

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

FirstEnergy Solutions Corp.)	Docket No. EL13-47-001
Allegheny Energy Supply Company, LLC,)	
)	
v.)	
)	
PJM Interconnection, L.L.C.)	
)	

**ANSWER AND MOTION FOR LEAVE TO ANSWER
OF THE INDEPENDENT MARKET MONITOR FOR PJM**

Pursuant to Rule 211 and 212 of the Commission’s Rules and Regulations,¹ Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor for PJM² (“Market Monitor”), submits this answer and motion for leave to answer to the pleading submitted by J. Aron & Company (“J. Aron”) in the above indicated proceeding on December 17, 2013. J. Aron asserts that the filing provides new factual information for the Commission supporting its request for rehearing of the Commission’s order issued June 5, 2013 (“June 5th Order”), but the pleading instead repeats prior arguments, rejected by the Commission, that FTR underfunding is an uplift payment that should be assigned to load.³ Contrary to J. Aron’s interpretation, the impact of the events of September 10 and September 11, 2013, in the PJM ATSI Zone is not relevant new information, as the impact

¹ 18 CFR §§ 385.211 & 385.212 (2013).

² PJM Interconnection, L.L.C. is a FERC-approved Regional Transmission Organization. Capitalized terms used herein and not otherwise defined have the meaning used in the PJM Open Access Transmission Tariff (“OATT”).

³ *FirstEnergy Solutions Corp., et al. v. PJM Interconnection, L.L.C.*, 143 FERC ¶ 61,209 (2013).

was consistent with FTR funding patterns over the last two years and illustrates both the risks appropriately borne by FTR holders and the need to consider the improvements to the FTR market recommended by the Market Monitor and others.⁴

The June 5th Order appropriately terminated this proceeding because the complainants have not shown that the existing rules governing FTR revenues are unjust and unreasonable.⁵ As the Commission recognized in its June 5th Order (at P 43), granting the relief sought does not provide an incentive to address the causes of underfunding. The June 5th Order encouraged (at P 45) continued pursuit of constructive solutions. The decision to terminate this proceeding should stand.

I. ANSWER

A. Negative Balancing Congestion in September Was Not Unusual.

FTR funding is calculated hourly, but settled on a monthly basis subject to an annual true up. This means that one hour in a month may be underfunded, but could be fully funded by another hour in the month that is overfunded. This happens every month. There are always overfunded hours and there are always underfunded hours. Total FTR funding includes day-ahead and balancing congestion revenues, as well as market-to-market (M2M) payments, monthly ARR excess revenues and negative FTR target allocations.

The total negative balancing congestion in September, while large, was not unusual. January and February 2013 had larger negative balancing congestion than September, and balancing congestion in May 2013 and April 2012 was within \$5 million (7.6 percent and 12.9 percent) of the September value.

⁴ See Answer and Motion for Leave to Answer of the Independent Market Monitor for PJM, Docket No. EL13-47-000 (April 18, 2013) at 7–10 (“April 18th Answer”); J. Aron at 11 & n.23; Request for Rehearing of DC Energy, LLC and Vitol Inc., Docket No. EL13-47-000 (July 5, 2013) at 3; Request for Rehearing of the PSEG Companies, Docket No. EL13-47-000 (July 5, 2013) *passim*.

⁵ June 5th Order at PP 40, 44.

FTR underfunding in an hour simply means that the revenues collected for that hour are not enough to cover the target allocations for that hour. In September 2013, underfunding occurred in 86.4 percent of the hours but net negative congestion occurred in only 8.5 percent of the hours in September. For January 2013, underfunding occurred in 70.7 percent of the hours and net negative congestion occurred in 31.5 percent of the hours. For February 2013, underfunding occurred in 85.7 percent of the hours and net negative congestion occurred in only 8.2 percent of the hours. There are many hours with underfunding that do not have net negative congestion.

