

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

FirstEnergy Solutions Corp.	)	
Allegheny Energy Supply Company, LLC	)	Docket No. EL13-47-001
	)	
v.	)	
PJM Interconnection, L.L.C.	)	
	)	
	)	

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

Pursuant to Rule 213(a)(3) of the Commission’s Rules and Regulations,<sup>1</sup> Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor for PJM<sup>2</sup> (“Market Monitor”), submits this answer opposing the motion for leave to submit supplemental pleading of J. Aron & Company (“J. Aron”), filed April 29, 2015, and corrected on May 5, 2015 (“May 5<sup>th</sup> Filing”). The May 5<sup>th</sup> Filing includes nothing new and repeats arguments rejected in the Commission’s order issued June 5, 2013, and repeats arguments made in earlier improperly filed pleadings. J. Aron also asks to include information in the record that is irrelevant to the issues subject to rehearing. The May 5<sup>th</sup> Motion should be denied and the accompanying supplemental pleading rejected.

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<sup>1</sup> 18 CFR 385 213(a)(3) (2014).

<sup>2</sup> PJM Interconnection, L.L.C. (“PJM”) is a Commission-approved Regional Transmission Organization. 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”).

The arguments raised in the supplemental pleading are misguided and based on false premises. J. Aron suggests that load would benefit overall from a bargain in which load accepts a new obligation to “pay balancing congestion” in exchange for reversing PJM’s recent approach to Stage 1B ARR allocations that reduced allocation of ARR MW to load. This is simply another attempt on J. Aron’s part to modify the fundamental definition of ARRs and FTRs. J. Aron’s proposed bargain is no bargain for load. Load would be worse off under J. Aron’s proposal and FTR holders like J. Aron would be better off. J. Aron would have load trade the restoration of its appropriate allocation of Stage 1B ARRs for an increase in load payments for balancing congestion. To say that J. Aron proposes illusory benefits is an understatement.

The best path forward remains the eight point plan that the Market Monitor has proposed in prior pleadings in this proceeding, which address the underlying reasons for FTR funding issues. The Market Monitor plans to file the eight point plan as soon as this proceeding concludes.

## **I. ANSWER**

### **A. The Motion Should Be Rejected.**

The May 5<sup>th</sup> Motion is an unauthorized answer to a request for rehearing disguised as a motion to file a supplemental pleading.<sup>3</sup> J. Aron’s supplemental pleading includes nothing new and repeats arguments rejected in the Commission’s order issued June 5, 2013, and repeats arguments made in earlier pleadings. J. Aron also asks to include information

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<sup>3</sup> See *Midwest Ind. Trans. Sys. Operator*, 136 FERC ¶ 61,212 (2011) (finding that although party had styled its pleadings as supplemental comments the Commission deemed the pleading to be an unauthorized answer); see also *Central Maine Power Company, et al.*, 129 FERC ¶ 61,153 (2009) (finding that a letter of clarification filed after requests for rehearing, although not responsive to any pleading in the record and therefore not strictly an answer, should be treated as an unauthorized answer to an answer, which was subsequently rejected).

in the record that is irrelevant to the issues subject to rehearing.<sup>4</sup> J. Aron's pleading is an unauthorized answer to a request for rehearing filed many months out of time. J. Aron's Motion should be denied and the accompanying supplemental pleading rejected.

**B. J. Aron's Proposed Solution Offers Nothing New.**

J. Aron's latest pleading offers nothing new and nothing useful to the resolution of this proceeding. In its motion J. Aron has merely repackaged the initial proposal that the Commission rejected in the proceeding nearly two years ago, which would have required load to guarantee the profits of FTR holders by requiring load to be solely responsible for paying balancing congestion. The reasons why this would create an unjust and unreasonable result are explained in the record and the Commission's June 5, 2013, order.

The 2013 order should be affirmed on rehearing, and that decision should not be disturbed in any way. Some purchasers may use FTRs for what they consider a financial hedge; other purchasers may engage in speculative activity. Purchasers can conceive of their business however they like and use FTRs for whatever purpose they prefer. Regardless, the uses to which financial participants put FTRs are not relevant to the definition of FTRs but rather are derived from and based on that fundamental definition.

It would be a mistake to conceive of this proceeding as an ongoing negotiation between load and financial participants on FTR market design as J. Aron suggests. J. Aron states (at 7): "FTR holders may not be willing to give up the surplus and LSEs may be unwilling to pay for balancing congestion. Yet, such a trade may be precisely what is required to improve the market design." There is no negotiation nor should there be. The definition of FTRs should be maintained and the flaws in the FTR market design identified

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<sup>4</sup> *FirstEnergy Solutions Corp., et al., v. PJM Interconnection, L.L.C.*, Docket No. EL13-47-001, *Motion of DC Energy LLC, Vitol Inc., and Inertia Power I, LLC For Leave to Submit Supplemental Pleading*, at P 4, (January 27, 2015).

by the Market Monitor and others should be addressed to help ensure that ARRs and FTRs function as designed.

