

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

PJM Interconnection, L.L.C. v. PJM	)	
Interconnection, L.L.C.	)	Docket No. EL14-95-000
	)	
v.	)	
	)	
PJM Interconnection, L.L.C.	)	Docket No. ER14-2705-000
	)	
	)	(not consolidated)

**COMMENTS OF THE INDEPENDENT MARKET MONITOR FOR PJM**

Pursuant to Rule 211 of the Commission’s Rules and Regulations,<sup>1</sup> Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor for PJM (“Market Monitor”),<sup>2</sup> submits these comments on the filings submitted in the above captioned proceeding by PJM Interconnection, L.L.C. (“PJM”) on August 26, 2014 (“August 26<sup>th</sup> Filings”). PJM states (at 1) that it has revised the rule for Frequently Mitigated Unit (“FMU”) adders in order “to eliminate the unjust and unreasonable status quo that currently exists in which FMU adders act as windfall revenues for most Market Sellers of Frequently Mitigated Units” while retaining a “backstop” that provides sellers with FMUs “an opportunity to recover the unit’s going forward costs.” PJM proposes revisions that would allow FMU adders only when the existing FMU thresholds are met and a monthly

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<sup>1</sup> 18 CFR § 385.211 (2014).

<sup>2</sup> Capitalized terms used herein and not otherwise defined have the meaning used in the PJM Open Access Transmission Tariff (“OATT”) or the PJM Operating Agreement (“OA”).

analysis performed by the IMM shows that the FMU has not recovered its going forward costs over the past twelve months.

The Market Monitor agrees with PJM that the current rules for FMU adders are unjust and unreasonable. The Market Monitor supports the proposal as a reasonable compromise. The Market Monitor developed the proposal with PJM and worked with PJM to present the proposal in the PJM stakeholder process, where the proposal enjoyed broad support and nearly passed. The Market Monitor expects that FMU adders will be much less frequent under the proposal.

The Market Monitor has recommended reform of the FMU adder rules in its annual state of the market reports.<sup>3</sup> The Market Monitor stated:

The MMU recommends the elimination of FMU and AU adders. Since the implementation of FMU adders, PJM has undertaken major redesigns of its market rules addressing revenue adequacy, including implementation of the RPM capacity market construct in 2007, and changes to the scarcity pricing rules in 2012. The reasons that FMU and AU adders were implemented no longer exist. FMU and AU adders no longer serve the purpose for which they were created and interfere with the efficient operation of PJM markets.<sup>4</sup>

The Market Monitor continues to believe that the FMU adder rules should be entirely removed. RPM and scarcity pricing rules provide an opportunity for FMUs to recover their going forward costs regardless of the frequency of mitigation. To the extent that FMUs are not recovering their going forward costs, this is not due to local market power mitigation, but to rules that inefficiently suppress prices in RPM auctions for all

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<sup>3</sup> See Market Monitor, 2013 State of the Market Report for PJM, v. 1 at 16 (March 13, 2014); 2012 State of the Market Report for PJM, v. 1 at 10 (March 14, 2013).

<sup>4</sup> Market Monitor, 2013 State of the Market Report for PJM, v. 1 at 16.

suppliers. The capacity market rules should be revised to ensure that capacity market prices reflect the capacity supply and demand fundamentals.<sup>5</sup>

The proposal filed by PJM enjoys broad support and would go far to eliminate significant current issues with FMU adders. The Market Monitor would apply the rule, and, if it observes detrimental market impacts attributable to FMU adders, it would identify and address the issue.

PJM has moved for consolidation of the above referenced proceedings, noting (at 3) that “they are integrally tied to each other.” The Market Monitor agrees, and supports PJM’s motion for consolidation. The Market Monitor also supports PJM proposed effective date, November 1, 2014.

Accordingly, the Market Monitor supports the August 26<sup>th</sup> Filings, and urges that the revisions to the FMU adder rules proposed by PJM be approved.

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

Respectfully submitted,



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Jeffrey W. Mayes

Joseph E. Bowring  
Independent Market Monitor for PJM  
President  
Monitoring Analytics, LLC  
2621 Van Buren Avenue, Suite 160  
Valley Forge Corporate Center  
Eagleville, Pennsylvania 19403  
(610) 271-8051  
*joseph.bowring@monitoringanalytics.com*  
Dated: September 16, 2014

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

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<sup>5</sup> See Market Monitor, Analysis of the 2016/2017 RPM Base Residual Auction (April 18, 2014) at 3–4.

## 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 16<sup>th</sup> day of September, 2014.



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Jeffrey W. Mayes

General Counsel

Monitoring Analytics, LLC

2621 Van Buren Avenue, Suite 160

Valley Forge Corporate Center

Eagleville, Pennsylvania 19403

(610) 271-8053

*jeffrey.mayes@monitoringanalytics.com*