UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

PJM Interconnection, L.L.C.	)	Docket No. ER16-121-000
PJM Interconnection, L.L.C.	)	
v.	)	Docket No. EL16-6-000
PJM Interconnection, L.L.C.	)	

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[2] ("Market Monitor"), submits these comments responding to the filings submitted in the above proceedings by PJM Interconnection, L.L.C. ("PJM") on October 19, 2015 ("October 19th Filing").[3] The Market Monitor supports the October 19th Filing, and the proposed revisions should be approved as filed.[4] PJM has correctly decided to move forward with these

1 18 CFR § 385.211 (2015).

2 Capitalized terms used herein and not otherwise defined have the meaning used in the PJM Open Access Transmission Tariff ("OATT"), the PJM Operating Agreement ("OA") or the PJM Reliability Assurance Agreement ("RAA").

3 Citations are to the pleading filed in Docket No. EL16-6.

4 *See* October 19th Filing at 12.

reforms even though, after significant effort, the proposal narrowly fell short of a supermajority of stakeholder support.[5]

The October 19th Filing includes one of the eight proposals that the Market Monitor has long advocated as solutions to the FTR revenue adequacy issue.[6] The Market Monitor continues to recommend the other proposals and will continue to advocate those reforms. The October 19th Filing is an important step in the right direction, as it includes proposed tariff revisions addressing the issue of portfolio netting with regard to the allocation of Transmission Congestion Credits and the calculations of End of Planning Period Uplift.

In the stakeholder process that led to October 19th Filing, PJM also committed to another of the IMM's eight proposals which is a change to how PJM reports the FTR payout ratio on a monthly basis.[7] The Market Monitor agrees that PJM can implement this solution by changing the reporting of the monthly payout ratios without proposing to change the filed rules.

---

5 *Id*.

6 The Market Monitor's eight recommendations (and their status as of the October 19th Filing) include: (1) Correctly reporting the payout ratio (PJM agreed in the stakeholder process that led to the October 19th Filing to correct this issue without proposing rule changes); (2) eliminating portfolio subsidies (portfolio netting) (the October 19th Filing proposes to correct this issue; (3) eliminating subsidies to counterflow FTRs (not addressed in the October 19th Filing); (4) eliminating geographic subsidies (not addressed in the October 19th Filing); (5) improving transmission outage modeling in the FTR auction model (not addressed in the October 19th Filing); (6) reducing FTR sales on paths with persistent revenue inadequacy (not addressed in the October 19th Filing); (7) implementing seasonal ARR allocation (not addressed in the October 19th Filing); (8) eliminating overallocation of ARRs in the first round (not addressed in the October 19th Filing). *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"); Request for Rehearing of the PSEG Companies, Docket No. EL13-47-000 (July 5, 2013) *passim*.

7 *See* PJM Presentation to the FTR Senior Task Force (FTRSTF) (March 31, 2015), which can be accessed at: <*http://www.pjm.com/~/media/committees-groups/task-forces/ftrstf/20150331/20150331-pjm-solution-packages.ashx*>.

In a number of instances the October 19th Filing characterized related issues, particularly the issue of how to allocate balancing congestion, in a way that could create confusion. The Commission has resolved the allocation issue correctly and there is no reason to revisit the issue.[8]

I. COMMENTS

A. Zone Forecast Rate Adder of 1.5 Percent Will Help ARR Adequacy.

Under the current rules, PJM creates a ten-year ARR growth rate to identify any transmission system upgrades that may be necessary to ensure future Stage 1A ARR requests. If a facility is identified as inadequate at any time in the 10-year analysis due to network load, it is entered into the Regional Transmission Expansion Plan (RTEP) for physical upgrades.

An additional 1.5 percent adder to the annual RTEP review will help PJM identify facility upgrades slightly sooner than the current methodology. This could alleviate future revenue adequacy issues if the result is that PJM builds transmission system upgrades necessary to provide the required ARRs before the lack of such upgrades causes revenue shortfalls.

Despite the fact that PJM masked the revenue adequacy issue by implementing its short term revenue adequacy "solution," it is clear that the transmission system is not currently adequate to support the required level of Stage 1A ARR allocations. The 1.5 percent adder would identify the inadequate facilities slightly earlier and may eliminate future revenue shortfalls caused by the time it takes to implement these physical upgrades.

The Market Monitor does not expect that the adder will have more than a minimal impact on the RTEP process. The adder approach is untested, and will only slightly increase

---

8 *See* First Energy Solutions Corp. v. PJM, 140 FERC ¶ 61,019 (2012), *reh'g denied*, 151 FERC ¶ 61,205 (2015).

the identification of required upgrades to support future Stage 1A ARR requests. The proposed 1.5 percent adder is a positive development in an attempt to resolve the issue of over allocated Stage 1A ARRs, but does not affect the root cause of the issue.

As long as PJM is required to provide Stage 1A ARRs at a predefined level, PJM should be required to build the transmission facilities required to do so.

