



capable of protecting the market from the exercise of market power and that it can produce consistent and reliable results.

## I. ANSWER

The CMC points (at 3–4) to the wide differences among the mitigated offers for the St. Charles Energy Center in Maryland calculated by CPV (\$13.95/MW-Day), calculated by PJM (\$96.13/MW-Day) and calculated by the Market Monitor (\$136/MW-Day). CMC claims (at 3) that the unit-specific review process is “heavily reliant upon subjective and non-transparent projections and inputs.” This claim is uninformed and false. The claim that the observed differences among PJM, CPV and the Market Monitor concerned the applicable cost inputs is unsupported.

The Market Monitor responded to the difference in asserted MOPR values in the Maryland case by filing a complaint that requested enforcement of the default modeling assumptions.<sup>4</sup> The Market Monitor previously had attempted to ensure that clear non-discretionary criteria would be used, but was unsuccessful.<sup>5</sup> The Market Monitor’s complaint could have been fully resolved without disclosing the confidential unit specific information because the differences were not due to information held confidential by the parties to the unit specific review process (i.e. cost components), the differences were the result of rules that were public information.

There are two basic elements of the cost of entry used in a MOPR floor calculation, the gross cost and the expected net revenues, which together result in the net cost of new

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<sup>4</sup> Complaint of the Independent Market Monitor for PJM v. Unnamed Participant, Docket No. EL12-63-000 (May 1, 2012).

<sup>5</sup> See Motion for Clarification of the Independent Market Monitor for PJM, Docket No. ER11-2875-000, et al. (February 17, 2012); Protest of the Independent Market Monitor for PJM, Docket No. ER11-2875-002 (June 2, 2011).

entry or the MOPR floor. These are exactly the calculations made by competitive entrants in PJM's capacity market.

The wide disparity in net results is consistent with the position taken by the Market Monitor throughout the MOPR discussions that different modeling assumptions applied to the exact cost inputs used in the calculation of gross CONE would result in widely different cost estimates. Contrary to what the CMC claims, this difference in modeling assumptions contributes to the wide disparity. This has been explained repeatedly to the members of the CMC, so it is not clear why they continue to argue about cost components and ignore the real issue. PJM points out (at 2) that "PJM and the IMM could draw different conclusions about MOPR exemption requests and the particular offer level that is supported by the information provided by the capacity seller." While the Market Monitor has been completely transparent about using the same modeling assumptions used in the calculation of gross CONE, PJM has not explained what assumptions it used, but PJM has been clear that it is appropriate to use different assumptions.

In addition, the CMC (at 4) also complains about the use of forecasted net revenues by those requesting MOPR exemptions. The net CONE value cited by the CMC includes net revenues calculated based on the average net revenues earned by a theoretical unit, using artificial operating parameters, over the prior three years. This is clearly not an accurate way to project expected net revenues and it is unlikely that any member of the CMC would actually itself use such a method to project revenues.

The CMC would thus prevent a potential entrant from proving that their offer is competitive and would instead hold such an entrant to the net CONE level specified in the PJM tariff. That level is based on an estimate of gross CONE performed at least a year earlier and net revenues calculated on the average of the last three years for a theoretical unit. The CMC would have us believe that this net CONE is more reliable than a calculation based on verifiable costs, verifiable unit performance characteristics and a verifiable revenue forecast, all using explicitly stated modeling assumptions.

The CMC goes too far in its legitimate opposition to subsidized entry in the PJM capacity market, which opposition is shared, publicly, repeatedly and explicitly, by the Market Monitor. The CMC's position would prevent legitimate competitive entry. That makes it unacceptable.

It is surprising that PJM continues to complain (at 5–6) about undue discretion in the unit specific review process, when, at every turn in establishing the rules for unit specific MOPR review, PJM sought to include tariff language that invites the exercise of undue discretion and the Market Monitor opposed it.<sup>6</sup>

No party has produced any evidence that an undue exercise of discretion is inherent in unit specific review. As a result of recent efforts on the part of PJM and the Market Monitor to clarify their respective roles in reviewing mitigation inputs, it is less likely that a dispute about modeling assumptions will arise.<sup>7</sup> The Market Monitor will continue to apply in its unit specific review the same modeling assumptions used to develop gross CONE, which makes the calculation of minimum MOPR offers from documented input values formulaic. The Market Monitor will continue to work for improved clarification and improvement of the applicable modeling assumptions and analytical approaches applied. PJM's position and the CMC's position in this matter as well as CPV's cost estimate make it clear that the application of a single set of modeling assumptions in the PJM gross CONE calculation and in the MOPR calculation is necessary.

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<sup>6</sup> See Motion for Clarification of the Independent Market Monitor for PJM, Docket No. ER11-2875-000, et al. (February 17, 2012); Protest of the Independent Market Monitor for PJM, Docket No. ER11-2875-002 (June 2, 2011); see also Complaint of the Independent Market Monitor for PJM v. Unnamed Participant, Docket No. EL12-63-000 (May 1, 2012).

<sup>7</sup> Letter Order, *PJM Interconnection, L.L.C.*, ER13-149 (November 28, 2012).

## 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.<sup>8</sup> 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 this pleading as the Commission resolves the issues raised in this proceeding.

Respectfully submitted,



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<sup>8</sup> See, e.g., *N.Y. Indep. Sys. 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); *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).

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Dated: April 19, 2013

**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 19<sup>th</sup> day of April, 2013.



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