

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

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| PJM Interconnection, L.L.C. |) | |
| |) | Docket No. ER14-503-000 |
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**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 for PJM (“Market Monitor”), submits this answer to the pleadings filed December 20, 2013, in response to revisions to the rules proposed December 5, 2013 by PJM intended to ensure that the level of imported capacity offered into and cleared in the RPM Base Residual Auctions does not exceed the maximum level transferrable across PJM interfaces (“December 5th Filing”), including comments of the Midcontinent Independent System Operator, Inc. (“MISO”), comments of MISO’s Independent Market Monitor (“MISO IMM”), comments of the Illinois Commerce Commission (“ICC”), protest of the Illinois Municipal Energy Agency (“IMEA”), limited protest of LS Power Associates, L.P. (“LS Power”) and the limited protest of the Ohio Consumers’ Council (“OCC”). These comments and protests fail to show that PJM’s proposed Capacity Import Limit (“CIL”) is worse for PJM customers than having no limit or other means to ensure that PJM receives physical, deliverable and comparable offers from external resources in RPM Auctions. Many of the arguments do help to show why PJM should require that all external resources have firm transmission service acquired prior to offering in an RPM auction, establish a pseudo tie and accept a must offer requirement.

¹ 18 CFR § 385.212 & 213 (2013).

I. ANSWER

A. Achievable Durable Standards for What Constitutes Deliverable and Comparable Capacity in PJM (and MISO) Is the Best Way to Promote the JCM Process.

A number of parties have raised concerns about how this proceeding might affect issues in the Joint and Common Market Initiative (“JCM”) process.² This proceeding does not concern matters properly within the scope of the JCM process.³ This proceeding instead concerns PJM market rules for ensuring that imports of capacity included in the RPM auction process are comparable in all dimensions to internal capacity in the PJM capacity market design.

MISO has a different capacity market design and different standards for capacity. The MISO capacity construct relies primarily on regulated cost of service payments and this design element is reflected in the extremely low capacity prices in MISO. This creates the incentive for generation owners to make short term sales of capacity without firm transmission into the higher price PJM capacity market when the capacity is not immediately needed in MISO. This is directly analogous to the MOPR issue which has been addressed in PJM and ISO-NE.⁴ The issues with the MISO capacity market design are clearly not part of the JCM process.

The JCM process does not include the design of capacity markets or the definition of capacity in PJM or in MISO. The JCM process concerns coordination of congestion

² See MISO at 4–6, MISO IMM at 9, ICC at 12–14.

³ For information on what the JCM entails, see PJM’s website at: <<http://www.pjm.com/committees-and-groups/stakeholder-meetings/stakeholder-groups/pjm-miso-joint-common.aspx>>. The PJM Draft Work Plan Narrative included on the PJM website describes a number of issues, including (at 6–7) one concerning “capacity deliverability.” This issue concerns an examination of “whether there are any remaining unnecessary barriers to qualifying units in one region to serve as capacity resources in the adjoining region.” *Id.* at 6.

⁴ See, e.g., Docket No. ER13-535.

management in the energy market and also includes the examination of any unnecessary barriers to capacity deliverability from qualifying capacity units. Rather than defer this proceeding because of the JCM process, a solution should be defined in this matter so that the PJM capacity market design is clear. It would be ironic if the JCM process, designed to develop solutions to inter-RTO market issues, became an excuse for not taking action to solve an issue in the PJM capacity market.

Rather than adopt PJM's proposed CIL, which is only a stop gap measure, the Commission should instead approve, as a number of parties have proposed in this proceeding, that all imported capacity meet three requirements: firm transmission to the PJM border acquired prior to offering in an RPM auction; pseudo ties to PJM; and acceptance of a must offer requirement. Moving forward in this proceeding to create a durable solution to an identified problem is the right thing to do for the PJM capacity market design.

B. Many of the Issues Raised by PJM's Proposed CIL Would Be Resolved If Resources Imported Into RPM Were Required to Have Firm Transmission, Establish a Pseudo Tie and Accept a Must Offer Commitment.