Another potential approach to the Stage 1A allocation is to do a careful review of the historical basis for the allocations and determine whether a more current basis would be appropriate. Under the current rules, Stage 1A source points are defined by historic resources in a zone in a given reference year, which can date back to 2008 for many of PJM's zones. Some of these facilities are no longer in service, but continue to be allocated Stage 1A ARRs. The current proposal, while an initial step, does not do enough to solve the root cause and additional steps should be developed in the future.

B. Eliminating the Ability to Net Negatively Valued FTRs Against Positively Valued FTRs Will Improve FTR Revenue Adequacy.

The current rules require the holders of positively valued FTRs to pay part of the losses of holders of negatively valued FTRs in a portfolio. Instead of paying 100 percent of their losses, the holders of negatively valued FTRs only pay the negative value times the payout ratio. With a payout ratio of 80 percent, holders of negatively valued FTRs pay only 80 percent of their losses. The holders of negatively valued FTRs should pay 100 percent of their losses. Instead participants with positively valued FTRs are required to subsidize holders of negatively valued FTRs.

The issue is not about the use of portfolios to offset risk which continues to be a good strategy. The winners in a portfolio will offset the losers in a portfolio, if all works well. But in the FTR payout process, it is as if the holder of a portfolio of stocks which include some stocks that have lost value could require holders of portfolios with only winning stocks to pay for part of their losses. This would never be permitted in any rational market and should not be permitted here.

The failure to appropriately treat negatively valued FTRs constitutes a subsidy by holders of positively valued FTRs to holders of negatively valued FTRs. The result is to reduce the payout ratio to the holders of positively valued FTRs. The impact is very significant. As an example, if netting within portfolios had been eliminated and the payout ratio were calculated correctly, the payout ratio for the 2012 to 2013 planning period would have been 84.5 percent instead of the reported 67.7 percent and the payout ratio for the 2013 to 2014 planning period would have been 87.5 percent instead of 72.8 percent solely as a result of addressing the netting within portfolios issue. Negative target allocations are, and should be, counted as a source of revenue to pay positive target allocation holders and under the current rules this is not accurately reflected in how payments to participants are calculated.[9]

The elimination of portfolio netting in the Transmission Congestion Credit calculation is an important step in addressing inequities and cross subsidies within the FTR market and appropriately count negative target allocations as a source of revenue to pay positive target allocations. Currently, FTR target allocations are netted within an hour. This means that positive and negative target allocations within a participant's portfolio are offset prior to the application of the payout ratio, which is a representation of the measure of revenue inadequacy faced in the FTR market. The congestion revenue received by an FTR holder is based solely on their net positive target allocations multiplied by the payout ratio. The netting rules mean that participants with fewer negative target allocations subsidize participants with more negative target allocations because negative target allocations are not properly accounted for in the calculation of the payout ratio. FTRs with positive target allocations are treated differently depending on the portfolio they are part of. This treatment is discriminatory. All FTRs with positive target allocations should be treated equally regardless of a participant's portfolio.

---

[9] *See 2015 State of the Market Report for PJM Q2*, Section 13: FTRs

In a revenue inadequate market, only positive target allocations are affected by revenue inadequacies and under the current rules, there is no scenario in which negatively valued FTRs are impacted by revenue inadequacy. This is an inappropriate and inefficient outcome.

Table I-1 shows an example of the effects of calculating Transmission Congestion Credits with and without portfolio netting of FTR target allocations. The positive and negative TA columns show the total positive and negative target allocations, calculated separately, for each organization. The percent negative target allocations is the share of the portfolio which is negative target allocation FTRs. The net target allocation is the net of the positive and negative target allocations for the given hour. The FTR netting payout column shows what a participant would see on their bill, including payout ratio adjustments, under the current method. The per FTR payout column shows what a participant would see on their bill, including payout ratio adjustments, if FTR target allocations were done correctly. In this example, the actual monthly payout ratio is 41.7 percent. If portfolio netting were eliminated, the actual monthly payout ratio would raise to 61.1 percent for positive target allocation FTR holders. This table shows the effects of a per FTR target allocation calculation on individual participants. The total payout to participants as a group does not change, but the allocation of the total payout across individual participants does.

In this example, Participant 1 has a portfolio which consists of 66.7 percent negative target allocations. Participant 2 has no FTRs with a negative target allocation. Under the current market rules, portfolios are first netted and negative target allocations are not counted as a source of revenue to pay positive target allocation FTR holders, so Participant 1 has a net of $20 ($60-$40) and Participant 2 has a net of $30 ($30-$0). After the portfolio is netted, the payout ratio of 41.7 percent is applied, resulting in a total payment to Participant 1, whose portfolio was 66.7 percent negative, of $8.33 and a total payment to Participant 2, with no negative target allocations, of $12.50. The main difference here is that Participant 1 is only subject to revenue inadequacy on $20, even though their negative target allocation may be profitable, while Participant 2 is subject to revenue inadequacy based on their only

$30 target allocation. If portfolio netting were eliminated within PJM, Participant 1's negative target allocations would, appropriately, be paid directly without being multiplied by the payout ratio and thus be included as additional congestion revenue to be applied to pay positive target allocations, which increases the payout ratio for positive target allocation holders to 61.1 percent. This 61.1 percent payout ratio would then be applied to each participant's positive target allocations. For Participant 2 this is simply $30 multiplied by 0.611 instead of 0.417 for a total payment of $18.33, a $5.83 increase. For participant 1, the calculation for their entire portfolio now becomes $60 multiplied by 0.611 plus -$40, rather than $20 multiplied by 0.417 for a total payment of -$3.33, a $11.66 decrease, without netting. A similar change is seen for Participant 3, but since their portfolio was constructed of a higher proportion of positive target allocations, they receive a higher payout without netting. For Participant 4, who only has negative target allocations, under the proposed rule, there is no change.

