

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

PJM Interconnection, L.L.C.)		Docket No. ER15-623-000
)		& EL15-29-000
)		
Independent Market Monitor for PJM)		Docket No. EL19-47-000
v.)		
PJM Interconnection, L.L.C.)		(Not consolidated)

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 the filing submitted in this docket by PJM on November 25, 2020, (“November 25th Filing”) providing an update on the continued use of 360 intervals as the number of Performance Assessment Intervals³ (“PAI”) in the Capacity Performance (“CP”) based Reliability Pricing Model (“RPM”). The filing is made in response to the June 9, 2015, order approving the CP redesign of the PJM Capacity Market (“CP Order”).⁴ The only conclusion that can be drawn from the November 25th Filing is that the estimate for the expected number of PAI in a

¹ 18 CFR § 385.211 (2019). The Market Monitor requests a waiver under Rule 211(b)(2) to whatever extent it may be necessary to accept this pleading.

² Capitalized terms used herein and not otherwise defined have the meaning used in the PJM Open Access Transmission Tariff (“OATT”).

³ PAI, defined as the number of relevant five minute intervals, replaced PAH, “Performance Assessment Hours,” defined as the number of relevant hours. *See* PJM at 1 n.2.

⁴ *PJM Interconnection, L.L.C.*, 151 FERC ¶ 61,208.

delivery year, a core metric for the efficient and accurate operation of the CP market design, is wrong and should be corrected. For the fourth year in a row since CP was implemented, the number of actual PAI is much lower than the assumed value of 360 (30 PAH) that PJM continues to use.

For this reason, following a similar notice filed by PJM in November 2018,⁵ the Market Monitor filed a complaint in Docket No. EL19-47-000 on February 21, 2019 (“February 21st Complaint”). In that complaint the Market Monitor stated (at 19):

The evidence shows that the Capacity Performance default Market Seller Offer Cap (“MSOC”) currently defined in the PJM OATT is overstated based on the existing nonperformance charge and on an overstated number of expected Performance Assessment Intervals (PAI). An overstated expected PAI is unjust and unreasonable because it results in an overstated MSOC that is unjust and unreasonable because it allows the exercise of market power and the attempted exercise of market power.

The Market Monitor requested, in order to protect the public interest in competitive and efficient market design, relief (at 20):

PJM should be directed to revise the expected number of PAI used to set the default MSOC with the current nonperformance charge rate. The Market Monitor recommends a specific value in Section I.C. PAI should be set to a level consistent with a reasonable and supportable expectation of PAI, five PAH or 60 PAI.

The February 21st Complaint remains pending. The November 25th Filing confirms the continuing need for and the urgency of corrective action, given the upcoming capacity market auction for the 2022/23 Delivery Year. The Market Monitor therefore also files this pleading in Docket No. EL19-47-000. The Market Monitor requests that the relief requested in the complaint be granted or other appropriate action be taken to address the significant

⁵ “Informational Filing on the use of 30 hours as the number of Performance Assessment Hours,” PJM Interconnection, L.L.C., ER15-623-000, EL15-29-000, November 20, 2018.

market design flaw that is confirmed by the November 25th Filing and PJM's previous informational filings.

I. BACKGROUND

The expected number of performance assessment intervals (PAI) in a PJM capacity market delivery year is a critical input in the calculation of the nonperformance charge rate and the default market seller offer cap (MSOC). (A PAI is five minutes in duration. There are 12 PAI in a PAH (performance assessment hour). PJM switched from using PAH to PAI when PJM switched to five minute settlements.) In its order on the Capacity Performance rules, the Commission accepted PJM's proposal to use 360 as the expected number of PAI (or 30 PAH) but qualified its acceptance as follows (at P 163):⁶

However, given that the Performance Assessment Hour estimate affects core components of the Capacity Performance design, including the Non-Performance Charge rate and the default offer cap, we condition our acceptance of PJM's proposal on PJM making annual informational filings with the Commission to provide updates on the use of 30 hours for this parameter...We also encourage PJM to reassess the assumed number of Performance Assessment Hours after it has gained more experience with Capacity Performance and submit a filing if it finds a revision is warranted.

On November 25, 2020, PJM made its fourth informational filing for the delivery year ending May 31, 2020, and reported 24 PAI (2.0 PAH) for the 2019/2020 Delivery Year. All 24 PAI were triggered by the Pre-Emergency Load Management Reduction Action declared on October 2, 2019. The action resulted in PAIs in the AEP, BGE, Dominion and Pepco Control Zones for 21 intervals and in the AEP Zone for an additional three intervals.

On November 27, 2019, PJM made its third informational filing on performance assessment intervals for the delivery year ending May 31, 2019, and reported 18 PAI (1.5

⁶ 151 FERC ¶ 61,208 (2015).

PAH). All PAI were in response to a single load shed directive on July 18, 2018. PJM stated in its report that the voltage issue leading to the July 18, 2018, PAI could not be mitigated by capacity resources and therefore no performance shortfalls were recorded and no balancing ratio was calculated.⁷

On November 20, 2018, PJM made its PAI informational filing for the delivery year ending May 31, 2018, and reported six PAI (0.5 PAH) for the delivery year.⁸ The emergency action that led to the six PAI was isolated to a small area and there were no capacity resources in the area to respond.

