UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

PJM Interconnection, L.L.C.	)))	Docket No. ER25-2002-000

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,[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 answer submitted by PJM on June 13, 2025 ("June 13th Answer"), to the Market Monitor's answer in this proceeding filed, June 9, 2025 ("June 9th Answer"). The June 9th Answer was filed in response to an answer filed by PJM on May 23, 2025 ("May 23rd Answer"). The IMM filed Comments on May 9, 2025 ("IMM Comments") criticizing PJM's proposal submitted April 18, 2025 ("April 18th Filing") that was intended to "mitigate" the impact of PJM's own updated ELCC values on capacity resources with reduced ELCC derating factors.

This answer, in response to the June 13th Answer, explains why PJM's proposal is unnecessary and unduly discriminatory, explains how PJM confuses the meaning of the 20 percent daily deficiency charge penalty, explains how PJM misunderstands the impact of its proposal on the incentive to buy replacement capacity, explains why PJM's proposal shifts costs and risks from generators to load, explains that PJM misunderstands the results of the

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1 18 CFR §§ 385.212 & 385.213 (2024).

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").

stakeholder process that produced this rule, and explains why as a result the proposed rule change is not just and reasonable. PJM's proposal undermines the fundamental purpose of PJM's ELCC approach which is to reflect the current reliability value of resources and to ensure that the overall system is reliable based on those resource values. This answer should be accepted in order to eliminate confusion, to ensure a complete record, and to facilitate the decision making process.

I. ANSWER

A. The Proposed Rule Change Reduces the Incentive to Buy Replacement Capacity.

The current rules provide a strong and uniform incentive for capacity market sellers to purchase replacement capacity when the UCAP MW of capacity that cleared in the base residual auction are reduced by updates/reductions to the ELCC ratings. A capacity market seller would be willing to purchase replacement capacity at a cost that is less than or equal to the capacity market clearing price multiplied by the daily deficiency rate of 1.20 plus any expected net nonperformance charges.[3] The proposed rule would significantly weaken this incentive. Under the proposed rule the 1.20 multiplier is eliminated and a capacity market seller would be willing to purchase replacement capacity at a cost that is less than or equal to the capacity market clearing price plus any expected net nonperformance charges. As a factual matter, PJM's filing reduces the incentive to purchase replacement capacity, regardless of any expected nonperformance charges. In the June 9th Answer, the Market

3 The daily deficiency rate is equal to one plus the larger of 20 percent of the capacity clearing price or \$20. *See* OATT, Attachment DD § 7.1(b-1). For delivery years 2026/2027 and 2027/2028, the daily deficiency rate is 1.20 times the clearing price rather than \$20 as a result of the minimum price established in the recent PJM filing: *PJM Interconnection, L.L.C.*, 191 FERC ¶ 61,066 (2025). See June 9th Comment at 4–5;

Monitor showed, using PJM data and analysis, that the expected net nonperformance charges are very low.[4]

It is a simple fact that PJM proposes to reduce the penalty rate by the 20 percent multiplier. It is a simple fact that this reduction correspondingly reduces the incentive to purchase replacement capacity. It is a simple fact that the revenues from the 20 percent penalty would otherwise go to load and the elimination of the 20 percent penalty reduces payments to load.

B. Removing the Penalty Increases Costs to Load.

PJM disputes (at 3) the Market Monitor's assertion that the proposed rule imposes a cost on load by removing the penalty payments. The Market Monitor's statement that the penalty payments are paid to load is factual and clearly stated in the tariff.[5] If the 20 percent penalty is removed, payments to load will be reduced and therefore costs to load will increase.

PJM's response is confusing and misleading. While the daily deficiency rate is 120 percent, 20 percent is clearly the penalty. The 100 percent simply requires the seller to repay the capacity payment that was received for capacity that is not provided. The PJM settlement process means that the seller is paid for capacity that it can no longer provide due to the ELCC derate and that the seller pays back the amount it received for that shortfall plus a 20 percent penalty. The net result is that the seller pays a penalty of 20 percent. The Market Monitor's statement is correct. Under the proposed rule, load will not receive the 20 percent penalty payment for capacity that is not replaced.

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[4] The June 9th Answer only addressed the nonperformance charge, leaving out the potential for performance payments. Including performance payments reduces the net expected nonperformance charges and in many cases the expected performance payments would exceed the expected nonperformance charges.

[5] OATT Attachment DD § 8.3.

PJM does recognize the basic facts of the situation regardless of PJM's attempts to deflect attention from these facts. PJM states:

> In other words, Capacity Market Sellers that do not obtain replacement capacity will at minimum forgo all capacity revenues associated with any Accredited UCAP reduction driven by ELCC updates while continuing to be exposed to potential Non-Performance Charges for such Accredited UCAP.[6]

In other words, as stated by the Market Monitor, the seller pays back the capacity market revenue it received for the capacity it can no longer provide. Under PJM's proposal there would be no penalty. The penalty is the incentive. Regardless of whether nonperformance charges provide an incentive, PJM's proposal would reduce the incentive to purchase replacement capacity.