PJM's binding of the ATSI constraint in real time and not in the day-ahead market did have an impact, but the result was not unusual. For the month of September total net negative congestion for September 10 and September 11, 2013, including that associated with ATSI, accounted for 61.6 percent of total net negative congestion for the month.⁶ In other words, the absolute maximum proportion of the total net negative congestion for September that could have resulted from the ATSI Interface on September 10 and 11, 2013, was 61.6 percent.⁷ These net negative congestion values show that, even though the ATSI Interface exacerbated the problem, there is an ongoing issue which resulted in FTR underfunding in September and in every other month in the two year period.⁸ Even

⁶ Congestion for an hour can be negative. Net negative congestion for these hours contains revenue from day-ahead congestion, balancing congestion, M2M payments and negative FTR target allocations, for all constraints including the ATSI Interface

⁷ Net negative congestion exists in any hour with a net negative congestion value after accounting for all congestion revenues within an hour, including day-ahead and balancing congestion, M2M payments and negative FTR target allocations. If there is hourly net negative congestion there is underfunding for the hour. Total net negative congestion for September 2013 was -\$13.0 million, of which only -\$8.0 million was from hours in which the ATSI Interface was binding. This -\$8.0 million accounts for all constraints that were binding in that hour, including the ATSI Interface.

⁸ The -\$23 million stated by J. Aron is total balancing congestion for all hours with the ATSI Interface binding. Balancing congestion due to just the ATSI Interface was -\$21.7 million, with the remainder of negative balancing congestion due to other constraints in those hours. The funding shortfall for September 2013 was \$49.3 million, while the cumulative funding for the entire planning period in

excluding the 61.6 percent of total net negative congestion the sum of the hourly net negative congestion was at least -\$5.0 million for the month.

Figure I-1 shows the monthly total balancing congestion for the two year period from January 2012 through December 2013. Total balancing congestion for September was high but consistent with the pattern over the two year period. The largest negative balancing congestion in this period was in January 2013. Total balancing congestion for that month was \$76.8 million, compared to a total balancing congestion of \$42.6 million in September 2013.

In addition to the other issues, J. Aron's focus on negative balancing congestion ignores the fact that there is not a simple relationship between the payout ratio and the level of balancing congestion. In January 2013 the payout ratio was 53.4 percent, despite the fact that total negative balancing congestion was almost double the value in September 2013, which had a payout ratio of 52.0 percent.⁹ In February 2013, the payout ratio was 60.5 percent, despite the fact that total negative balancing congestion was approximately \$5 million higher in February than in September. This demonstrates that the payout ratio in September was not solely the result of the creation of the ATSI Interface in the real-time market by PJM and the associated balancing congestion. Months with larger balancing congestion, without the ATSI Interface, have higher payout ratios than in September 2013.