On November 27, 2017, PJM made its PAI informational filing for the delivery year ending May 31, 2017, and reported zero PAI (zero PAH) for the delivery year.⁹

PJM has gained more experience with Capacity Performance and PAI since 2017, and each of PJM's filings have shown that there are many fewer PAI than incorporated in the PJM market design. However, PJM has never addressed the Commission's request to "reassess the assumed number of Performance Assessment Hours" and has failed to discuss the appropriateness of the 360 PAI in its informational filings. PJM's failure to reassess the assumed number of PAI has resulted in and will continue to result in an overstated Market Seller Offer Cap that allows for the exercise of market power. The PJM tariff does not reflect the facts about PAI and should be modified immediately.

⁷ "Informational Filing on the use of 30 hours as the number of Performance Assessment Hours," PJM Interconnection, L.L.C., ER15-623-000, EL15-20-000, November 27, 2019.

⁸ "Informational Filing on the use of 30 hours as the number of Performance Assessment Hours," PJM Interconnection, L.L.C., ER15-623-000, EL15-20-000, November 20, 2018.

⁹ "Informational Filing on the use of 30 hours as the number of Performance Assessment Hours," PJM Interconnection, L.L.C., ER15-623-000, EL15-20-000, November 27, 2017.

II. COMMENTS

A. The Default Market Seller Offer Cap is Overstated and Allows Exercise of Market Power.

PJM has reported zero, six, 18, and 24 PAI for the four delivery years since the implementation of the capacity performance design. Clearly the assumption of 360 PAI per delivery year is wrong, as all of PJM's informational filings demonstrate. Yet PJM indicates no plans to change the assumption about the expected number of PAI. PJM asserts that it will "continue to monitor and consider potential alternatives to the assumed 360 Performance Assessment Intervals used in the Non-Performance Charge rate." No further monitoring or consideration is necessary to determine that the 360 PAI value incorporated in the current CP tariff is wrong and needs to be fixed immediately. PJM has taken no steps to fix the problem for the upcoming RPM auction for the 2022/23 Delivery Year.

PJM's filing does not respond to the Commission's requirement to provide updates on the use of 30 hours (30 PAH or 360 PAI) for this parameter.¹⁰ The requirement was not to simply report the number of PAI; the requirement was to provide updates on the use of 30 hours. PJM's filing should have concluded that the use of 30 hours is unsupportable and should be modified promptly. PJM also does not respond to the Commission's request to "reassess the assumed number of Performance Assessment Hours after it has gained more experience with Capacity Performance and submit a filing if it finds a revision is warranted." Such a revision is clearly warranted and is overdue. The stakeholder process, to which PJM referred in previous informational filings, failed to produce the necessary tariff revisions, and the latest informational filing simply declares a plan to "continue to monitor and consider potential alternatives" of the current PAI assumptions.¹¹ Yet, PJM shows no indication that it is considering reducing the 360 PAI assumption despite filing

¹⁰ 151 FERC ¶ 61,208 at P 163.

¹¹ November 25th Filing at 6.

informational reports for four years that show that the assumption is wrong. In the absence of stakeholder action, PJM can and should file, on its own initiative, revisions to its market rules to address this issue.¹²

This error in market design has had a significant impact on the PJM Capacity Market. The Market Monitor concluded that the results of the 2021/2022 RPM Base Residual Auction were not competitive as a result of economic withholding by resources that used offers that were consistent with the net CONE times B offer cap but not consistent with competitive offers based on the correctly calculated offer cap. The net CONE times B offer cap was based on the incorrect assumption of 360 PAI. In the 2021/2022 RPM Base Residual Auction, some participants' offers were above the competitive level. The Market Monitor recognizes that these market participants followed the capacity market rules by offering at less than the stated offer cap of Net CONE times B. But Net CONE times B is not a competitive offer when the expected number of performance assessment intervals is less than 360 and the nonperformance charge rate is defined as Net CONE/360. Under these circumstances, a competitive offer, under the logic and math defined in PJM's capacity performance filing, is net ACR. That is the way in which most market participants offered in this and prior capacity performance auctions.

The Market Monitor recommends that the Commission require PJM to develop a process for calculating a forward looking estimate for the expected number of Performance Assessment Intervals (H) to use in calculating the Market Seller Offer Cap (MSOC). The Market Monitor recommends that the Nonperformance Charge Rate be left at its current level. The Market Monitor recommends that the Commission require PJM to develop a forward looking estimate for the Balancing Ratio (B) during PAIs to use in calculating the MSOC. Both H and B parameters should be included in the annual review of planning

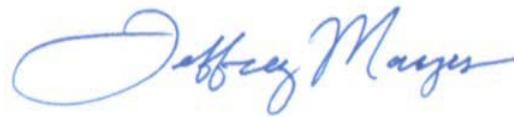
¹² OA §§ 7.7, 10.4.

parameters for the Base Residual Auction, and should incorporate the actual observed reserve margins, and other assumptions consistent with the annual IRM study.

III. CONCLUSION

The Market Monitor respectfully requests that the Commission afford due consideration to these comments as the Commission resolves the issues raised in these proceedings.

Respectfully submitted,



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Dated: December 17, 2020

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 17th day of December, 2020.



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