) that the Market Monitor's proposal would disadvantage "projects with different in-service dates because the benefits and costs of an RTEP year zero project would be evaluated over a 16 year period while the benefits and costs of an RTEP year + 2 project would be evaluated over a 14 year period." PJM's assertion is incorrect.

As stated in is initial comments (at 4), the Market Monitor suggested that if the objective of the PJM proposal is to provide a more level playing field, a better approach would be to establish a common end date for all evaluated competing projects so that the minimum included years for any evaluated project was 15 years. This means that if there were an RTEP year zero project and a RTEP year +2 project competing, the benefit/cost ratio analysis would include the benefits and costs for both projects for every year from RTEP year zero to RTEP+16. Under this approach all projects would be evaluated over the same term, using the same methodologies, rather than an artificially truncated term and all projects would be evaluated on a present value basis at year zero.

So long as the same techniques, analytic approach and basis for the projections and forecasts in each year are the same across projects, the Market Monitor's proposal will provide a more level playing field than PJM's current approach or its new proposed approach.

C. PJM's Current Process Can Be Gamed By Using Later In-Service Dates.

In its January 29th Answer PJM argues (at 7) that "the IMM's argument misses the fact that if a project with a later in-service date has a decreasing trend line, PJM will factor that information into its sensitivity analysis as a negative for the project in comparing competing project proposals." PJM concludes (*id*.), therefore, that "under the PJM proposal there is no ability for a project with a later in-service date and a decreasing trend line to "game" the process."

PJM misunderstands the Market Monitor's argument or misunderstands its own proposal. PJM is proposing to eliminate any consideration of a trend line, positive or negative, beyond the 15-year planning horizon. This means that PJM will not factor in a declining (negative) trend line beyond the 15-year planning horizon. PJM's proposal therefore creates a relative advantage for projects with in service dates later than RTEP with benefits that decrease over time. This is because PJM's proposal would eliminate years of declining benefits beyond the 15-year planning horizon from the analysis of that project. This means that, under PJM's proposal, projects with decreasing benefits would, based on PJM's arguments, have an incentive to push back in service dates in order to have an advantage over similar projects with earlier in service dates. Any arbitrary truncation of the actual project life will create inappropriate metrics and inconsistent incentives.

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 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 these comments as it resolves the issues raised in this proceeding.

Respectfully submitted,

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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).

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Dated: February 14, 2019

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 February, 2019.

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