PJM's proposed CIL is better than the status quo. No party has explained how the status quo is just and reasonable compared to PJM's proposed CIL. But comments and protests have raised issues about the proposed CIL.⁵ The arguments are not persuasive. Adopting the three requirements recommended by the Market Monitor and others for all imported capacity resources would ensure that imported capacity is actually a substitute for internal capacity in the PJM capacity market and moot most of the arguments made in the comments and protests.

⁵ Many parties complain about the complexity and details of the CIL proposal, including the specific breakdown of external regions, the inclusion of a Capacity Benefit Margin (CBM), and PJM's exclusive role in calculating CIL. See MISO at 6-7, MISO IMM at 7-12, ICC at 9-12, IMEA at 9-10, and OCC at 4-5.

C. TLR-5s Create an Unacceptable Delivery Risk.

A number of parties argue that PJM has not supported its claim that the ability of neighboring control areas to issue TLR-5 curtailments means that a pseudo tie is required in order to be a substitute for internal PJM capacity in the PJM capacity market.⁶ PJM provides ample evidence that TLR-5s are frequently called to address reliability issues in neighboring control areas. The Market Monitor reaches the same conclusions based on review of the TLR data on which PJM based their conclusion.

External balancing authorities that call TLR-5s do not take reliability conditions in PJM into account. If PJM customers pay for capacity from an internal PJM capacity resource, the energy from that resource will be delivered to the PJM customer. PJM customers should not pay for external capacity which is not a direct and complete substitute for internal capacity. That is not the case even with firm transmission as a result of the fact that external balancing authorities can call TLR-5s which result in the curtailment of energy deliveries to PJM from external capacity resources. Thus, such external capacity resources are not substitutes for internal capacity resources and cannot be included in PJM capacity auctions without introducing substantial inefficiency.

D. The Requirement that Imported Resources Obtain Firm Transmission Prior to Offers in RPM Is Necessary to Ensure Physical Offers.

PJM ICC states (at 7) that the “reliability consequences of cleared external resources’ inability to secure firm transmission is overstated.” That firm transmission service to the PJM border is necessary is well-established and is not an issue in this proceeding.

However, it is necessary to strengthen the requirement that an imported resource has firm transmission service by ensuring that such firm transmission service is obtained prior to such a resource offering capacity in an RPM auction. Because transmission service is limited to Available Transmission Capacity (ATC), and both the availability and the cost

⁶ See MISO IMM at 15, ICC at 4–7, IMEA at 5–9.

of ATC depend upon total subscriptions of ATC, capacity not backed by firm transmission is speculative and not physical. That non physical offers have been significant in RPM auctions is well documented.⁷ The PJM market rules should require that all imported capacity meet three requirements: firm transmission to the PJM border; pseudo ties to PJM; and acceptance of a must offer requirement before they are offered in Base Residual Auctions.

E. Imports Must Accept a Must Offer Requirement in Order to Become Comparable to Internal Generation Resources.

LS Power argues (at 9–12) against requiring external resources to have a must offer requirement comparable to the requirement applicable to internal resources. Generation resources are not comparable if they are not committed to serve PJM customers over the long term. The capacity markets are designed to address the net revenue or missing money problem in the PJM energy market. Generation resources that do not participate in the PJM energy market and serve PJM customers over the long term do not experience a shortfall of revenues due to the operation of PJM markets.

If there were no such requirement, an external resource offering for one year could displace a new generating resource that would otherwise be built in PJM and that would provide capacity for the life of the asset. PJM customers would be worse off as a result.

PJM's proposed CIL takes a tentative step in the right direction. The Commission should require PJM to ensure that resources receiving capacity payments from PJM customers are providing comparable capacity to those customers which is a true substitute for internal capacity. PJM's proposed exceptions to its proposed CIL calculations define exactly what those requirements are: firm transmission service, pseudo tie and must offer.

⁷ See, e.g., Market Monitor, Analysis of Replacement Capacity for RPM Commitments: June 1, 2007 to June 1, 2013 (September 12, 2013), which can be accessed at: <http://www.monitoringanalytics.com/reports/Reports/2013/IMM_Report_on_Capacity_Replacement_Activity_2_20130913.pdf>.

These three requirements should be necessary prerequisites for offering to import capacity from an external area in an RPM Auction.

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.⁸ 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.

⁸ See, e.g., *N.Y. Indep. Sys. 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); *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).

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, 2014

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 8th day of January, 2014.



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