

in both the capacity market and in the energy market. When PJM has extra capacity, purchased consistent with the slope of the VRR curve, that capacity contributes to reliability. When PJM has extra capacity, that capacity is subject to a must offer requirement in the energy market and is therefore available for commitment and dispatch in the energy market at competitive prices. PJM load purchased the capacity to provide both the capacity market and energy market benefits. PJM load has paid the full BRA price for this excess capacity and should receive full value for it if sold. The BRA price is a lower bound on this value of excess capacity. There is no reason for PJM to sell a resource purchased at the full BRA price, with significant value in the capacity market and in the energy market, a few months later at a discount.

B. AEMA States that the Proposed Changes to the PJM Incremental Auctions Resolve Issues Introduced in the MMU Report on Replacement Capacity.

AEMA indicates (at 4) that the proposal “directly resolves matters raised in the Independent Market Monitor’s Replacement Capacity Report” and “approval of the PJM filing would have the added benefit of resolving [FERC dockets EL-14-48-000 and ER14-1461-001].” AEMA is incorrect. The proposed changes ensure that customers do not pay the full BRA price for capacity and then sell it at a substantial discount in an Incremental Auction (“IA”). But, the proposed changes would create an excusal process which is inconsistent with the fundamental incentives of the Capacity Performance construct. This excusal process is inconsistent with the Market Monitor’s recommendations. In addition, the proposed changes do not address the concern that offers for planned demand resources are not tied to physical assets as all capacity resources should be and all generator capacity resources are. The Market Monitor’s position is that demand response providers should be required to have a signed contract with specific customers for specific facilities for specific levels of demand response at least six months prior to any capacity auction in which the demand response resource is offered. Additional recommendations related to replacement capacity that are not resolved by the proposed changes to incremental auction designed are

included in the Market Monitor's replacement capacity report.⁴ The Market Monitor will continue to pursue resolution of these issues.

C. Excess Commitment Credits Should Be Eliminated.

The Market Monitor agrees with PJM's proposal to eliminate Excess Commitment Credits (ECCs). Under the current rules, ECCs result from excess capacity procured by PJM in a BRA that PJM does not sell, even at a discounted price. ECCs are allocated to load serving entities at zero cost and can be used as replacement capacity or traded bilaterally. Thus, the impact of ECCs is almost identical to PJM selling the excess capacity at zero or a substantially reduced price. Continuing to create ECCs would undermine PJM's proposal to sell the excess capacity at the BRA clearing price rather than a discounted price. Continued creation of ECCs would have exactly the impact that PJM is attempting to avoid by selling excess capacity at the BRA clearing price. ECCs would likewise fail to recognize the value to load in the energy and capacity market of excess capacity and value it at zero by allocating ECCs at zero cost.

D. The Proposed Excusal Process Would Undermine the Capacity Performance Construct and Incentives.

The proposal to implement an excusal process for capacity commitments should not be accepted. As with the sale of excess capacity and the creation of ECCs, the proposed excusal process would dispose of the excess capacity that load has paid for and deny load the capacity and energy market benefits of that excess. But the proposed excusal process is inconsistent with the other parts of the proposal and should be rejected for that reason. The rules should consistently support the capacity market and energy market value of the excess capacity to load that purchased the capacity at the full BRA price.

⁴ See "Analysis of Replacement Capacity for RPM Commitments: June 1, 2007 to June 1, 2017," which can be accessed at: http://www.monitoringanalytics.com/reports/Reports/2017/IMM_Report_on_Capacity_Replacement_Activity_4_20171214.pdf (December 14, 2017).

Allowing excuses would undermine the fundamental purpose of the Capacity Performance construct and incentives. The proposed excuses mean that capacity market sellers know that they have an opportunity, after all incremental auctions are complete, to escape their capacity commitment and be held harmless from the responsibilities of a capacity seller, including performance penalties. That option would influence participant buy bid behavior in incremental auctions and would affect the risk profile of taking on a capacity commitment. The capacity market already provides a market-based and competitive opportunity to replace capacity obligations. PJM has provided no argument to support this undermining of capacity market incentives.

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.⁵ 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. Accordingly, the Market Monitor respectfully requests that this answer be permitted.

⁵ 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).

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,



Jeffrey W. Mayes

Joseph E. Bowring
Independent Market Monitor for PJM
President
Monitoring Analytics, LLC
2621 Van Buren Avenue, Suite 160
Eagleville, Pennsylvania 19403
(610) 271-8051
joseph.bowring@monitoringanalytics.com

General Counsel
Monitoring Analytics, LLC
2621 Van Buren Avenue, Suite 160
Eagleville, Pennsylvania 19403
(610) 271-8053
jeffrey.mayes@monitoringanalytics.com

John Hyatt
Analyst
Monitoring Analytics, LLC
2621 Van Buren Avenue, Suite 160
Eagleville, Pennsylvania 19403
(610) 271-8050
john.hyatt@monitoringanalytics.com

Alexandra Salaneck
Senior Analyst
Monitoring Analytics, LLC
2621 Van Buren Avenue, Suite 160
Eagleville, Pennsylvania 19403
(610) 271-8050
alexandra.salaneck@monitoringanalytics.com

Dated: April 18, 2018

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 18th day of April, 2018.



Jeffrey W. Mayes

General Counsel

Monitoring Analytics, LLC

2621 Van Buren Avenue, Suite 160

Eagleville, Pennsylvania 19403

(610) 271-8053

jeffrey.mayes@monitoringanalytics.com