

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

PJM Interconnection, L.L.C.)	Docket No. EL22-26-000, -001
v.)	
PJM Interconnection, L.L.C.)	
PJM Interconnection, L.L.C.)	Docket No. ER22-957-000, 001
)	(not consolidated)
)	

**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,¹ Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor (“Market Monitor”) for PJM Interconnection, L.L.C. (“PJM”),² submits this answer to the request for rehearing submitted on March 18, 2022, by Citadel FNGE Ltd. (“Citadel”). Citadel seeks rehearing of the order issued February 18, 2022, in this proceeding (“February 18th Order”).³ This answer responds to Citadel’s argument (at 1) that the February 18th Order “selectively and unjustifiably” removed the transmission constraint penalty factor (“TCPF”), otherwise required by PJM’s tariff, for a single location on the system. The February 18th Order correctly granted the complaint, determining (at P 59) that “PJM has shown that under the specific circumstances in the record, the transmission constraint penalty factor is not

¹ 18 CFR §§ 385.212 & 385.213 (2021).

² Capitalized terms used herein and not otherwise defined have the meaning used in the PJM Open Access Transmission Tariff (“OATT”), the PJM Operating Agreement (“OA”) or the PJM Reliability Assurance Agreement (“RAA”).

³ *PJM v. PJM*, 178 FERC ¶ 61,104 (“February 18th Order”).

achieving its intended purpose in the Northern Neck peninsula and is resulting in an inappropriate price signal that establishes high prices without a commensurate benefit.” Rehearing should be denied.

I. ANSWER

A. The 2022 Lanexa-Dunnsville Outage Is Different Than Prior Outages.

Citadel argues (at 4-5) that the February 18th Order fails to address evidence of changed conditions. Citadel states (at 5) that the transmission owner has accelerated certain transmission upgrades that will resolve the constraint in May 2022 instead of December 2023. This reconductoring work, discussed in the PJM response, is not the same as the transmission work on the Lanexa-Dunnsville Line. The work on the Lanexa-Dunnsville Line is not expected to be completed until 2023.

Citadel (at 6) argues that there is no reason to treat the 2022 Lanexa-Dunnsville outage differently than past outages in the area. While there have been other transmission outages in the same area, Citadel is not correct that any transmission outage in the area has been comparable to this outage in duration or impact. Prior to August 2021, the Birchwood coal unit was used to provide constraint relief during transmission outages in the Northern Neck area. The March 1, 2021, retirement of Birchwood, by itself, made any outage in the area clearly distinguishable from outages prior to August 2021 because it decreased the already limited amount of generation available to serve the area during the outage. The resultant changes in the pattern and level of congestion provide enough evidence of changed circumstances for FERC to reject the request for rehearing.

Citadel states (at 5) that if the congestion were to be resolved by May 2022, the current conditions would be “in line with two other recent outages.” The current outage ticket indicates the line is expected to be out of service until July 31, 2023. The only prior outage since the retirement of the Birchwood unit lasted from August 16, 2021, until September 14, 2021. Given the current schedule, this outage will continue for an additional 16 months, compared to 29 days during the August to September 2021 outage. Even under the

unsupported assumption that all congestion in the area disappears after May 2022, the duration of this outage would still be five months compared to one month for the longest outage to have occurred since August 2021. The combination of the long duration and the level of congestion makes this outage and the impact of this outage unique.

B. Ongoing Administrative Pricing at the Penalty Factor has No Economic Value.

PJM has stated that it cannot take any additional actions to relieve the congestion. There are no generation or demand side resources able to respond to a price signal above the cost of the Northern Neck units. In this situation, where no additional generation is available at any price, allowing the price to be set by an arbitrary \$2,000 penalty factor provides no market benefit but simply results in a wealth transfer. The February 18th Order (at P 61-63) recognizes the role of transmission constraint penalty factors as part of locational scarcity pricing and that in this situation there is no value in the price signal that results from the \$2,000 per MWh penalty factor. As the Market Monitor explained, the solution in place (locational pricing based on the offer of the marginal generator) constitutes an adequate price signal.⁴

LMP continues to send a strong scarcity pricing signal at the Northern Neck location without the transmission penalty factor. That price signal is further strengthened by the significant increases in the price of oil that have a direct impact on the offers of the oil-fired CTs at Northern Neck that set the locational price. Applying an arbitrarily high \$2,000 penalty factor under these circumstances would only impose further costs on customers and create windfall profits for virtual traders and FTR holders.

