



the proposal in the October 20<sup>th</sup> filing, but recommends that it should be enhanced with a transparent verification process or “transition mechanism.”<sup>3</sup>

PJM states (at 3) that no verification process is needed because “[t]here is no opportunity for Affected Curtailment Service Providers to experience a financial gain by simply requesting to be relieved from their obligation and forgoing the associated payment.” This and related arguments raised by PJM are not correct.

It is clear that there is the potential for Affected Curtailment Service Providers to experience a financial gain by being relieved from their obligation. But even if PJM does not believe that a gain is possible, rational oversight of the market requires verification when an RPM resource is relieved of its obligations as this has potentially significant implications for market outcomes. PJM should not be expected to imagine all the possible ways that a market participant may benefit. PJM’s concept of the oversight needed to protect the markets is unduly narrow. Avoiding an obligation to perform confers a financial benefit, and such a benefit should be allowed only if the basis for avoiding the obligation is reviewed and confirmed. Approval of the Market Monitor’s recommended verification process is needed to ensure that PJM’s proposal is properly implemented.

## I. COMMENTS

### **A. The Market Monitor’s Proposed Verification Process Would Encourage Compliance with the Rules and Benefit the Markets.**

PJM states (at 3), “the IMM’s undefined ‘verification’ request may just provide additional complications and burdens for all parties, including the Affected Curtailment Service Providers and PJM, with little concomitant gain.” PJM’s statement is not definitive nor can it be because PJM does not know and is not in a position to know exactly how

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<sup>3</sup> See Motions to Intervene Out-of-Time and File Late Comments and Comments of the Independent Market Monitor for PJM, Docket No. ER15-135-000 (November 19, 2014) at 2–3.

market participants may attempt to benefit from the proposal. The Market Monitor's position is that any claim affecting cleared offers in RPM should be subject to review.

Every process regarding the RPM requires verification to ensure that there is no manipulation or Market Violation. All market participants gain from the knowledge that appropriate incentives to follow the rules are in place.

The existing exception process includes a verification requirement although PJM could have made the same argument about financial gain about the existing exceptions. There is no reason to create a special non-reviewable status for these requests to obtain relief from DR's obligations.

#### **B. CSPs May Benefit When They Remove Obligations from Particular Resources.**

PJM also states (at 3):

There is no opportunity for Affected Curtailment Service Providers to experience a financial gain by simply requesting to be relieved from their obligation and forgoing the associated payment. This is because any Affected Curtailment Service Provider that requests to use the Transition Provision is prohibited from selling additional capacity to PJM in the relevant Incremental Auction in the same modeled LDA (Locational Deliverability Area) or sub-LDA where an Affected Demand Resource is located.<sup>4</sup>

CSPs may have reasons to want to limit their performance obligation exposure based on cleared MW in capacity auctions. For example, a CSP that offered DR without a signed contract and faces issues of actually signing up the cleared MW can avoid loss by asking for relief under this provision.

PJM's statement fails to consider the new DR aggregation mechanism proposed by PJM and approved by the Commission.<sup>5</sup> CSPs can show compliance aggregation across

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<sup>4</sup> See "Motion for leave to answer and answer of PJM Interconnection, L.L.C.," Docket No. ER15-135-000 (December 5, 2014), at 3.

<sup>5</sup> See 147 FERC ¶ 61,103 (2014).

LDAs with the Compliance Aggregation Area (CAA) as defined in the OATT.<sup>6</sup> CAA is defined as “a geographic area of Zones or sub-Zones that are electrically-contiguous and experience for the relevant Delivery Year, based on Resource Clearing Prices of Annual Resources, the same locational price separation in the Base Residual Auction, the same locational price separation in the First Incremental Auction, the same locational price separation in the Second Incremental Auction, or the same locational price separation in the Third Incremental Auction.”<sup>7</sup>

A Demand Resource that is relieved of its obligation under the proposal could be substituted for by a Demand Resource in another LDA in the CAA because CSPs are allowed to aggregate compliance across LDAs. There may be a benefit or at least no loss of revenue. A verification process would ensure that there is a legitimate reason for each request to remove obligations for Demand Resources.

