

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

PJM Interconnection, L.L.C.

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Docket No. ER24-461-000

**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, Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor (“Market Monitor”) for PJM Interconnection, L.L.C. (“PJM”), submits this answer to the answer submitted by PJM on December 22, 2023 (“December 22<sup>nd</sup> Answer”). PJM initiated this proceeding when it filed revisions to the calculation of the Peak Market Activity collateral requirement on November 21, 2023, (“November 21<sup>st</sup> Filing”).

In its comments filed December 12, 2023 (“Market Monitor Comments”), the Market Monitor recommended that that Commission accept PJM’s proposed changes regarding the calculation of the Peak Market Activity collateral requirement, but only on the condition that the Commission reject the component of the filing that would allow participants to reduce collateral obligations by prepaying obligations, because that component is not supported as just and reasonable and is, in fact, not supported at all in the November 21<sup>st</sup> Filing.

**I. COMMENTS**

**A. The November 21<sup>st</sup> Filing Should Be Rejected, Unless Modified as the Market Monitor Recommends.**

PJM mischaracterizes (at 2) the Market Monitor’s position as proposing a “third option.” For the reasons explained here and in the Market Monitor Comments, there is no third option. PJM has not demonstrated that the November 21<sup>st</sup> Filing is just and reasonable

as filed. The proposal should be rejected for that reason. PJM could then refile a modified proposal. As a second option, an order accepting the November 21<sup>st</sup> Filing on the condition that it is modified as the Market Monitor recommends would avoid confusion and save time. Otherwise, the November 21<sup>st</sup> Filing should be rejected.

The Commission has the authority to condition its acceptance of a utility's proposal, provided that it does not result in an “entirely different rate design.”<sup>1</sup> The utility may consent to such modification.<sup>2</sup> The Market Monitor’s proposed modification is sufficient to make PJM’s proposal just and reasonable, and it is also entirely consistent with the purpose of PJM’s proposal.

PJM states that its purpose is to “alleviate financial stress for Participants ... without undermining the fundamental objective of PJM’s Credit Risk Management Policy, which is ‘to monitor and manage credit risk on an ongoing basis, and to act promptly to mitigate or reduce any unsecured credit risk, in order to protect the PJM Markets and PJM Members from losses.’”<sup>3</sup> PJM’s purpose should not be to “alleviate financial stress” for some participants at the expense of others. A modified proposal would be consistent with the purpose of the November 21<sup>st</sup> Filing. PJM states (at 2) that the Market Monitor’s proposed change concerns a “relatively minor” aspect of its proposal. The Market Monitor does not agree that the change is “minor,” but does agree that the change is consistent with PJM’s primary purpose of ensuring that collateral requirements reasonably reflect forward looking market activity. There is no reason why PJM could not consent to what it characterizes as a relatively minor modification to its proposal and avoid the need for a new modified filing.

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<sup>1</sup> See *NRG Power Mktg., LLC v. FERC*, 862 F.3d 108, 114 (2017) (“FERC has some authority to propose modifications to a utility's proposal if the utility consents to the modifications”).

<sup>2</sup> *Id.*

<sup>3</sup> PJM Filing, Docket No. ER24-461-000 (November 21, 2023) at 2, citing OATT Attachment Q, Part I.

**B. There Is No Basis for Allowing Early Payments of Prior Bills to Reduce Forward Looking Peak Market Collateral Requirements.**

PJM argues (at 5) that the Market Monitor fails to acknowledge that the only change being proposed with respect to early payment “is the increase from a maximum of 10 early payments per rolling 52-week period to 13 early payments in the same period.” PJM states (at 5) that “[a]lso unchanged is the proviso in Attachment Q, Section VII.A, that “initial Peak Market Activity shall not be less than the average value calculated using the weeks for which no early payment was made.” PJM (at 6) states that the Market Monitor does not demonstrate how the proposed increase from a maximum of 10 permitted early payments to a maximum of 13 early payments would increase the marginal risk to the market. PJM states (at 2) that its proposal should be accepted as presented because the two components of its proposal, taken together, are an improvement over the status quo.

The Market Monitor disagrees. PJM appears to take the position that if one part of the proposal improves the rules by a lot and another part makes the rules worse by a little that the combined result is to improve the status quo. PJM never explains why they included the part that makes the rules worse.<sup>4</sup> That is the part of the proposal that should be eliminated.

The Market Monitor recognized (Market Monitor Comments at 3) that the current rules allow participants with unsecured credit to make up to 10 early payments in a rolling 52-week period in order to reduce its Peak Market Activity for credit requirement purposes. The issue here is that PJM’s current rule allowing 10 early payments in a rolling 52 week period to reduce Peak Market Activity collateral would undermine the efficacy of PJM’s proposed revisions of the calculation of Peak Market Activity Collateral. Expanding the number of allowed early payments from 10 to 13 only makes matters worse. PJM cannot demonstrate that its proposal is just and reasonable if it fails to properly coordinate the proposal with other elements of its market design.

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<sup>4</sup> PJM’s current rule allowing 10 weeks of early payment is also questionable for the same reasons.

PJM states (at 6) that the current rule allowing early payments was “intended to allow a Participant with unsecured credit the opportunity to reduce its collateral requirements by normalizing seasonal ‘spikes’ in market activity.” But reality is not normalized. There is no reason to reduce collateral related to future activity by allowing early payments.

PJM is proposing that the Peak Market Activity collateral requirement (currently reset twice a year, once in April and once in October) be reset weekly based on the highest net bill from the total net bill for the prior one, two, three or four weeks. PJM claims (November 21<sup>st</sup> Filing at 8) that its proposals will increase collateral requirements during periods of heightened market activity while reducing surplus collateral as activity decreases. In other words, PJM’s proposed changes to the Peak Market Activity collateral requirement calculation (weekly reset) will improve risk mitigation and reduce costs to participants by more correctly reflecting forward looking market activity.

The proposed and existing early payment mechanism (whether based on 10 or 13 weeks of prepayment) is inconsistent with PJM’s proposed Peak Market Activity collateral requirement that resets weekly. PJM’s proposal to calculate the Peak Market Activity collateral requirement on a weekly basis creates a direct connection between the credit risk of a participant’s recent market activity and collateral requirements. Allowing early payments to affect the weekly calculation of Peak Market Activity would undermine the calculation of the actual collateral risk in periods when market activity is increasing, as early payments would artificially reduce apparent market activity in the calculation. The early payment of bills does not eliminate or reduce the future associated market activity any more than paying a bill on time eliminates or reduces the associated market activity. Early payment of bills should not eliminate or reduce any collateral requirements based on expected forward looking market activity.

PJM has not addressed the issues raised by the Market Monitor. PJM has not provided evidence or an argument that the proposed and existing early payment mechanism (whether based on 10 or 13 weeks of early payment) will not adversely affect the efficacy of PJM’s proposed Peak Market Activity collateral requirement that resets weekly.

## 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>5</sup> 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.

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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).

### III. CONCLUSION

The Market Monitor respectfully requests that the Commission afford due consideration to this pleading as the Commission resolves the issues raised in this proceeding.

Respectfully submitted,



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Dated: January 8, 2024

## 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 8<sup>th</sup> day of January, 2024.



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