

not) establish an upper limit to the harm to the capacity market. The issue is that the failure to recognize that most imports of capacity that would be permitted under PJM's approach are not and cannot be substitutes for internal capacity resources. It is therefore a failure of the market design to treat such external resources as if they were such substitutes. The result is price suppression in the PJM capacity market with significant consequences of premature unit retirement.

The longer term dynamic could be that external units displace PJM units in the PJM capacity market, PJM units retire and the external units become needed in their local market for reliability. The result is that the price suppression in the PJM market will, in this case, result in a market failure, attendant reliability issues and cost impacts on PJM area customers.

When external resources that are not dedicated to PJM markets in the capacity market, this means siphoning away needed revenues from resources dedicated to serving PJM and PJM customers and providing those revenues to resources dedicated to serving others. As consequence, resources dedicated to PJM and PJM customers will fail to receive adequate revenues from PJM markets. The predictable result of this failure is a premature exit signal to those resources. When those resources do retire, and, indeed, many resources are retiring in western non-constrained areas of PJM, PJM and PJM customers will face a growing resource adequacy issue.

The CIL cannot fix this problem because with the CIL in place resources not dedicated to PJM and PJM customers would continue to receive revenues meant for resources that are dedicated to PJM and PJM customers. The CIL fails to ensure that competitors in the PJM capacity market are all effective substitutes. Without a pseudo tie, external resources cannot substitute for internal resources. They look like transactions rather than capacity resources.

A just and reasonable response to the problem is to ensure that resources included in the capacity market supply are dedicated to PJM and PJM customers and can serve as full substitutes for any internal units they replace in a capacity auction. Resultant requirements

include firm transmission service, a pseudo-tie to PJM and obligation to submit daily offers in the energy market. A resource that satisfies these conditions shows that it can access PJM markets, will follow PJM's dispatch and will contribute to PJM's daily supply of energy.

Contrary to PJM's assertion, these rules do not discriminate against imports to PJM or confer an unfair advantage on internal PJM planned resources. Planned generation resources sited within the PJM region and in the process of obtaining network service from PJM demonstrate dedication to serve PJM markets and provide the physical reliability benefits that the market was designed to provide. The burden of obtaining a pseudo tie on an external generator that is electrically close to PJM likely will be light. In contrast, the burden on an external generator that is electrically remote to PJM will be appropriately heavier. This is an appropriate result given the interest that reasonable expectations of dedication to serve PJM and PJM customers should be a guiding principle in determining what is fair.

Providing business "opportunities" to external generation or using "competition" from external generation to reduce capacity market prices should not factor into considerations of fairness, as PJM argues (at 5). Creating business opportunities is not PJM's purpose. The goal of PJM markets is not low prices. The goal of PJM markets is the lowest prices that enable PJM customers to receive reliable service. The CIL does not solve the obstacle to that goal from imports not dedicated to PJM and PJM customers.

PJM has identified flaws in the market rules that are unjust and unreasonable, but the solution that it proposes will not ensure resource adequacy and reflects misplaced priorities. PJM has not met the second part of its section 205 burden. The modifications proposed by the Market Monitor and others that build on PJM's proposed modifications, eliminating CIL and creating clear standards that imports must meet, do meet that burden and should be approved before the next Base Residual Auction.

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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Dated: March 7, 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 7th day of March, 2014.



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