J. Aron's proposed bargain is bad for load because there is no just and reasonable outcome according to which load should "pay for balancing congestion." FTRs receive the total of day-ahead and balancing congestion by design. Removing balancing congestion from the design, as proposed by J. Aron, would require load to pay twice for congestion and that is not the design in the PJM tariff.

### **C. J. Aron's Proposed Bargain Offers No Benefit to Load.**

In the most recent Annual FTR Auction process, PJM significantly reduced the allocation of Stage 1B ARRs to load as a way to improve FTR funding. This was an inappropriate method for addressing FTR funding and reduced the allocation of ARRs to load. One result was to correspondingly reduce the supply of FTRs and to increase the price of FTRs, to increase the value of the remaining ARRs and ultimately to improve FTR funding at least in the short run.

J. Aron proposes that in return for PJM reversing its reduction in the allocation of Stage 1B ARRs, that load agree that load should contribute more to FTR holders by paying for balancing congestion when it is negative. This is hardly a bargain.

In addition to the reasons that the fundamental definition of FTRs should not be changed, J. Aron's factual premise underlying its proposed bargain is incorrect. J. Aron suggests (at 7) that load would be paid more if the reduction in the allocation of Stage 1B ARRs were reversed. In fact, the short term result of the reduced Stage 1B allocation was an increase in FTR prices which increased payments to ARR holders, and the increase in ARR payments more than offset the decrease in ARR volume. Although total revenues increased, not all load was better off as a result of the allocation of ARR reductions in the Stage 1B process.

PJM has attempted to maximize modeled system FTR capability subject to simultaneous feasibility and the goal (not the obligation) of ensuring revenues for ARRs and FTRs.

PJM's reduced allocation of Stage 1B ARRs resulted, through April 2015, in a surplus of congestion revenue.

The underallocation of ARRs also reduced the volume of FTRs available to the market. At locations where this reduction in FTR volume resulted in fewer FTR MW than realized transfer capability, this inefficiently reduced the availability of FTRs as a congestion offset.

**D. PJM's Reduced Allocation of Stage 1B ARRs Did Not Address Fundamental FTR Market Issues and Interferes with the Just and Reasonable Allocation of ARRs Among Load in Different Locations.**

PJM's reduced allocation of Stage 1B ARRs was not uniformly distributed among load. While some load may have been better off as a result, some load may have been worse off.

PJM's reduction in Stage 1B ARR allocations reduced revenue inadequacy, which was caused in part by Stage 1A ARR overallocations, did not address the Stage 1A ARR overallocation issue and resulted in decreased Stage 1B ARR allocations through proration, decreased Stage 2 ARR allocations through proration and decreased FTR capability.

Under J. Aron's approach, despite the asserted bargain, there would most likely be no end of year congestion surplus to allocate to the load in the future if the approach were implemented. If balancing congestion were removed from FTR funding, the FTR funding issues would artificially appear to be eliminated and PJM would have no further reason to reduce ARR allocations to address FTR funding. The likely result is that the end of year congestion surplus observed today would be eliminated. The only predictable result for load from J. Aron's proposed approach is a new unpredictable, significant and inappropriately assigned financial liability.

J. Aron's proposed approach would not result in an improvement in the market design as J. Aron's proposed approach does not address the fundamental issues contributing to the mismatch between system capability and ARR/FTR allocations. J. Aron's approach would merely result in an inappropriate transfer of wealth from load to FTR holders and an inappropriate transfer of risk from FTR holders to load.

#### **E. Real Solutions Have Been Offered.**

The Market Monitor has identified many of the reforms that are needed and proposed them in its eight point plan included in prior pleadings.<sup>5</sup> The solution is to directly address the underlying issues in order to create more accurate pricing, promote a more efficient market, eliminate cross subsidies within the market and improve funding for all participants.

When this matter is closed, the Market Monitor plans to file an actionable pleading that includes its eight point plan that would improve the efficiency of FTR markets and the PJM market design.

## **II. 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.

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<sup>5</sup> See Answer and Motion for Leave to Answer of the Independent Market Monitor for PJM, Docket No. EL13-47-001 (January 16, 2014) at 7-8; Answer and Motion for Leave to Answer of the Independent Market Monitor for PJM, Docket No. EL13-47-000 (April 18, 2013) at 7-10 ("April 18th Answer"); J. Aron at 11 & n.23; Request for Rehearing of DC Energy, LLC and Vitol Inc., Docket No. EL13-47-000 (July 5, 2013) at 3; Request for Rehearing of the PSEG Companies, Docket No. EL13-47-000 (July 5, 2013) *passim*.

Respectfully submitted,



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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*

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*

Howard J. Haas  
Chief Economist  
Monitoring Analytics, LLC  
2621 Van Buren Avenue, Suite 160  
Valley Forge Corporate Center  
Eagleville, Pennsylvania 19403  
(610) 271-8054  
*howard.haas@monitoringanalytics.com*

Dated: May 11, 2015

## 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 11<sup>th</sup> day of May, 2015.



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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*