Citadel claims (at 7), that the Commission based its decision on insufficient evidence, stating that “[t]he only purported evidence of alleged harm to retail ratepayers that PJM placed in this record is a chart showing two weeks of congestion pricing at Northern Neck.”

⁴ See Answer and Motion for Leave to Answer of the Independent Market Monitor for PJM (February 11, 2022) at 3.

The period covered by the data on which the Commission based its initial reasoning was sufficient to demonstrate that no additional relief can be made available through use of penalty factor pricing and that the costs to customers would continue, as they have.

Despite the surprising assertion that customers have not suffered significant harm, the application of the transmission penalty factor did directly cause significantly higher prices which funded windfall profits for traders of virtual products and FTRs.

In August 2021, virtual traders made \$0.4 million in profits at the Northern Neck, Arnold's Corner, and Westmoreland Solar nodes. In January 2022, total virtual profits at these nodes was \$3.8 million. In February 2022, virtual profit was \$9.8 million at these same nodes even after PJM eliminated the transmission penalty factor.

The supporters of the transmission penalty factor include the top four most profitable FTR participants in January from FTRs related to the Greys Point – Harmony Village constraint. The top four FTR traders made more than \$50 million in FTR profits in January.

C. Customers Are Always Exposed to Prices.

Citadel asserts (at 7-8) that the rates caused by using the penalty factor are not unjust and unreasonable because no individual ratepayer is exposed to the price at a single node. Regardless of whether the LMP at a node is used for settlement of physical load, the rate set by the Commission should be just and reasonable. Whether load pays a price based on a single node or an average of nodes is not a reason to allow prices to rise to an arbitrary level beyond any marginal benefit to the market.

Prices at the nodes directly affected by this constraint are a part of the load-weighted average prices that PJM customers in the Dominion Zone pay. Customers pay an average price that includes these very high nodal prices.

The Commission should explicitly reject the rationale advanced by Citadel that bus-level rates do not matter unless load is directly settled at the affected node. It makes no difference whether the nodal rate is directly used in settlement or included in the average

zonal price. Load pays the excessive cost regardless, and such overpayment is equally unjust and unreasonable regardless of whether settlement is at a single node or an average of nodes.

D. The Filing Complies with Order No. 844.

Citadel argues (at 9): “The Order directly contradicts the Commission’s position in Order 844 regarding the importance of transparency—without any explanation to justify the sudden course change. In Order 844, the Commission declared that ‘the circumstances under which’ the RTO/ISO may ‘change[]’ the TCPF and ‘any procedures for doing so must be included in the RTO’s/ISO’s tariff.’”⁵

PJM explained the need to change its procedures for changing the TCPF in the particular circumstances of this case in the PJM stakeholder process and in public filings with the Commission, and PJM proposed to revise the procedures in the tariff to apply to those particular circumstances. This case does not involve PJM determinations outside of the tariff, or even the scope of its ability to interpret its tariff. Nothing in the February 18th Order conflicts with Order No. 844’s requirement (at P 122) that “procedures ... must be included in the RTO’s/ISO’s tariff.”

PJM intends to work with stakeholders on provisions for its tariff to allow PJM to modify the transmission constraint penalty factor if similar circumstances arise in the future.

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 a request 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.⁶ In this answer, the Market Monitor provides

⁵ Citadel at 9, citing Order No. 844 at P 122.

⁶ See, e.g., *Calif. Indep. Sys. Operator Corp.*, 134 FERC ¶ 61,004 at P 13 (2011) (accepting answer to rehearing request that provided information that assisted Commission’s decision-making); *Aquila Merchant Servs., Inc.*, 127 FERC ¶ 61,218 at P 28 (2009) (accepting answers to requests for rehearing

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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"because they have provided information that assisted us in our decision-making process"); see also N. Natural Gas Co., 137 FERC ¶ 61,202 at P 10 (2011) (accepting answer to rehearing request because it clarifies the record, and will expedite resolution of issues).

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 4th day of April, 2022.



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