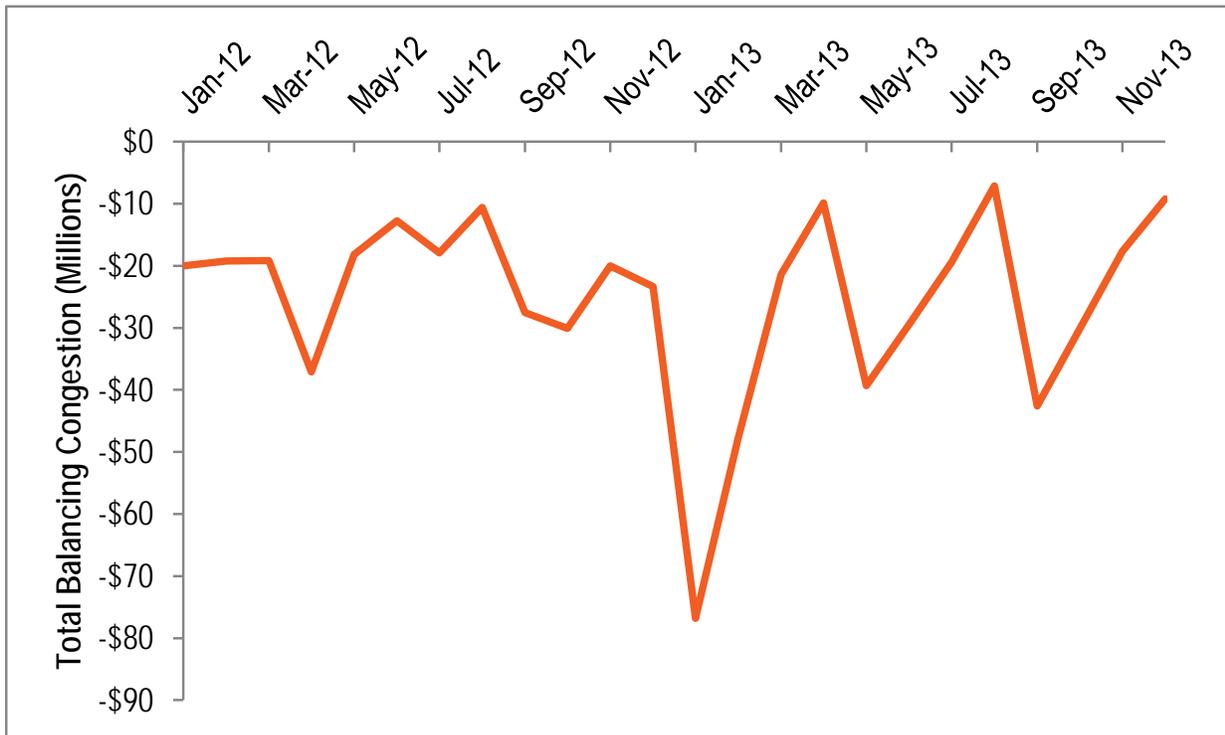
Negative balancing congestion is not the cause of underfunding, but a symptom of underlying problems including FTR Auction modeling, day-ahead versus real-time market modeling, portfolio netting and counterflow FTR subsidization.¹⁰

September 2013 was \$-84.5 million. The balancing congestion from hours when the ATSI interface was binding comprises 46.6 percent of the monthly shortfall and 27.2 percent of the cumulative planning period shortfall.

⁹ Monthly payout ratios as calculated by PJM.

¹⁰ April 18th Answer at 12.

Figure I-1 Monthly Total Balancing Congestion: January 2012 through December 2013



B. J. Aron Mischaracterizes the Causes of FTR Funding Issues.

The complaint by J. Aron highlights a new source of FTR underfunding and one which may increase if PJM adds additional interfaces. The creation of new interfaces in the middle of a planning year, not modeled in the FTR Auction and binding in the real-time market while not binding in the day-ahead market, creates several problems. If new real-time interfaces are not modeled in the day-ahead market and they do not bind in the day-ahead market, negative balancing congestion will occur when the interfaces are binding in the real-time market, as occurred with the ATSI Interface. If the new interfaces are not included in the FTR auction model, PJM will oversell FTRs. These impacts are predictable consequences of the identified actions.

The case of the BCPEP interface illustrates that there are direct ways to address FTR funding issues associated with the introduction of new interfaces. The first is to ensure that they are appropriately included in the day-ahead market as well as the real-time market. The BC-PEPCO interface was binding in real time on December 24, 2013, but not in day

ahead which resulted in negative balancing congestion. On December 27, 2013, the interface was binding in the day-ahead market, and the negative balancing congestion was eliminated.

PJM has discussed adding other interfaces, including Seneca, DPL Interface, Cleveland Interface and Northern PSEG to reduce uplift.¹¹ Improper modeling of these additional interfaces in the day-ahead model and FTR auction model has a negative impact on FTR underfunding.

The issue raised by PJM's creation of the ATSI Interface is not that FTR holders should be subsidized by load, but that interfaces need to be introduced when possible to account for the timing of FTR auctions and that interfaces need to be included appropriately in the day-ahead and real-time markets and included in the FTR Auction model.

C. FTR Holders Appropriately Bear the Risks of FTR Funding

J. Aron incorrectly asserts (at 10) that the ATSI constraint created uplift, that it sent the wrong price signal and that the result is inconsistent with cost causation principles. J. Aron and others have made these arguments before and they continue to be incorrect.

Balancing congestion is not uplift. Balancing congestion is part of congestion which is the source of funding for FTRs. FTR holders do not have a right to any level of funding. FTR holders bear the full risk of underfunding, regardless of the source.

