

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

PJM Interconnection, L.L.C.)		Docket No. ER15-623-000
)		& EL15-29-000
)		
Independent Market Monitor for PJM)		Docket No. EL19-47-000
v.)		
PJM Interconnection, L.L.C.)		(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 (“Market Monitor”) for PJM Interconnection, L.L.C. (“PJM”),² submits these comments responding to the filing submitted in this docket by PJM on November 27, 2019 (“November 27th Filing”) providing an update on the use of 360 intervals as the number of Performance Assessment Intervals³ (“PAI”) in the Capacity Performance (“CP”) based Reliability Pricing Model (“RPM”). The filing is made in response to the June 9, 2015, approving CP.⁴ The only conclusion that can be drawn from the filing is that the estimate for the expected number of

¹ 18 CFR § 385.211 (2019). The Market Monitor requests a waiver under Rule 211(b)(2) to whatever extent it may be necessary to accept this pleading.

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

³ PAI were previous known as and defined as “Performance Assessment Hours.” See PJM at 1 n.2.

⁴ *PJM Interconnection, L.L.C.*, 151 FERC ¶ 61,208.

PAI in a delivery year, a core metric for the efficient and accurate operation of the CP market design, is deeply flawed and should be corrected.

For this reason, following a similar notice filed by PJM for the preceding annual period,⁵ the Market Monitor filed a complaint in Docket No. EL19-47-000 on February 21, 2019 (“February 21st Complaint”). In that complaint the Market Monitor stated (at 19):

The evidence shows that the Capacity Performance default Market Seller Offer Cap (“MSOC”) currently defined in the PJM OATT is overstated based on the existing nonperformance charge and on an overstated number of expected Performance Assessment Intervals (PAI). An overstated expected PAI is unjust and unreasonable because it results in an overstated MSOC that is unjust and unreasonable because it allows the exercise of market power and the attempted exercise of market power.

The Market Monitor requested, in order to protect the public interest in competitive and efficient market design, relief (at 20):

PJM should be directed to revise the expected number of PAI used to set the default MSOC with the current nonperformance charge rate. The Market Monitor recommends a specific value in Section I.C. PAI should be set to a level consistent with a reasonable and supportable expectation of PAI, five PAH or 60 PAI.

The February 21st Complaint remains pending. The November 27th Filing confirms the continuing need for corrective action. The Market Monitor therefore also files this pleading in Docket No. EL19-47-000. The Market Monitor requests that the relief requested in the complaint be granted or other appropriate action be taken to address the significant market design flaw that is confirmed by the November 27th Filing.

⁵ “Informational Filing on the use of 30 hours as the number of Performance Assessment Hours,” PJM Interconnection, L.L.C., ER15-623-000, EL15-20-000, November 20, 2018.

I. BACKGROUND

The expected number of performance assessment intervals (PAI) in a PJM capacity market delivery year is a critical input in the calculation of the nonperformance charge rate and the default market seller offer cap (MSOC). (A PAI is five minutes in duration. There are 12 PAI in a PAH (performance assessment hour). PJM switched from using PAH to PAI when PJM switched to five minute billing.) In its order on the Capacity Performance rules, the Commission accepted PJM's proposal to use 360 as the expected number of PAI (or 30 PAH) but qualified its acceptance as follows (at P 163):⁶

However, given that the Performance Assessment Hour estimate affects core components of the Capacity Performance design, including the Non-Performance Charge rate and the default offer cap, we condition our acceptance of PJM's proposal on PJM making annual informational filings with the Commission to provide updates on the use of 30 hours for this parameter...We also encourage PJM to reassess the assumed number of Performance Assessment Hours after it has gained more experience with Capacity Performance and submit a filing if it finds a revision is warranted.

On November 27, 2019, PJM submitted to the Commission its third informational filing on performance assessment intervals. PJM reported 18 PAI (1.5 PAH) for the delivery year ending May 31, 2019. All PAI were in response to a single load shed directive on July 18, 2018. PJM states in its report that the voltage issue leading to the PAI could not be mitigated by capacity resources and therefore no performance shortfalls were recorded and no balancing ratio was calculated.⁷

⁶ 151 FERC ¶ 61,208 (2015).

⁷ November 27th Filing at 2.

On November 20, 2018, PJM filed its PAI informational filing for the delivery year ending May 31, 2018 and reported six PAI (0.5 PAH) for the delivery year.⁸ The emergency action that led to the six PAI was isolated to a small area and there were no capacity resources in the area to respond.

