

including the additional changes advocated by the Market Monitor in its comments filed July 14, 2015, should be accepted and implemented immediately.

I. ANSWER

A. The Purpose of LOC Payments Is Not to Cover Costs Not Includable in Energy Offers.

Dominion argues (at 5–9) that PJM’s proposed rules do not take into account other costs incurred by CT owners besides startup and no load costs. Dominion argues that costs such as no notice service and natural gas imbalance charges are real costs that CT owners are partially recovering through the current LOC compensation. Dominion argues (at 5–9) that PJM’s proposal to include startup and no load costs in the LOC compensation removes the current incremental incentive CT owners have to acquire flexible natural gas arrangements that allow them to have resources with short lead times.³

Dominion attempts to rewrite the basic rules governing the energy market in order to defend what is clearly an algebra error in the calculation of uplift costs. Beneficiaries of such errors can be expected to create inventive rationales for why they should keep the windfalls they have been receiving, but these rationales should be rejected when they do not address the algebra error.

Dominion fails to show any relationship between startup and no load costs and the other costs potentially incurred by owners of CTs scheduled in the Day-Ahead Energy Market and not committed in real time. Startup and no load costs are calculated based on the defined components of short run marginal cost including fuel costs, short run marginal operation and maintenance costs and emission costs. Startup costs are incurred every time a unit starts. No load costs are incurred every hour a unit runs. The cost of no notice gas service and natural gas imbalance penalties are real costs, but they are not marginal costs of

³ Dominion at 5--7.

energy production and therefore are not includable in competitive energy offers. Such costs can and are recovered from inframarginal rents and from capacity market revenues as shown in net revenue calculations. The objective of uplift payments generally and LOC compensation in particular is to make whole resources that follow PJM's directions for their competitive energy offers, not for costs that are not recoverable through energy offers.

Dominion argues (at 4) that the current LOC compensation "is the result and product of numerous stakeholder processes and discussions and reflects a carefully crafted balance of interests and incentives." But Dominion fails to provide any evidence to support this claim. Dominion does not and cannot show that this error in the LOC calculation was the result of stakeholder agreement based on an understanding of the error and a decision that the overcompensation resulting from the error was appropriate in order to recover gas procurement costs. This error was an oversight during the development of the LOC rules and not the result of a conscious decision to make this error. Dominion has presented no evidence that such a conscious decision was made. Even if there had been such a consensus, it would have been inappropriate and should be reversed.

Dominion also argues that PJM's proposed rules could incent generation owners to significantly increase the notification and startup times for CTs, make other operating parameters less flexible and increase offer prices in order to provide greater revenue certainty.⁴ Dominion provided no credible basis for these assertions. The goal of a competitive market design is not to provide revenue certainty. In a competitive market, it is unlikely that a generation owner will increase its offers and make them less flexible when such changes will make the units less competitive and actually decrease revenue certainty. Increasing unit offers will reduce the amount of LOC payments received.

Dominion's arguments against PJM's proposal have no merit and should be rejected.

⁴ Dominion, Attachment A (Affidavit of Dr. Roy J. Shanker) at para. 24.

B. No New Product Is Needed to Replace or Supplement the Proposed Corrected Current LOC Calculation.

Dominion's argument (at 10) that the approval of PJM's proposal should be conditioned on the implementation of a new compensation structure/product that addresses short term flexibility has no merit. No such service is needed. If it were needed, PJM should procure it through a market mechanism. Any such service should be justified on its own terms, not to replace windfall revenues that result from an error in the tariff.

The PJM Capacity Performance capacity market redesign addresses the incentives and costs associated with flexibly responding to PJM's need for energy.

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.⁵ 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.

⁵ 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 30th day of July, 2015.



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