UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

PJM Interconnection, L.L.C.	)	Docket No. ER23-729-000
PJM Interconnection, L.L.C.	)	
v.	)	
PJM Interconnection, L.L.C.	)	Docket No. EL23-19-000

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 revisions to the PJM market rules filed December 23, 2022, by PJM under Section 205 of the Federal Power Act ("December 23rd Filing"), and the contemporaneously filed Complaint under Section 206 of the FPA ("December 23rd Complaint") seeking the same revisions.

The December 23rd Filing seeks to correct a market design flaw revealed in the conduct of the Base Residual Auction for the 2024/2025 Delivery Year. If the flaw is not corrected, prices would be set at scarcity levels in the DPL-S LDA that do not reflect the actual market supply and demand fundamentals, overstate the local reliability requirement, serve no useful purpose, and are therefore unjust and unreasonable.

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1 18 CFR § 385.211 (2022).

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").

There are two issues. The first issue is that PJM's auction parameters, posted 100 days prior to the Base Residual Auction (BRA), include generation resources that are expected to be offered in the BRA because the resources are expected to be in service for the relevant delivery year based on the resources' completion of their Interconnection Service Agreement (ISA) and the stated date of commercial operation.[3] In this case, PJM included a large planned thermal generator in a small Locational Deliverability Area ("LDA") that did not actually offer in the BRA. The second issue is that PJM's ELCC rules derate the capacity of intermittent and storage resources based on an aggregate market ELCC analysis which may significantly differ from the actual reliability contribution in a specific LDA. That occurred in this case, which further exacerbated the difference between the reliability contribution of new intermittent resources and the offsetting reduction in the needed level of imports into the Zone, termed the Capacity Emergency Transfer Objective (CETO).

PJM is correct that, without a modification consistent with PJM's proposed rule change, the capacity prices in the DPL-S would be significantly greater than the efficient and competitive level because the supply and demand fundamentals in the model do not reflect reality.

The Market Monitor supports PJM's December 23rd Filing, with suggestions for next steps. If the Commission decides to use the FPA 206 path, the Market Monitor agrees with PJM's goal but recommends a preferred solution plus suggestions for next steps.

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[3] PJM filed a revised schedule and deadlines for the 2024/2025 through 2026/2027 BRAs which FERC granted by order issued February 22, 2022, in Docket No. EL19-58-010. This changed PJM's deadline for posting the planning period parameters from February 1 prior to the BRA to 100 days prior to the auction. *See also* PJM OATT Attachment DD § 15.

I. COMMENTS

A. PJM's December 23rd Filing

1. Issues

PJM's December 23rd Filing identifies issues with the clearing of the Base Residual Auction (BRA) for the 2024/2025 Delivery Year that must be resolved prior to completion of the clearing process and prior to the posting of prices for the BRA. In particular, the demand for capacity was overstated in the DPL-S LDA, resulting in prices that would, absent the correction, be overstated compared to the efficient and competitive outcome that reflects actual supply and demand conditions.

To summarize, the issues are a function of the fact that there were thermal and intermittent resources that were expected to offer in the auction but did not, and a function of the fact that intermittent resources may have effective derated capacity values that are very different than the ELCC derated values attributed to them under PJM's system wide ELCC calculation approach.

More specifically, in a large LDA where a new unit is a small share of total internal resources, a new unit adds MW to internal resources equal to its capacity value and by an equal MW amount reduces the need for imports (CETO) that provide reliability when there is an outage in the LDA. In that case, the net impact of adding the new resource on the demand for capacity is zero.

But in a small LDA, like DPL-S, where a new unit is a large share of total internal resources, the net impact of adding the new resource is to increase the demand for capacity. The reason for this result is that the need for imports to provide reliability is not reduced by MW equal to the MW of the new resource because the outage of the new resource must be addressed by imports. When the unit offers its capacity, the increase in demand is less than the increase in supply (the ICAP capacity value of the new resource), but it is still an increase.

The issue arises when the expected new resource does not offer and therefore the only impact on the market is the increase in demand with no offsetting increase in supply. In the case of DPL-S, the increase in demand resulting from all the resources that were assumed to

be available but did not offer was significant, resulting in an approximately fourfold increase in clearing prices.

The same divergence between the reliability contribution of a new resource and the offsetting decline in CETO can occur as a result of a divergence between the locational reliability value of intermittent or storage resources and the reliability value of those resources as calculated by PJM using the aggregated system ELCC approach. This divergence was significant in DPL-S because DPL-S has significant winter load that is accounted for in the reliability analysis, with the result that solar resources have reduced reliability value in DPL-S when compared to their ELCC derated capacity value. This means that the reduction in CETO associated with adding the solar resources was less than the ELCC based internal reliability value. The divergence between the reliability value and the CETO reduction had the same logical impact on the demand for capacity and therefore prices as the divergence from units that were assumed to enter but did not offer.

