

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

PJM Interconnection, L.L.C. )  
 ) Docket No. EL16-6-003  
 )  
 )

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

Pursuant to Rules 212 and 213 of the Commission’s Rules and Regulations,<sup>1</sup> Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor for PJM<sup>2</sup> (“Market Monitor”), submits this answer to the Motion for Leave to Answer and Answer of PJM Interconnection, L.L.C., submitted on December 21, 2016 (“PJM Motion”) on the filing submitted by PJM Interconnection, L.L.C. (“PJM”), on November 14, 2016 (“November 14<sup>th</sup> Filing”), in compliance with the order of September 15, 2016, in this proceeding (“September 15<sup>th</sup> Order”).<sup>3</sup>

**I. ANSWER**

**A. The Allocation of M2M Charges Is Not Addressed in the September 15<sup>th</sup> Order and Should Be Addressed Through the PJM Stakeholder Process.**

PJM proposes to include Market to Market (“M2M”) charges in the definition of balancing congestion and remove the charges from FTR revenue determinations. PJM

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<sup>1</sup> 18 CFR §§ 385.212 & 385.213 (2016).

<sup>2</sup> Capitalized terms used herein and not otherwise defined have the meaning used in the PJM Open Access Transmission Tariff (“OATT”) or the PJM Operating Agreement (“OA”).

<sup>3</sup> *PJM Interconnection, L.L.C., et al.*, 156 FERC ¶ 61,180 (2016).

claims (at 3) “the Real-time Energy Market component of M2M is an integral part of the imbalance accounting between RTOs and is part of balancing congestion.” However, the Commission did not direct PJM to change the allocation of M2M credits or charges or to redefine them as balancing congestion charges. The Commission did not direct PJM to change the definition of balancing congestion charges. Instead, the September 15<sup>th</sup> Order explicitly directed (at P 99) “...PJM to allocate balancing congestion costs on a pro-rata basis to real-time load and exports.”

PJM mischaracterizes M2M charges as balancing congestion charges. PJM’s current tariff and manuals do not identify M2M charges as a component of balancing congestion. M2M charges are caused by PJM exceeding, in real time, its allowable entitlement on M2M flowgates on another ISO’s system. This value is calculated as the difference between the market flow on a monitored facility and the entitlement on that facility. This is not congestion. PJM’s proposal would reallocate this excess payment to load as balancing congestion, even though it is not a congestion payment, and, therefore, is not within the scope of the directive in the September 15<sup>th</sup> Order.

The September 15<sup>th</sup> Order makes no mention of Market to Market (“M2M”) payments and their allocation. To the extent that PJM believes there are issues regarding the current allocation of M2M payments to FTRs, PJM should bring the issue of M2M charge allocation to the PJM membership for deliberation and resolution.

**B. PJM Recognizes That FTR Holders Can Price Risk Into Their Offers Based on Their Expectation of the Funding Level of FTRs But Does Not Follow its Own Logic.**

PJM argues (at 5) that “[i]f the system is incapable of providing a full hedge they purchase, that’s part of the risk that [FTR holders] accept,” and that “FTR Holders may price such risk into their offer via risk adders based on their expectation of the funding level of the FTR.”

The Market Monitor agrees that market participants bid for FTRs based on their expectations of funding levels of FTRs, and do not need funding guarantees to use FTRs.

The logical conclusion is that there is no need to shield FTR holders from risk. FTR holders are voluntary participants in the FTR market. If the FTR market overallocates FTRs, that is part of the risk that the FTR holders accept when they purchase the FTRs. This also means that the risks associated with expected levels of M2M payments, FTR auction revenue and day-ahead congestion excess or deficiency can be priced into bids for FTRs.<sup>4</sup>

The historical evidence supports the conclusion that FTR holders incorporate risks in their bids. FTRs were consistently profitable even in periods with relatively low payout ratios because FTR bidders reduced their bids to account for the risk.

**C. PJM's Argument That It Is Appropriate to Treat Surpluses Differently From Shortfalls Fails to Respect the Differences Between ARR and FTRs.**

Under the Commission order, ARR holders sell their rights to day-ahead congestion revenue to FTR holders in exchange for FTR auction revenue. ARR holders, as the sellers of the rights to day-ahead congestion, should receive all FTR auction revenues. FTR holders, as the purchasers of the rights to day-ahead congestion, should receive all day-ahead congestion, regardless of whether this revenue exceeds or falls short of FTR target allocations.

This is the fundamental structure of the ARR/FTR design. Yet PJM's proposal is inconsistent with the fundamentals. PJM would blur the lines in ways that are inconsistent with efficient market design and inconsistent with the incentives that result from respecting the design fundamentals.

