

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

PJM Interconnection, L.L.C.)	Docket Nos. ER15-623-000, -001;
)	EL15-29-000
)	
)	

**ANSWER AND MOTION FOR LEAVE TO
ANSWER REQUEST FOR REHEARING OF THE
INDEPENDENT MARKET MONITOR FOR PJM**

Pursuant to Rule 212 and 213 of the Commission’s Rules and Regulations,¹ Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor for PJM² (“Market Monitor”), submits this answer to, and moves for leave to answer, the request for rehearing in this proceeding by the Joint Consumer Representatives (“Consumer Representatives”) on the offer cap, filed on June 9, 2015, of the order issued in this proceeding on June 9, 2015. Numerous parties filed requests for rehearing and motions for clarification raising issues that have been adequately addressed in the existing record and in the Commission’s order dated July 22, 2015.³ The Market Monitor responds only to the request filed by the Consumer Representatives because it affords an opportunity to clarify the nature of the offer cap included in the Capacity Performance reforms.

¹ 18 CFR §§ 385.212 & 385.213 (2014).

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

³ See *PJM Interconnection, L.L.C.*, 151 FERC ¶ 61,208.

I. ANSWER

The Consumer Representatives argue (at 18–21) that the default offer cap of Net CONE times B is not justified due to the must offer obligation of resources in RPM. Consumer Representatives claim that a Low ACR resource does not have “a voluntary choice to either demur or accept a capacity obligation” and thus there is no opportunity cost associated with taking on a capacity performance obligation. Consumer Representatives misunderstand the nature of the offer cap included in the Capacity Performance (“CP”) reforms, and their concerns are misplaced.

Consumer Representatives’ argument is that there can be no opportunity cost for capacity resources because they must offer. If there is no opportunity to not offer, there can be no opportunity cost.

Consumer Representatives’ logic is flawed. Given that the must offer requirement means that all units must offer, the question is at what price a competitive entrant in the capacity market would offer. The question is not about whether the MW of capacity would be offered, but at what price the MW would be offered. The goal is to define the competitive offer price of a generation owner in the CP market, if there were no market power.

In a competitive market, units that offer at a level above the competitive offer will not clear. If a unit does not clear, it does not receive any capacity market revenue. But in the CP design, if a unit does not clear it is still eligible for bonus payments as an energy only resource. The bonus payments are the opportunity cost of clearing as a capacity resource. If a unit clears as a capacity resource, it no longer receives the bonus payments it would have received as an energy only resource. A competitive offer to clear as a capacity resource would equal the bonus payments that would be received if a unit did not clear as a capacity resource. The bonus payments are market revenue that would be given up (lost opportunity) if the unit cleared as a capacity resource. This is the lowest rational offer in the CP capacity market for a competitive participant.

A competitive offer in the CP capacity market is rational only if the net revenue of a unit that clears in the CP capacity market is greater than or equal to the net revenue of a unit that does not clear in the CP capacity market (the opportunity cost). If the net revenue of a unit that does not clear in CP is subtracted from the net revenue of a unit that does clear in CP, the difference must be greater than or equal to zero.

Based on this logic, the Market Monitor's analysis shows that the difference between the two offers equals $\text{Net CONE} * B$.⁴ A unit would have to clear at a price equal to $\text{Net CONE} * B$ in order to be indifferent between clearing as a capacity resource and not clearing as a capacity resource. $\text{Net CONE} * B$ is what the resource would earn if it did not clear as a capacity resource. This defines a competitive offer. To be more precise, this defines a competitive offer for a unit that could profitably provide energy in CP without a capacity payment (Low ACR).⁵

The logic of the default offer cap is that if expected bonus performance payments as an energy only resource under the CP design are greater than the net ACR, the resource would not take on a capacity obligation unless it would be better off. In order to offer and take on an obligation, the capacity price must be high enough that the expected profits as a CP resource equal or exceed the profits it would make as an energy only resource. This competitive offer is $(\text{net CONE} * B)$.

Issues concerning CP implementation may need future attention. The Market Monitor, in previous filings in this proceeding, offered more accurate ways to determine the terms in the formula including the number of performance assessment hours and balancing ratio. However, the fundamental mathematics of the MSOC determination remains the

⁴ See Answer and Motion for Leave to Answer of the Independent Market Monitor for PJM, Docket No. ER15-623 et al. (Feb. 25, 2015) at 2-6 & Appendix A.

⁵ *Id.*

same. Consumer Representatives' conceptual objections to the CP MSOC should be rejected.

Consumer Representatives also continue to argue (at 14–15) that ACR should continue to serve as the basis for offer capping at competitive levels and question the basis for adopting a new approach in the CP reforms. ACR does continue to be the basis for offer capping high ACR units, those units which require more than bonus payments to be profitable. The purpose of a market seller offer cap (MSOC) is to set a cap on the offer price for resources that have market power. The reason that the MSOC in the CP design differs from the MSOC in the prior design is that the performance incentives in the CP design are significant while the performance incentives in the prior design were not. The CP design represents a significant change to the link between compensation and performance in the capacity market. The approach to market power mitigation must reflect the new design.

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.⁶ 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.

III. CONCLUSION

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

Respectfully submitted,



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⁶ 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).

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Dated: July 31, 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 31st day of July, 2015.



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