UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

PJM Interconnection, L.L.C.	)	Docket No. EL22-26-000
v.	)	
PJM Interconnection, L.L.C.	)	
PJM Interconnection, L.L.C.	)	Docket No. ER22-957-000
	)	(not consolidated)

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 protests submitted February 7, 2022, primarily those filed by DC Energy, LLC ("DC Energy") and Citadel FNGE Ltd. ("Citadel"). The protests object to PJM's filings submitted on January 31, 2022, under Sections 205 and 206 of the Federal Power Act proposing to add a new Section 5.6.3(c) to Schedule 1 of the OA and parallel provisions to the OATT. The proposed new section would modify the applicability of Transmission Constraint Penalty Factors for the identified location as soon as possible.

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1 18 CFR §§ 385.212 & 385.213 (2021).

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").

The protests do not provide any valid reason to support continued application of the current flawed rules, to deny PJM's specific proposed relief, or to delay the effective refund date. PJM's complaint should be granted and the relief it proposes accepted.

I. ANSWER

The only issues requiring resolution in this proceeding are whether PJM has demonstrated a market design flaw resulting in unjust and unreasonable prices and has proposed the correct solution to address it. No protestor contradicts the essential facts, that the rules are creating unjust and unreasonably high prices in the Northern Neck area of Virginia, and that relief is needed to address this discrete issue.

The Market Monitor agrees with PJM and with protestors that there is also a broad market design issue that needs to be addressed. The Market Monitor agrees with protestors that the market design needs to anticipate issues like the one presented in this case, and emergency filings and case specific filings such as this one should be avoided as much as possible. The need for a more broad and durable solution is not a reason to reject PJM's proposed solution to the discrete issue identified and addressed in its filings. No protestor has shown why granting the requested relief would impede efforts to address broader issues.

DC Energy argues (at 3) that PJM's proposal "would eliminate these market-based incentives (i.e., scarcity pricing), while not alleviating the underlying conditions." DC Energy's argument is misplaced. PJM's proposal addresses excessive and uneconomic pricing, and is not intended to nor could it alleviate the underlying system conditions. The transmission outage is under way and is a physical fact. There are no supply or demand options that could address the issues. There are no actionable incentives to actually invest in supply or demand options because the underlying conditions will be addressed by the transmission upgrade that is the reason for the outage. While high prices may increase the value of FTRs in the area, continued use of $2,000 per MWh penalty factors are simply wealth transfers and not functional incentives.

DC Energy argues (at 3) that granting PJM's requested relief "will create a precedent for eliminating scarcity pricing without transparent, predictable standards on which market participants can rely to make short-term and long-term investment decisions." However, PJM has stated that it will initiate a process to replace this solution with a long term solution with defined standards. Further, by filing its proposed solution, PJM is providing transparency. PJM's reasons for seeking relief are clear and discrete. Granting the relief requested by PJM is the correct precedent. Similar action under similar circumstances and in the absence of effective market rules should be expected. The Market Monitor agrees that long term rules are needed to address similar situations. An immediate solution is needed. No participant has a right to a windfall based on the existing circumstances.

DC Energy argues (at 4–5) that "at least some level of scarcity pricing on the facilities serving Virginia's Northern Neck (i.e., inside the load pocket) … is necessary in order to provide the proper incentive … to remain online or return to service as quickly as practicable in the event of a service disruption." PJM's proposal is scarcity pricing. In this case, when the local generation sets the price, the result is linked to an actual resource cost rather than an arbitrary $2,000 per MWh or $500 per MWh administrative price. Generation in the area is scarce and expensive, and the high marginal cost resources will set price when they are required for constraint management.

DC Energy (at 14–17) opposes the February 1, 2022, requested refund date. Refunds are appropriate because the current market rules are not economic and instead create an unjust and unreasonable transfer of wealth from customers. Action necessary to prevent this result is appropriate.

Citadel (at 8) argues that "PJM provides no evidence that the market is incapable of responding to these price signals."[3] Citadel and Gardy's Mill Solar's arguments do not justify maintaining the $2,000 per MWh penalty factor in this situation. Application of the

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[3] *See also* Gardy's Mill Solar (at 2–3).

Transmission Constraint Penalty Factors creates incentives that will be reversed by the transmission upgrade that is the reason for the outage. If existing or new resources do in fact have options to expand capability or otherwise respond to high prices, the high prices under PJM's proposal are the correct and efficient price signals.

PJM's request for prompt action is both appropriate and necessary to ensure efficient market prices that send accurate price signals to market participants. Repeated and frequent application of the $2,000 per MWh price is not the purpose of scarcity pricing. The purpose is to send a transparent price signal indicating that a constraint is violated and ensuring that the market dispatch will use all available generation. PJM's filing accomplishes this goal. The change to the OA provides the necessary transparency. The use of the marginal cost of the most expensive resource available to manage the constraint is the correct price signal.

PJM's filing does not eliminate local scarcity pricing. The high marginal cost of the scarce market resources in the area is a short term signal to any responsive load or generation in the area to enter the market. If Gardy's Mill has a storage solution available to compete with the existing resources, PJM's proposal will send the appropriate price signal for that solution to be developed.

PJM has proposed to modify constraint limits to avoid having the transmission constraint penalty factor set price. The goal is to have the marginal cost of the most expensive resource used to manage the constraint set price when the constraint is binding or violated. In fact, PJM has stated that the solution "ensures the offers of the resources being used to control the constraint are reflected in the Congestion Price." This means that the LMP will equal the marginal cost of the resource at that location. In order for this solution to work, PJM may also need to adjust the transmission constraint penalty factor to that price. There is not a meaningful difference between the solution proposed by DC Energy, to lower the transmission constraint penalty factor, and PJM's proposal, except that DC Energy proposes an arbitrarily and significantly higher price than PJM at $500 per

MWh. The Market Monitor also supports reducing the transmission penalty factor to the marginal cost of the marginal resource used to control this constraint.

PJM's proposed February 1, 2022, refund date and the intended immediate implementation are necessary to correct the energy market price signals. Differences between day-ahead and real-time market models create the opportunity for false arbitrage and market manipulation. For the month of January 2022, the volume of DECs at the Northern Neck pnodes was 243 GWh while the actual load was only 149 GWh. The result is already millions of dollars in increased costs to customers with no economic benefit to the market. While this is out of scope of PJM's filing, if efficient prices cannot be achieved in this area, the local virtual trading taking advantage of the modeling differences should be prohibited.

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.[4] 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.

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4 *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).

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: February 11, 2022

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 11th day of February, 2022.

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