FTR holders did not lose money as a result of the ATSI Interface. FTR holders received less than they hoped for. That is the correct price signal. The level of congestion available to pay FTRs was reduced as a result of real events on the system and therefore payments to FTR holders were reduced.

¹¹ PJM recognizes the impact of implementing constraints mid-planning period on FTR funding. PJM states as a consideration for the addition of such interfaces: "Ensure these facilities are modeled appropriately in FTR Auctions" See <<http://www.pjm.com/~media/committees-groups/task-forces/emustf/20131220/20131220-item-02c-price-setting-option.ashx>>

J. Aron indicates (at 10) that the impact of balancing congestion is not consistent with cost causation. No charge was allocated to FTR holders. Holding an FTR does not cause any energy market result. The issue of cost causation is thus not relevant to the FTR market. Despite the efforts to characterize this as a regulatory cost allocation issue, it is not a regulatory cost allocation issue. Buying an FTR is a market transaction. Holding an FTR means holding a right to a share of congestion revenues. When those revenues decline, FTR holders receive lower revenues. That is the appropriate market result.

None of J. Aron's arguments provide a basis for requiring load to subsidize FTR holders, which is what FirstEnergy's original filing (now subject to a request for rehearing) requested.

Unless and until the underlying issues are addressed, the market is the best available corrective mechanism. A participant in an auction must decide how much to offer for an FTR based on what it believes the FTR will pay out. No level of payout is guaranteed. The payout depends on the level of congestion revenues collected and the share of those revenues that are allocated to the FTR path.

Until the fundamental issues underlying FTR funding can be addressed, that level of revenue sufficiency will continue to be a correct market signal. FTR holders can pay less for FTRs if they believe that their value has been reduced or if they believe that they face new risks, or PJM can make fewer FTRs available. These are very similar outcomes.

The fact that PJM took actions that affected market prices does not change the fundamental nature of FTRs or FTR funding.

D. Solutions Exist for FTR Funding Issues

The Market Monitor proposed eight solutions in this docket that could be implemented in the near term that would demonstrably resolve the bulk of the FTR

funding issue and return payout ratios to historical levels.¹² The proposed solutions are consistent with a market based approach including increased transparency, elimination of cross subsidies and improved modeling.

No evidence supports the claim that balancing congestion constitutes a root cause of the FTR funding issue. Balancing congestion is not a root cause but a symptom. As a symptom, balancing congestion has served its critical function in alerting PJM members that there are fundamental issues with the FTR process.

If the Commission desires to take action with respect to FTR revenue adequacy, the proposed solutions would resolve most of the underlying problem. Implementation of these solutions would provide market signals more closely linked to actual FTR holdings and make the FTR market more efficient and more transparent.

The Commission has appropriately rejected the simplistic proposal advanced by FirstEnergy which would require load to subsidize FTR holders. Nothing in J. Aron's filing supports a change in that finding.

As an example of how the Market Monitor's proposed solutions would affect the impacts of new interfaces, the implementation of a seasonal ARR/FTR allocation would allow new interfaces to be created when necessary and limit the funding issues. The elimination of geographic subsidies would isolate issues associated with specific interfaces to FTRs that are directly impacted. FTR holders appropriately bear the risks associated with FTR funding, including events like the creation of the ATSI Interface. But the risks of FTR underfunding should be addressed directly. The imposition of the risk of FTR underfunding on load is inconsistent with the definition of FTRs, the definition of the FTR market and market efficiency. There is nothing in J. Aron's filing that would lead to a different conclusion.

¹² April 18th Answer at 7–10.

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.¹³ The Commission has made exceptions, however, where an answer clarifies the issues or assists in creating a complete record.¹⁴ 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. J. Aron's pleading raises new arguments to which the Market Monitor should be entitled to respond. Accordingly, the Market Monitor respectfully requests that this answer be permitted.

¹³ J. Aron's pleading is not permitted unless authorized by the Commission, but the pleading is akin to supporting comments filed out-of-time. The Market Monitor submits this motion for leave to answer to the extent necessary to permit a response.

¹⁴ *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).

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: January 16, 2014

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 16th day of January, 2014.



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