

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

Offer Caps in Markets Operated by	)	
Regional Transmission Organizations	)	Docket No. RM16-5-000
and Independent System Operators	)	
	)	

**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 request for rehearing submitted on December 19, 2016, by Exelon Corporation (“Exelon”). Exelon’s request to clarify that the Commission’s verification requirement “was not intended to exclude any categories of actual or expected costs” should be denied.<sup>3</sup> Order No. 831 is clear that the cost-based incremental energy offer may reflect all the resource’s short run marginal costs.<sup>4</sup> Order No. 831 is also clear that the cost-based incremental energy offer may reflect only short run marginal costs.<sup>5</sup> The Commission may address particular issues with respect to natural gas transportation costs, natural gas balancing costs, and the use of natural gas price indices in

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<sup>1</sup> 18 CFR §§ 385.212 & 385.213 (2015).

<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> Exelon at 4.

<sup>4</sup> *Offer Caps in Markets Operated by Regional Transmission Organizations and Independent System Operators*, Order No. 831, 157 FERC ¶ 61,115 at PP 2, 34 (2016).

<sup>5</sup> Order No. 831 at P 78.

other dockets. Those details do not warrant rehearing or clarification of Order No. 831. The Commission should deny Exelon's motion for clarification and reject Exelon's request for rehearing.

## I. ANSWER

### **A. Order No. 831 Is Accurate, Clear and Correctly Decided that Cost-Based Offers Reflect All Short Run Marginal Costs and Only Short Run Marginal Costs.**

The Market Monitor supports and appreciates the Commission's statement in Order No. 831 that when stating "the offer is cost-based" the Commission means that "the offer accurately reflects that resource's actual or expected short-run marginal costs."<sup>6</sup> The Commission excludes no category of costs. The Commission makes no exceptions for any costs that are not short run marginal costs. The statement is clear, well founded in economic theory, and verified by competitive market behavior. The statement requires no rehearing or clarification.

Exelon states (at 4) that "[g]enerator owners must consider variable costs that are not based on the price of the commodity, such as transportation and balancing costs." A generator owner must consider some costs that are not based on the price of the commodity when such costs are short run marginal costs. The details of generators' fuel costs vary in the structure of fixed, variable, and marginal costs, especially with respect to transportation and balancing costs. Not all transportation and balancing costs are short run marginal costs. Order No. 831 contemplates the verification of specific short run marginal costs by market monitors sufficiently to alleviate Exelon's concerns.<sup>78</sup>

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<sup>6</sup> Order No. 831 at P 78.

<sup>7</sup> Order No. 831 at P 141.

<sup>8</sup> The Market Monitor provides further discussion of fuel costs, including transportation, balancing, and natural gas tariff penalties, in Docket No. ER16-372-000. *See Answer and Motion for Leave to Answer of the Independent Market Monitor for PJM, Docket No. ER16-372-000 (October 26, 2016) at 18–25.*

## **B. Order No. 831 Is Clear and Correctly Decided that Verification Examines Expected Costs When Actual Costs Are Unknown.**

Order No. 831 repeatedly states that cost-based offers may reflect “actual or expected costs.” Exelon asks that the Commission state it yet again. Exelon also asks for acknowledgement that expected natural gas costs may differ from a published index value. The Market Monitor agrees with Exelon’s evaluation of the usage of published fuel index prices. In some situations, the generator does not procure fuel prior to the time of cost-based offer development. In other cases, the generator has procured the fuel but estimates its market value using current market data. In either case, the market value of the fuel is estimated because the index is not yet published or the index does not reflect the relevant market conditions at the time the offer is calculated.

The Market Monitor does not agree with Exelon that the details about fuel index usage require clarification or rehearing. The Commission (at P 110) acknowledges comments explaining the divergence between published indices and the market value of natural gas. The Commission (at P 141) recognizes the “potential complexities involved in verifying incremental energy offers” and allows each RTO/ISO to build on its existing market monitoring and mitigation practices in developing a compliance proposal. The details Exelon seeks to clarify will be raised in compliance proceedings. The details Exelon seeks to clarify do not require modification of Order No. 831.

## **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 requests for rehearing 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>9</sup> In this answer, the Market Monitor provides

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<sup>9</sup> See, e.g., *Cal. Indep. Sys. Operator Corp.*, 129 FERC ¶ 61,241 at P 16 (2009) (“[w]e will accept the answers and responses to the requests for rehearing because they provide information that assisted us in our decision-making process”); *Tex. E. Transmission, LP*, 131 FERC ¶ 61,164 at P 1 n.3

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 answer as the Commission resolves the issues raised in this proceeding.

Respectfully submitted,



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(2010) (accepting answer to a request for rehearing that aided the Commission's decision making); *KN Wattenberg Transmission LLC*, 94 FERC ¶ 61,189 at 61,671 (2001) (finding "good cause" to accept an answer to a request for rehearing "in order to insure a complete record" in the proceeding).

## 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 4<sup>th</sup> day of January 2017.



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