

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

PJM Interconnection, L.L.C.)	Docket No. ER15-623-001
)	
PJM Interconnection, L.L.C.)	Docket No. ER15-1470-000
)	
)	(not consolidated)
)	

COMMENTS OF THE INDEPENDENT MARKET MONITOR FOR PJM

Pursuant to Rule 211 of the Commission’s Rules and Regulations,¹ Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor for PJM (“Market Monitor”), submits these comments on the response submitted in the above captioned proceedings by PJM Interconnection, L.L.C. (“PJM”) on April 10, 2015 (“April 10th Response”) to the notice of deficiency issued in this proceeding on March 31, 2015.² PJM’s response constructively addresses the questions and concerns raised in the deficiency notice. The Market Monitor strongly supports the fundamentals of the Capacity Performance market design and urges that it be approved, with the Market Monitor’s proposed modifications, on the expedited basis proposed by PJM.

The Market Monitor strongly supports the fundamentals of the CP market design, but has in prior pleadings taken issue with a number of the design details. The Deficiency Notice included questions largely directed towards some of those core concerns, and

¹ 18 CFR § 385.211 (2014).

² Terms capitalized but not otherwise defined have the meaning used in the PJM Open Access Transmission Tariff (“OATT”), PJM Operating Agreement (“OA”) or PJM Reliability Assurance Agreement (“RAA”).

allowed PJM, on reconsideration and in response to the Commission's inquiries, to propose constructive modifications or adjustments to its position.

The first concern is the method for calculating the Market Seller Offer Cap under the CP Proposal. PJM and the Market Monitor agree on the calculation of a default competitive offer and agree that it is consistent with the approach implemented in ISO New England ("ISO-NE").³ PJM and the Market Monitor agree that offers at the default competitive offer level, calculated as net CONE times the average balancing ratio, are competitive by definition and that such offers do not require further review of unit specific costs. PJM's response facilitates adoption of a method for calculating offer caps that has strong theoretical support and is consistent with the ISO-NE model.

The second key concern is the specific level of the balancing ratio "B," a value that defines the expected average delivery obligation of capacity resources. Because B is less than one, it reduces the offer cap below net CONE. PJM proposes to use an "historical weighted average of the balancing ratios (B) experienced in the previous three Delivery Years," which produces a value of 85 percent for use in the next Base Residual Auction.⁴ The Market Monitor supports this approach.

A third concern of the market monitor is the monthly stop loss provision. Including the monthly stop loss provision was a departure from a key principle of the CP Proposal: no excuses for non performance. Sellers are appropriately protected by an annual stop loss. Capping sellers' monthly exposure to charges for non-performance significantly attenuates the incentives to perform, because there is no reason to expect that the need for performance will be evenly distributed across the Delivery Year. PJM clarifies that it "would not be opposed to the Commission requiring PJM to eliminate the monthly stop loss in this proceeding," explaining that including a stop loss "dilutes the core incentives

³³ April 10th Response at 1.

⁴ *Id.* at 7.

because it allows underperformance without consequence” and “decreases the total pool of over-performance dollars available to resources that exceed their commitments.”⁵ In light of PJM’s views on this issue, and the compelling need to preserve the core incentives for performance, there is no reason not to condition approval of the CP Proposal on the elimination of the monthly stop loss provision.

The Market Monitor appreciates the extraordinary effort that PJM has devoted to preparing a constructive and timely response to the Deficiency Notice, and the Market Monitor appreciates that PJM collaborated with the Market Monitor to develop an alternative offer cap. With this response, PJM addresses key concerns about the design details of its proposal, provides a solid foundation for those details in theory and makes its proposal more consistent with ISO-NE’s approach. The Market Monitor urges that the CP proposal, with the Market Monitor’s proposed modifications included in earlier pleadings, be approved as soon as possible, and in accordance with the procedural and implementation schedule requested by PJM in the April 10th Filing and in PJM’s filing dated April 13, 2015.

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,



Jeffrey W. Mayes

General Counsel
Monitoring Analytics, LLC
2621 Van Buren Avenue, Suite 160

Joseph E. Bowring
Independent Market Monitor for PJM
President
Monitoring Analytics, LLC
2621 Van Buren Avenue, Suite 160

⁵ *Id.* at 17.

Valley Forge Corporate Center
Eagleville, Pennsylvania 19403
(610) 271-8051
joseph.bowring@monitoringanalytics.com

Valley Forge Corporate Center
Eagleville, Pennsylvania 19403
(610) 271-8053
jeffrey.mayes@monitoringanalytics.com

Dated: April 15, 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 15th day of April, 2015.



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