C. PJM's Proposal Would Create Unintended Consequences.

PJM has failed to address the results of capacity market sellers not purchasing replacement capacity as a result of the reduced incentive. PJM states at 5, that "under this proposal, PJM would not be procuring replacement capacity in the Third Incremental Auction *as a result* of Accredited UCAP values being reduced. This filing makes no proposed changes to PJM Buy Bids or Sell Offers in Incremental Auctions." That failure to address the reliability issues when generators do not purchase replacement capacity is an issue. This is precisely the concern raised by the Market Monitor in the June 9th Answer.[7] PJM currently bases the need for additional capacity in the Third Incremental Auction going into the delivery year on the incremental change in the reliability requirement based on changes in the load forecast. PJM ignores the failure of sellers to replace capacity. Rather than restating this fact as if it supported their approach, PJM should address the issue directly rather than exacerbating the reliability issue by reducing the incentive to replace capacity.

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6 May 23rd Answer at 13.

7 *See* June 9th Answer at 8–10.

PJM still needs the capacity that already cleared in the base residual auction. PJM's current approach assumes that any reductions in capacity will be replaced based on the incentive from the penalty payment. As a result, the current approach does not address the reliability impacts of a failure to buy replacement capacity.

If sellers do not replace the reduced capacity the system is less reliable as a result. This imposes additional risks on load.

D. PJM's Proposed Rule Contradicts the Purpose of ELCC.

The proposed rule shifts risk from generators to load. PJM states (at 7) that the IMM proposes no solution to mitigate the impacts of the volatile ELCC ratings. That is correct and that is precisely the point. If PJM believed in their ELCC approach, PJM would not attempt to "mitigate" the predictable results of the ELCC approach by shifting risk to load. If ELCC ratings correctly reflect the reliability contribution of generation resources, mitigating the impact of updated ELCC ratings directly contradicts the purpose of PJM's ELCC approach. PJM's goal should be to ensure that generators react to reduced ELCC ratings by buying replacement capacity.

PJM notes that the risk to generators was increased by the replacement of the EFORd approach with the ELCC approach. This should have come as no surprise to PJM who created the ELCC approach. PJM complains that the Market Monitor did not respond thoughtfully to this point. The Market Monitor recognizes the increase in risk created by PJM's ELCC approach. The question is why PJM requires a last minute filing to address a well known and fundamental feature of its ELCC approach. The Market Monitor's position is that the risk should remain with the generator. That is PJM's market design. Instead, under the PJM proposal, generators would retain the benefits of increases in ELCC ratings while shifting the costs of decreases in the ELCC rating to load. The result is unduly discriminatory and thus not just and reasonable.

PJM's ELCC approach created this risk. The Market Monitor noted this issue on several occasions both prior to the ELCC filing in October 2023 and in comments to the

Commission in Docket ER24-99. There is no way to mitigate this risk; it is inherent to the ELCC process. PJM's proposal does not mitigate the risk, it simply shifts the risk to load. The risk includes lower reliability and increased cost to load. The ELCC derates created by PJM's ELCC approach are real and have real impacts. PJM's mitigation does not eliminate the risks, it simply shifts them to load and makes them less visible. The risk to generators is an intentional part of the PJM ELCC approach and is intended to provide an incentive to generators to address decreases in UCAP value. PJM's proposal undercuts the purpose of the ELCC approach.

Despite its disclaimers, PJM does recognizes the broader reliability risk that results from reductions in UCAP based on changed ELCC values: [8]

> Thus, it is fully possible that changes in ELCC accreditation will result in a shortfall across the system, resulting in there being insufficient replacement capacity to be procured by resources that may have shortfalls. As a result, the interactions driven by changing ELCC values are not as simple as the IMM represents.

Clearly it is PJM that attempts to oversimplify the issues.

E. The Stakeholder Process Did Not Fully Review the Proposal.

PJM argues (at 6–8) that the Commission should view the lack of protests other than the Market Monitor and overwhelming support in the PJM stakeholder process as evidence that the proposed rule change is just and reasonable. PJM stakeholder votes cannot make any proposal just and reasonable. PJM implies (at 8) that PJM's filed proposal received "months of consideration" by PJM stakeholders. The proposal filed by PJM was the fourth of four proposals suggested by PJM to address the impacts of ELCC ratings changes and received

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8 May 23rd Answer at 10.

very little attention in the stakeholder process.[9] PJM's first proposal was the primary topic of discussion and was more transparent in its direct shift of costs to load and was rejected by stakeholders at the PJM Markets and Reliability Committee. The discussion at the task force level of the PJM stakeholder process was focused on the first proposal. The proposal included in PJM's filing went to the PJM Markets and Reliability Committee as an alternative motion which means it would only be considered if the main motion failed.[10] The main motion did fail and the alternative motion passed at the last minute without a detailed discussion of the issues the Market Monitor has raised and without explicit recognition that the alternative proposal includes cost shifts much like those in the rejected proposal.

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 protests, answers, or 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.[11] In this answer, the Market Monitor provides the Commission with information useful to the Commission's decision

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9 *Discussion on Potential Solution Options for the Accreditation Issue Charge* at 29, PJM Interconnection, L.L.C., Item 3 in the meeting materials for the ELCC Senior Task Force meeting on January 24, 2025 <https://www.pjm.com/committees-and-groups/task-forces/elccstf>.

10 *ELCCSTF Proposed Solution Packages* at 8-9, PJM Interconnection, L.L.C., Item 2A-B in the meeting materials for the Markets & Reliability Committee meeting on March 19, 2025 <https://www.pjm.com/committees-and-groups/committees/mrc>.

11 *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).

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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Dated: June 16, 2025

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 16th day of June, 2025.

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