On November 27, 2017, PJM filed its PAI informational filing for the delivery year ending May 31, 2017, and reported zero PAI (zero PAH) for the delivery year.⁹

II. COMMENTS

PJM has reported zero, six and 18 PAI for the three delivery years since the implementation of the capacity performance design. Clearly the assumption of 360 PAI per delivery year is wrong. Yet, PJM indicates no plans to change the assumption regarding the expected number of PAI. PJM's filing does not respond to the Commission's requirement to provide updates on the use of 30 hours for this parameter.¹⁰ The requirement was not to simply report the number of PAI; the requirement was to provide updates on the use of 30 hours. Such an update should have concluded that the use of 30 hours is unsupportable and should be modified promptly. PJM also does not respond to the Commission's request to "reassess the assumed number of Performance Assessment Hours after it has gained more experience with Capacity Performance and submit a filing if it finds a revision is warranted." Such a revision is clearly warranted. The stakeholder process, to which PJM referred in previous informational filings, failed to produce the necessary tariff revisions, and the latest information filing simply declares PJM's commitment to "continue

⁸ "Informational Filing on the use of 30 hours as the number of Performance Assessment Hours," PJM Interconnection, L.L.C., ER15-623-000, EL15-20-000, November 20, 2018.

⁹ "Informational Filing on the use of 30 hours as the number of Performance Assessment Hours," PJM Interconnection, L.L.C., ER15-623-000, EL15-20-000, November 27, 2017.

¹⁰ 151 FERC ¶ 61,208 at P 163.

monitoring the appropriateness” of the current PAI assumptions.¹¹ Yet PJM fails to reach a conclusion about the appropriateness of using 360 PAI despite monitoring it for three years. In the absence of stakeholder action, PJM can and should file, on its own initiative, revisions to its market rules to address this issue.¹²

This error in market design has had a significant impact on the PJM Capacity Market. The Market Monitor concluded that the results of the 2021/2022 RPM Base Residual Auction were not competitive as a result of economic withholding by resources that used offers that were consistent with the net CONE times B offer cap but not consistent with competitive offers based on the correctly calculated offer cap. The net CONE times B offer cap was based on the incorrect assumption of 360 PAI. Market power mitigation measures were applied when the capacity market seller failed the market power test for the auction, the submitted sell offer exceeded the defined offer cap, and the submitted sell offer, absent mitigation, would increase the market clearing price. But the net CONE times B offer cap under the capacity performance design, in the absence of performance assessment hours, exceeds the competitive level and should be reevaluated for each BRA. In the 2021/2022 RPM Base Residual Auction, some participants’ offers were above the competitive level. The Market Monitor recognizes that these market participants followed the capacity market rules by offering at less than the stated offer cap of Net CONE times B. But Net CONE times B is not a competitive offer when the expected number of performance assessment intervals is zero or a very small number and the nonperformance charge rate is defined as Net CONE/30. Under these circumstances, a competitive offer, under the logic and math defined in PJM’s capacity performance filing, is net ACR. That is the way in which most market participants offered in this and prior capacity performance auctions.

¹¹ November 27th Filing at 3.

¹² OA §§ 7.7, 10.4.

The Market Monitor recommends that PJM develop a process for calculating a forward looking estimate for the expected number of Performance Assessment Intervals (H) to use in calculating the Market Seller Offer Cap (MSOC). The Market Monitor recommends that the Nonperformance Charge Rate be left at its current level. The Market Monitor recommends that PJM develop a forward looking estimate for the Balancing Ratio (B) during PAIs to use in calculating the MSOC. Both H and B parameters should be included in the annual review of planning parameters for the Base Residual Auction, and should incorporate the actual observed reserve margins, and other assumptions consistent with the annual IRM study.

The Market Monitor requests that PJM be directed to develop a new process for calculating the expected number of PAI and the associated Balancing Ratio as recommended herein. The Market Market requests that the relief requested in the February 21st Complaint be granted or other appropriate action be taken, for any capacity auction occurring in the interim, to address the significant market design flaw, that continues to harm the PJM markets, as confirmed by the November 27th Filing.¹³

¹³ See Section I.D in the February 21st Complaint.

III. CONCLUSION

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

Respectfully submitted,



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Dated: December 13, 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 13th day of December, 2019.



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