The result of the identified issues is that the reliability requirement (the demand for capacity) in the DPL-S LDA is overstated. Absent a correction of the issue, loads in the DPL-S LDA would be required to buy more capacity than required for reliability and at a price that does not reflect the actual reliability requirement.

2. Solutions

PJM's December 23rd Filing proposed revisions that would require PJM, during the auction process, to exclude the impact of new capacity resources from the calculation of the LDA reliability requirement parameter in the event that PJM had assumed that the resources would participate but the resources do not offer, in order to have an accurate LDA reliability requirement. PJM proposes that if the LDA reliability requirement were to increase by more than one percent over the LDA reliability requirement from the prior BRA as a result of the inclusion of planned generation resources in the calculation of the CETO that did not offer in the auction , PJM would be required to remove those planned generation resources from the calculation of the CETO and therefore the reliability requirement.

While PJM's solution is not perfect, it would successfully address the issue with the current auction results in an effective and efficient way and permit the posting of final auction results quickly. The Market Monitor supports the immediate implementation of PJM's solution to clearing the 2024/2025 Base Residual Auction under the 205 and the 206 approaches.

The Market Monitor requests that, if the Commission adopts this FPA 205 approach, the Commission adopt PJM's solution to clearing the 2024/2025 BRA and direct PJM to file the preferred approach to apply in future auctions. PJM cannot implement the preferred approach now because that would require a lengthy wait to repost parameters and rerun the auction. That would be inefficient and delay the auction results unnecessarily at a time when the auction has already been significantly delayed. In this case, the preferred approach would result in exactly the same outcome as the PJM solution.

The preferred approach would be to require all planned resources to commit to a must offer requirement by a defined date prior to the posting of auction parameters by PJM. This would avoid the arbitrary determination of materiality and directly address an important part of the issue.

PJM's approach does not address the separate ELCC derating issue. That issue also needs to be addressed. The ELCC issue can be expected to increase as the role of intermittent and storage resources increases. The Commission should direct PJM to develop a solution to the ELCC issue within a defined time period. As long as PJM continues to use the aggregated ELCC approach, one such solution would be to require the use of the lower of the LDA ELCC and the PJM default ELCC for resources in the calculation of the capacity value of the resource, in order to match the calculation of the capacity value in the CETO.

The 2024/2025 Base Residual Auction does not need to be rerun. Market participants offered competitively or were constrained to competitive offers by the market power mitigation rules, and there is no reason to believe that their offers were affected by the overstated demand. Market offers were competitive. Market offers in a rerun auction would be expected to be the same.

B. PJM's December 23rd Complaint

1. Issues

PJM's December 23rd Complaint (FPA 206 filing) is effectively identical to PJM's December 23rd Filing (FPA 205 filing) with the exception that under FPA 206 the Commission is permitted to modify PJM's proposed solution while under FPA 205 the Commission is not permitted to modify PJM's proposed solution.

2. Solutions

PJM's December 23rd Filing proposed revisions that would require PJM, during the auction process, to exclude the impact of new capacity resources from the calculation of the LDA reliability requirement parameter in the event that PJM had assumed that the resources would participate but the resources do not offer, in order to have an accurate LDA reliability requirement. PJM proposes that if the LDA reliability requirement were to increase by more than one percent over the LDA reliability requirement from the prior BRA as a result of resources that offered but did not clear, PJM would be required to remove those resources from the calculation of the reliability requirement.

While PJM's solution is not perfect, it would successfully address the issue with the current auction results in an effective and efficient way and permit the posting of final auction results quickly. The Market Monitor supports the immediate implementation of PJM's solution to clearing the 24/25 Base Residual Auction under the 205 and the 206 approaches.

If the Commission takes the FPA 206 approach, the Market Monitor requests that the Commission adopt PJM's solution to clearing the 24/25 BRA and include the preferred approach in place of PJM's proposed materiality threshold for application to future auctions.

The preferred approach would be to require all planned resources to commit to a must offer requirement by a defined date prior to the posting of auction parameters by PJM. This would avoid the arbitrary determination of materiality and directly address at least an important part of the issue.

PJM's approach does not address the separate ELCC issue. That issue also needs to be addressed. The ELCC issue can be expected to increase as the role of intermittent and storage

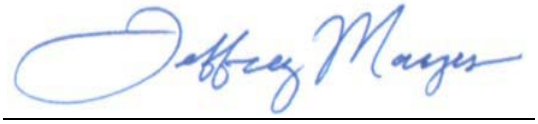
resources increases. PJM should be directed to develop a solution to the ELCC issue within a defined time period. As long as PJM continues to use the aggregated ELCC approach, one such solution would be to require the use of the lower of the LDA ELCC and the PJM default ELCC for resources.

The 2024/2025 Base Residual Auction does not need to be rerun. Market participants offered competitively or were constrained to competitive offers by the market power mitigation rules, and there is no reason to believe that their offers were affected by the overstated demand. Market offers were competitive. Market offers in a rerun auction would be expected to be the same.

II. 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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Dated: January 20, 2023

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 20th day of January, 2023.

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