Table I-1 Example of FTR payouts from portfolio netting and without portfolio netting

Participant	Positive Target Allocation	Negative Target Allocation	Percent Negative Target Allocation	Net TA	FTR Netting Payout (Current)	No Netting Payout (Proposed)	Percent Change
1	$60.00	($40.00)	66.7%	$20.00	$8.33	($3.33)	(140.0%)
2	$30.00	$0.00	0.0%	$30.00	$12.50	$18.33	46.7%
3	$90.00	($20.00)	22.2%	$70.00	$29.17	$35.00	20.0%
4	$0.00	($5.00)	100.0%	($5.00)	($5.00)	($5.00)	0.0%
Total	$180.00	($65.00)	-	$115.00	$45.00	$45.00	-

The elimination of portfolio netting, both hourly and at the end of the planning period, is an important step to reduce cross subsidies among FTR holders. Under the current rules participants with negative target allocations are not properly accounted for when payments to positive target allocation holders are calculated. This allows participants to shift the burden of revenue inadequacy away from themselves onto other participants that hold more positive target allocations through their portfolio structure. The result is a cross subsidy based on the structure of a participant's portfolio of positive and negative target allocations. This is not a just and reasonable result. There is no logical basis for different treatment of positive target allocations and negative target allocations based on portfolio structure. The rules should treat all FTRs equally. An FTR should be treated equally regardless of the portfolio it is a part of, and under the current rules this is not the case. This is a discriminatory outcome.

C. PJM's Proposed Changes are Appropriate for the Market, but Do Not Go Far Enough.

The October 19th Filing states (at 13) that the "FTR underfunding has been resolved for now." That characterization is not accurate. The problems of which revenue adequacy is merely a symptom have not been resolved, they have been masked by "conservative modeling of Stage 1 ARRs." Conservative modeling is a euphemism for the very significant underallocation of Stage 1B ARRs which was implemented to increase FTR revenues despite its unknown and presumably unintended consequences. This conservative modeling includes Stage 1B and Stage 2 ARRs and has shifted the market from revenue inadequate to having excess congestion dollars.[10] While FTRs are now revenue adequate, the change in allocation has not corrected, and in many cases has exacerbated, the cross subsidies that exist among ARR holders. There are winners and losers in the group of ARR holders from the very significant allocation changes implemented by PJM.

PJM has taken steps to improve its modeling in some areas, but has not done enough to correct the FTR market through the steps proposed by the Market Monitor. The Market Monitor believes that PJM has begun to address the topics of eliminating geographic subsidies, improved outage modeling and a reduction of FTRs on persistently revenue inadequate paths. However, the measures PJM has implemented regarding these topics are not sufficient and require more development and documentation to properly address the underlying issues.

---

10 *See 2015 State of the Market Report for PJM Q2*, Section 13: FTRs, Figure 13-13, Figure 13-16 and Table 13-28.

While the October 19th Filing addresses one form of cross subsidy in this filing, the proposed revisions do not address the issue that counter flow FTRs are being subsidized by prevailing flow FTRs. A counter flow FTR's net transmission credits do not change regardless of revenue inadequacy. Counter flow FTRs should be treated the same as prevailing flow FTRs and be affected by revenue inadequacies, and until they are, there is a cross subsidy between FTR holders.

D. Balancing Congestion Is Properly Treated and Stakeholders Have Correctly Resisted Pressure to Support Flawed Proposals That Would Change It.

The October 19th Filing appropriately does not include language that would force load to guarantee the profits of FTR holders by requiring load to be solely responsible for paying balancing congestion. A proposal that would force load to guarantee the profits of FTR holders by requiring load to be solely responsible for paying balancing congestion would directly contradict prior and recent Commission orders on this topic. Yet the transmittal letter (at 10–15) reveals that PJM continues to consider this flawed and destructive approach for dealing with revenue adequacy issues. Consideration of this idea reveals persistent confusion about the nature and function of ARRs. The stakeholder process is not failing because load has not volunteered to subsidize financial participants who hold large FTR positions. It is past time to take "changes to the allocation of balancing congestion" and similar euphemisms out of the discussion on revenue adequacy issues. The proper focus should remain on how to address the remaining underlying issues with the FTR/ARR process including the remaining Market Monitor recommendations.

II. CONCLUSION

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

Respectfully submitted,

Jeffrey Mayes

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

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

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: November 9, 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 9th day of November, 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