

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

Capacity Deliverability Across the Midwest	)	Docket No. AD12-16-000
Independent Transmission System Operator,	)	
Inc./PJM Interconnection, L.L.C. Seam	)	
	)	

**COMMENTS OF THE  
INDEPENDENT MARKET MONITOR FOR PJM**

Pursuant to the notice issued by the Commission on June 11, 2012 (“June 11<sup>th</sup> Notice”),<sup>1</sup> Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor for PJM (“Market Monitor”), submits these comments “regarding whether existing rules on transfer capability act as barriers to the delivery of generation capacity between the markets administered by Midwest Independent Transmission System Operator, Inc. (MISO) and PJM Interconnection, L.L.C. (PJM), and to the extent that such barriers exist, whether those rules should be modified to mitigate such barriers.”<sup>2</sup>

The Market Monitor does not agree that barriers to capacity portability exist as the Midwest Independent System Operator, Inc. (“MISO”) and its supporters on this issue have defined them. PJM market rules that MISO has characterized as barriers generally constitute necessary and appropriate rules to ensure that PJM customers buying imported

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<sup>1</sup> *Capacity Deliverability Across the Midwest Independent Transmission System Operator, Inc./PJM Interconnection, L.L.C. Seam*, 139 FERC ¶ 61,200.

<sup>2</sup> *Id* at 1.

capacity obtain a product of comparable value to capacity obtained internally. Changing the capacity market rules as MISO proposes would change the definition of capacity, degrade the value of MISO capacity in the PJM market and thus modify the PJM capacity market in negative and harmful ways.

The Market Monitor supports efficient and competitive markets and the elimination of inappropriate barriers to entry. In this case, the Market Monitor supports competitive capacity transactions between MISO and PJM. There is room for PJM to improve certain rules and to update its analyses of the interactions between PJM and external areas. As an example, a careful review of the method used for determining Available Transmission Capability (ATC) and the method for determining the Capacity Benefit Margin by both MISO and PJM would be appropriate.

## I. COMMENTS

### **A. Whether existing market rules and operating protocols concerning transfer capacity between PJM and MISO act as barriers to the delivery of generation capacity between the markets administered by MISO and PJM and if so, whether those rules should be modified to mitigate such barriers.**

The capacity seam between PJM and MISO is a seam characterized by different market rules and operating protocols. For example, PJM has a functioning capacity market and MISO does not. The Market Monitor does not agree that PJM market rules create barriers to entry to resources located in MISO. On the contrary, the rules make explicit and appropriate provisions for imports that ensure comparability with capacity obtained from internal resources.

**1. PJM Members Pay for Capacity and Are Entitled to the Full Value of the Capacity Product Defined in the PJM Market Rules.**

PJM market rules require all load and all generation to participate in a single centralized capacity market.<sup>3</sup> All load must purchase capacity and all capacity resources must offer that capacity in the capacity market. All capacity resources must meet specific obligations. The PJM capacity market establishes the value of the defined capacity product. Customers in PJM pay for capacity at the level required to assure system reliability.

Capacity resources must meet specific obligations that are an essential part of the definition of capacity and an essential part of why customers pay for capacity. In the absence of these requirements, capacity would not contribute to reliability in adequate ways and capacity would not have the value to customers in the overall PJM market construct that it currently has. There are four primary obligations of capacity resources. Cleared capacity resources must offer into the PJM Day-Ahead Energy Market every day.<sup>4</sup> In order for the capacity construct to work, these offers must be competitive, although this is not an explicitly stated requirement under the rules. In fact, these offers are, almost without exception, competitive. The energy from cleared capacity resources must be

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<sup>3</sup> The rules also provide an FRR Alternative. This alternative allows a Load-Serving Entity, under certain conditions, and subject to certain conditions, to define a portion of load and meet that load's resource adequacy requirements with a specific portfolio of generation. PJM Reliability Assurance Agreement Schedule 8.1.

<sup>4</sup> PJM Operating Agreement Schedule 1 § 1.10.1A(d).

recallable in an emergency. The energy from capacity resources must be deliverable. Capacity resources must report outages to PJM.

The capacity and the energy markets in PJM are inextricably linked by design. Together, along with the markets for ancillary services, these markets establish the total price of wholesale power in PJM. The PJM markets function so that this total price is competitive and results in revenues to generators adequate to maintain and incent investment in capacity consistent with the reliability needs of the system. Offers in the capacity market are net of revenues from the energy and ancillary services markets. The PJM RPM capacity market was designed to ensure that capacity prices were consistent with overall market incentives to maintain and incent investment, the revenue shortfall problem.

The Market Monitor's analysis has shown that despite a number of design imperfections, the PJM capacity market generally meets this basic objective and, with the PJM energy and ancillary services markets, contributes to an efficient overall price.<sup>5</sup>

The market rules that generate these results cannot be accurately characterized as constituting inappropriate barriers to entry. The rules properly define the capacity product and recognize the interactions among the integrated PJM market construct. Capacity located outside of PJM that meets all the requirements to be a capacity resource can and

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<sup>5</sup> 2011 State of the Market Report for PJM at 175–190.

does provide capacity to PJM customers.<sup>6</sup> Capacity falling short of these standards should not be allowed to offer into RPM.

It is impossible to logically separate the PJM capacity and energy markets. A MISO resource which chooses to export capacity to PJM is also choosing to participate in the PJM energy market. A MISO resource which chooses to export capacity to PJM is thus also choosing not to participate in the MISO market.