PJM's day-ahead excess/deficient congestion and auction revenue allocation arguments are dependent on the unsupported and illogical mixing of ARR auction revenues and congestion revenue. PJM makes its illogic clear when PJM concludes (at 4)

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<sup>4</sup> The Market Monitor has filed a request for rehearing in this docket, now pending, of the determination that congestion revenues should be limited to day-ahead congestion revenues. The Market Monitor's position is that congestion revenues should include all congestion revenues, day-ahead and balancing.

that “[i]t is appropriate to treat surpluses different from shortfalls; doing so is consistent with the FTR design principle.”

PJM asserts (at 4) that it is “appropriate to provide [the unallocated ARR] value back to ARR holders” but only so long as FTRs are fully funded.

PJM states “...FTRs exist to manage the risk of transmission constraints modeled in the Day-Ahead Energy Market,” yet PJM includes the ARR surplus in FTR revenues and continues the counter flow “buy back” program that uses FTR auction surplus revenues to purchase counter flow FTRs to support FTR revenue. This buy back program should be ended immediately as it constitutes another way for auction surplus revenues to be allocated to FTR holders rather than ARR holders.

PJM also proposes to allocate excess day-ahead congestion revenue to ARR holders, after making FTR holders whole. FTR holders should be allocated all day-ahead congestion revenue, excess and deficiency. ARR holders sold their rights to day-ahead congestion revenue in exchange for the FTR auction revenue. As a result ARR holders are not entitled to day-ahead congestion revenue and are entitled to FTR auction revenue. PJM should directly improve its allocation of ARRs if it continues to underallocate ARRs.

Whether the FTR funding source is total congestion or day-ahead congestion is immaterial. ARRs and FTRs are two distinct products with two distinct sources of funding. FTR holders are entitled to all of the congestion revenues while ARR holders are entitled to all of the auction revenue. The market design should reflect these fundamentals.

**D. PJM’s Proposed Changes to the Allocation of Stage 1A ARRs Remain Unclear and Do Not Meet the Commission’s Criteria.**

PJM’s proposed changes to Stage 1A allocations do not meet the requirements of the September 15<sup>th</sup> Order. The September 15<sup>th</sup> Order required (at P 45) that PJM “...remove the requirement to use historical generation resources on paths based on point-to-point service from historical reference years” and “...allocat[e] Stage 1A ARRs based on source points that reflect actual system usage.” PJM’s proposals do not accomplish these directives.

PJM states (at 6) that its proposed method is "...consistent with the historical reference year based Stage 1 ARR resource selection in the current ARR construct." PJM misstates the Commission's directive. PJM was directed to develop a new method that does not rely on a historical reference year, but instead reflects actual system usage.

PJM's proposed approach does not allocate Stage 1A ARRs based on source points that reflect actual system usage. PJM proposes to allocate Stage 1A ARRs on the basis of whether generation resources were constructed by a vertically integrated utility that includes regulated generation costs in rate base or by a merchant generator who must recover all costs through the PJM markets. PJM claims (at 6) that without the cost of service versus merchant distinction between generation resources "...transmission rights associated with such expansions would be available for all network customers inequitably when those rights should be only available to those rate-based customers who directly funded those expansions." But PJM then adds (at 6): "To be clear, PJM does not intend to look at the jurisdictional status (rate-based or non-rate-based) of the transmission customer, rather PJM is interested in the status of the replacement resource itself."

PJM's rationale is inapposite. ARRs are intended to return congestion payments to load. Customers pay for all generating resources, including rate base and market generating resources. Electricity from rate base generation does not flow differently and is not priced differently than generation from non-rate base generation on the system. In a network system, it is not possible to tell whether congestion paid by any LSE is the result of rate base generation or any specific generator. All transmission is paid for as rate base.

PJM's proposed solution to the Stage 1A retired historical generation resources issue remains unclear in several areas. PJM states that participants will be responsible for identifying rate base and non-rate base units, but PJM does not state the criteria that should be used for making this determination and who, among multiple entities that may be ARR holders in a single control zone, should be responsible for making the determination. In some cases, the ARR holders may not be the qualified party due to retail choice and unbundling.

Further, PJM does not clarify if or how its proposed method will handle the ten year requirement for Stage 1A ARR, and if or how the newly assigned resources will be integrated into the RTEP process to build new transmission and how PJM will adjust ARRs in the future as more units retire. The assignment of Stage 1A ARRs is a complicated process which affects the entire ARR/FTR market. PJM's proposal has not addressed many of the interdependencies between Stage 1A ARRs and other areas of the market. These dependencies need to be addressed before participants can have a clear understanding of how changes to the Stage 1A allocation process will affect them in the near and long term.

Participants should be able to anticipate how new rules will affect them before they are implemented. PJM's proposed implementation date does not allow for this. Individual participants will have no indication how they will be affected, what units they may source from or how their financial position will change until the rule goes into effect. PJM should study the impact of these proposed changes, make the results available to participants and include participants in the discussion and development of these rules.

## 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>5</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>5</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. Independent System 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 afford due consideration to this answer as the Commission resolves the issues raised in this proceeding.

Respectfully submitted,



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Dated: January 9, 2017

## 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 9<sup>th</sup> day of January, 2017.



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