

I. ANSWER

PJM argues along with certain market sellers that an approved fuel cost policy was not part of the agreement that created the stakeholder consensus that allowed PJM to make a filing pursuant to Section 205 of the Federal Power Act. The rules for cost development protect buyers, not sellers. It is unfortunate that there appears to be disagreement about the extensive discussions in the stakeholder process about the need for an approved fuel cost policy being part of the consensus framework.

PJM argues that stakeholders did not agree to change the rules for developing cost policies, which are included in PJM Manual 15. This argument does not respond to the Market Monitor's concern and has no relevance to any issue in this proceeding.

No change to Manual 15 has been proposed by anyone in this proceeding. The change to which stakeholders agreed was that an approved fuel cost policy must be an explicit condition to be able to submit a cost-based offer above \$1,000 per MWh. This new rule would apply only to newly allowed cost-based offers above \$1,000 per MWh, and it should be included in the proposed revisions to the tariff. The new rule would not change the current rules in the manuals that apply to all cost-based offers regardless of their level.

The PJM Manuals require that a fuel cost policy be "submitted." "Submitted" is not the same as "approved." The current rules fail to make an explicit link between having an "approved" policy and eligibility to submit an offer. Although it is not central to our argument, it is worth noting that Manual 15 (§ 2.3) requires that, if a fuel cost policy update is necessary, that it may be changed only by receipt of final approval. The Market Monitor has determined, and informed the owners of gas fired units, that it is necessary to update existing fuel cost policies as a result of the experience in the gas market in the last two

winters, of the increased market role of gas fired units and of the increasing complexity of the gas market.³

The Market Monitor does not propose to change the PJM manuals. The Market Monitor argues that revisions to the tariff are needed. The tariff revisions that the Market Monitor provides would, consistent with the stakeholder agreement, change the tariff to provide that, in order to be eligible to submit a cost-based offer above \$1,000 per MWh, an approved fuel cost policy must first be in place. The rule is needed to address the very high offers that would be allowed under the new rules. High offer levels create a greater risk of harm to the markets if market power is exercised. The proposed change to the tariff would not change the manual for offers \$1,000 per MWh or below.

The Market Monitor's role in reviewing the substance of a fuel cost policy is limited to whether the fuel cost policy is verifiable, algorithmic and systematic. The Market Monitor does not review the substance of how a participant procures fuel.

The manuals do not attempt to define what constitutes an acceptable fuel cost policy. The Market Monitor will not approve a fuel cost policy that is not verifiable, algorithmic and systematic. It is essential that fuel cost policies meet that standard.

A fuel cost policy must allow the Market Monitor and the Commission to review the basis for an offer subject to or potentially subject to investigation. It is unjust and unreasonable to permit extremely high and unusual cost-based offers (e.g. above \$1,000 per MWh) if the Market Monitor and the Commission have no reliable way to evaluate the fuel cost basis for the offer. Fuel cost will be the most significant factor influencing a cost-based offer exceeding \$1,000 per MWh. Recent experience with the winter events demonstrate the need to be able to review offers just as much as they demonstrate the need to allow the

³ See Fuel Cost Policy Guidelines: Gas Replacement Cost,"(September 24, 2015) presented to the Market Implementation Committee on October 7, 2015, which can be accessed at: http://www.monitoringanalytics.com/reports/Market_Messages/Messages/IMM_Fuel_Cost_Policy_Guidelines_20150924.pdf.

inclusion of legitimate fuel costs in extraordinary circumstances. It also demonstrates the need for an ex ante standard. Relying on post hoc rationalizations about the basis for fuel costs in the absence of an ex ante defined standard is inadequate and likely to provide almost unlimited opportunity for creative license.

The Commission has the final authority to determine what constitutes a verifiable, algorithmic and systematic fuel cost policy or what is otherwise an acceptable fuel cost policy. Under no circumstances should any participant be allowed to submit a cost-based offer exceeding \$1,000 per MWh unless the participant has provided ex ante information sufficient for the Market Monitor and the Commission to evaluate its behavior.

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.⁴ 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.

⁴ 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).

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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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 10th day of December, 2015.



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