Any revenue shortfall problem in MISO cannot and should not be solved by modifying the capacity construct in PJM to give MISO capacity a special advantage and to undermine the essential properties of the PJM capacity market and the PJM market construct overall. It must be recognized that a significant part of the issue faced by MISO generation resources that do not receive revenue under a rate base rate of return type regulatory construct is the design of the MISO capacity market and not any asserted barriers to entry into the PJM capacity market.

In the RPM Based Residual Auction for the 2015/2016 Delivery Year, 3,935.3 MW of imports cleared, of which 1,674.7 MW (42.6 percent) originated in MISO. It is appropriate and desirable that the PJM market rules ensure that every MW meets the definition of capacity in PJM and can provide PJM customers the capacity for which they have paid.

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<sup>6</sup> PJM and its members should reevaluate the details of the available transmission calculations as well as CBM calculations.

## **2. Whether Capacity Prices Converge in PJM and MISO Is Irrelevant.**

MISO's capacity market is not comparable to the PJM capacity market. It lacks key features of a functioning capacity market and depends on the existence of rate base rate of return recovery in place of a capacity market. Thus, any comparison between PJM and MISO capacity prices is not meaningful.

Convergence itself does not define a legitimate economic objective. The objective is efficiency, which means convergent or divergent pricing based on the market fundamentals.

### **B. Are there provisions in the current market rules and operating protocols concerning transfer capability that restrict generation capacity deliverability between the markets maintained by MISO and PJM? If so, what are those barriers?**

#### **1. PJM Market Rules That Properly Define Capacity and Protect Its Value to PJM Customers Are Not Barriers; These Rules Should Be Preserved or Strengthened.**

Capacity must be deliverable to the buyer to be valuable.<sup>7</sup> PJM market rules appropriately provide that to show deliverability, a capacity resource must have firm transmission to the PJM interface.

Resources located within PJM must be deliverable. Imports must meet the same requirement or they do not constitute a comparable product. Rules essential to ensure that

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<sup>7</sup> See PJM Reliability Assurance Agreement Schedule 10.

buyers receive the value of the product for they have paid are not barriers to entry. Rules that ensure efficient and consistent pricing are not barriers to entry.

MISO's discussion of deliverability related to the integration of FirstEnergy (FE) into PJM misses an essential point, which is that when FE joined PJM the FE load and the FE generation both joined PJM. Contrary to MISO's assertions, it would have been surprising if the deliverability of FE generation to load had not dramatically improved after integration compared to the case where FE load remained in MISO and FE generation was exported to PJM.

## **2. PJM and MISO Should Update the Analyses of the Capacity Benefit Margin (CBM) and the Determination of ATC.**

There are a number of market rules that affect PJM's ability to import capacity. These rules are generally common to market and non market control areas and predate markets. An example is the Capacity Benefit Margin or CBM, which quantifies the contribution of neighboring systems to resource adequacy.

It would be appropriate to revisit the traditional approaches to evaluating resource adequacy on a global basis to consider whether they could be improved for all control areas. There is no reason to selectively evaluate and revise these criteria as they are applied by PJM. If such a review is desirable, it would seem appropriate to initiate that project in a forum designed to address technical resource adequacy issues.

- C. If such provisions exist and act as a barrier, what revisions are necessary to eliminate or mitigate them without adversely affecting reliability or the operation of RTO energy and capacity markets?**

While no inappropriate barriers to entry have been identified, the Market Monitor does believe that a review of all PJM rules which affect the ability to import and export capacity would be appropriate.

- D. Docket No. ER11-4081-000, the Total Transfer Capability from MISO to PJM was estimated to range from 5,300 MW to 6,300 MW and the cumulative import capability from MISO to PJM was estimated to be 6,000 MW. Also in that proceeding, it was noted that the Available Transfer Capability posted by PJM was zero for the 2013-2014 Planning Year, while firm transmission capacity on the MISO-PJM interface held by market participants was listed as 1,173 MW. If barriers to interregional capacity deliverability exist, absent such barriers, what volume of capacity imported from MISO could potentially clear in PJM's capacity auction? What volume of capacity imported from PJM could potentially clear in MISO's capacity auction? What is the differential between the amount of capacity historically offered and cleared, for the MISO and PJM capacity markets respectively?**

The Market Monitor agrees that it may be appropriate to implement rules providing for a more transparent evaluation of ATC transmission capacity in both RTOs. But it is clear that firm transmission service used for energy delivery competes with firm transmission used for capacity deliverability.

- E. If there are barriers that should be mitigated, what mechanism should be used to address these concerns? For example, is it appropriate to address the issue in the Joint Operating Agreement between MISO and PJM? If so, how?**

The Market Monitor does not agree that any inappropriate barriers exist to imports from MISO into the PJM capacity market and so does not propose a mechanism to address them. The Market Monitor does support continued improvement and refinement of the

MISO/PJM Joint Operating Agreement in order to achieve an efficient dispatch in the RTOs' respective energy markets.

## II. 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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Jeffrey W. Mayes

Joseph E. Bowring  
Independent Market Monitor for PJM  
President  
Monitoring Analytics, LLC  
2621 Van Buren Avenue, Suite 160  
Valley Forge Corporate Center  
Eagleville, Pennsylvania 19403  
(610)-271-8051  
*joseph.bowring@monitoringanalytics.com*

General Counsel  
Monitoring Analytics, LLC  
2621 Van Buren Avenue, Suite 160  
Valley Forge Corporate Center  
Eagleville, Pennsylvania 19403  
(610) 271-8053  
*jeffrey.mayes@monitoringanalytics.com*

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