**C. The MMU Seeks Relief That Would Facilitate Carrying Out Its Tariff Defined Role.**

PJM suggests (at 4) that Market Monitor seeks to encroach upon PJM’s responsibility to administer the tariff. Section 12A of the OATT generally sets forth PJM and the Market Monitor’s respective roles:

The Office of the Interconnection determines whether an offer, bid, components of an offer or bid, or decision not to offer a committed resource complies with the PJM Market Rules. The Office of the Interconnection has the final authority to determine whether an offer, bid or decision not to offer a committed resource complies with the PJM Market Rules. The Office of the Interconnection may accept an offer, bid or decision not to offer a committed resource regardless of whether the Market Monitoring Unit has made a finding that such conduct raises market power concerns, unless the Commission issues an order determining that

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<sup>6</sup> *Id.*

<sup>7</sup> *See* OATT § 2.6A.

the offer or bid must be rejected prior to the clearing of the relevant RPM Auction.

The Office of the Interconnection does not make determinations about market power, including, but not limited to, whether the level or value of inputs or a decision not to offer a committed resource involves the potential exercise of market power. Acceptance or rejection of an offer or bid by the Office of the Interconnection does not include an evaluation of whether such offer or bid represents a potential exercise of market power.

A market participant may submit any offer or bid that it chooses or make a decision not to offer a committed resource, provided that the Office of the Interconnection determines that: (i) the market participant has participated in the review process conducted by the Market Monitoring Unit (without regard to whether an agreement is obtained) if required by the Tariff; (ii) offer is no higher, in the case of seller market power, or lower, in the case of buyer side market power, than the level to which the market participant has committed or agreed in the course of its participation in such review process; and (iii) the offer is compliant with the Tariff and PJM Manuals. The market participant assumes exclusive responsibility for any adverse findings at the Commission related to its offer.

The Office of the Interconnection has the exclusive authority to administer the Tariff. The Office of the Interconnection has the exclusive authority to implement the PJM Market Rules, except with respect to Attachment M and the Attachment M-Appendix and related provisions in the PJM Manuals. The Market Monitoring Unit has the exclusive authority to perform the functions set forth in Attachment M and the Attachment M-Appendix. The Office of the Interconnection shall oversee compliance with PJM Market Rules and may take action on compliance issues and/or request that the Market Monitoring Unit take action on compliance issues.

Contrary to PJM's assertion, the Market Monitor seeks to define a verification process that would apply the MMU's Tariff-defined role to the particular circumstances identified in these proceedings. PJM will retain its role defined in Section 12A.

PJM suggests (at 4) that the Market Monitor's role is limited to providing input to PJM's decisions. PJM's misstatement of the Market Monitor's role illustrates why the

establishment of a clear process is necessary. Effective market monitoring involves direct interaction with market participants, with participants obligated to fully engage in those interactions. Establishing a clearly defined process will allow the Market Monitor, PJM and participants to focus on the substance of what constitutes compliance and verification without distractions over process. Participants will expect to be asked to explain their requests and will have an incentive to submit only valid requests.

The rules protect the markets when participants know that they are required to show the basis for their actions. The Market Monitor does not attempt to enforce its determinations in a verification process. If the Market Monitor does not agree with a request, makes its disagreement clear to the participant and such request is nonetheless submitted by a participant and accepted by PJM, and the result would be an exercise of market power, manipulation, or the violation of the PJM Market Rules, then the Market Monitor will raise the issue with the Commission.

## 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

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<sup>8</sup> 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. 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).

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 permit this answer and afford to it due consideration as the Commission resolves the issues raised in this proceeding.

Respectfully submitted,



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Dated: December 18, 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 18<sup>th</sup> day of December, 2014.



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