

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

Virginia Electric and Power Company)	
)	
v.)	Docket No. EL16-109-000
)	
PJM Interconnection, L.L.C.)	
PJM Settlement, Inc.)	
)	
)	

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 PJM² (“Market Monitor”), submits these comments responding to the complaint and alternative request for waiver filed by Virginia Electric and Power Company (“Dominion”) on August 29, 2016 (“May 2nd Filing”). In this proceeding, Dominion asks that the Commission find that PJM violated its tariff when it denied Dominion’s request for make whole (uplift) payments based on costs not reflected in its energy offer. Dominion requests an adjustment because it ran certain of its units on fuel oil, did not recover all of its fuel oil costs and was not paid uplift because it failed to submit a cost-based offer for fuel oil. In the alternative, Dominion requests (at 1) a waiver of the “applicable provisions” of the PJM tariff. Dominion should have submitted a cost-based offer for fuel oil in addition to natural gas but did not. PJM did

¹ 18 CFR § 385.211 (2016).

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

not violate its tariff by refusing to apply a cost adjustment to the Dominion units under such circumstances. Dominion also fails to show that a waiver of the filed rules is appropriate. The complaint and the alternative request for a waiver should be denied.

I. COMMENTS

A. The Rules Do Not Provide Make Whole Payments for Costs Not Included in Energy Offers.

Dominion states (at 5) that its day-ahead cost-based offers for combustion turbine units 2–5 at its Ladysmith Power Station for June 25, 2016, “assumed that if committed, the Ladysmith Units would operate on their primary fuel: natural gas.” The units have dual fuel capability. When PJM directed that the units run, gas was unavailable, so the units burned fuel oil. Dominion requested a fuel cost adjustment, which PJM denied.

Dominion cites to the general tariff provisions that provide for uplift when “a generation resource’s costs were underestimated or overestimated at the time the offer was selected and cleared.”³ Dominion cites to manual rules providing uplift in circumstances where an owner “cannot accurately estimate intraday costs as described in the Generation Owner’s fuel cost policy.”⁴ Neither rule applies because Dominion does not meet the criteria defined in these rules.

Dominion cannot get around the fact that it failed to submit a cost-based offer for fuel oil. There is no overestimate or underestimate. There is no issue concerning the accuracy of estimates of intraday costs. Dominion does not qualify for uplift because it did not submit a cost-based offer on which uplift payments could be based. Dominion argues (at 10) that “not hav[ing] a cost-based offer schedule for fuel oil is immaterial.” On the contrary, it is the decisive fact in this proceeding. Dominion would have received

³ Dominion at 7, citing OA Schedule 1 § 3.2.3.

⁴ Dominion at 7–8, citing PJM Manual 11, Attachment C.

compensation if it had submitted accurate and complete offers for its units, including an offer based on fuel oil, and met the other requirements defined in Manual 11, Attachment C.

PJM rules permit participants to submit up to 79 cost-based offers for each unit.⁵ These cost-based offers may be used to incorporate, inter alia, different fuel costs and different fuel types. Dominion cannot and does not claim that it was unaware of these rules.

Dominion's only explanation for why it failed to submit cost-based offers based on fuel oil is provided by Witness Bonner, who states: "Due to the size of Dominion's generation fleet in PJM and the limited amount of time available to calculate offers for each of its units prior to the day-ahead market offer deadline in the morning, it is not always practical to develop and submit separate daily cost-based offers assuming dispatch of resources on alternative fuels in the event of an unforeseen supply issue with the applicable primary fuel."⁶

Dominion's explanation does not support the extraordinary relief requested. It is Dominion's responsibility to manage its units. Other generation owners are able to submit multiple offers. Dominion's dual fuel units only needed to have two cost-based offers. Dominion's claim that it lacked the capability to submit two cost-based offers for these units is unpersuasive and should be rejected. Dominion has not made any assertion or demonstrations about its prior practice or standard practice on the submission of multiple offers.

Dominion claims: "Dominion's inability to reflect the costs associated with its need to operate on more expensive back-up fuel oil in real-time is a direct result of the real-time

⁵ PJM Markets Gateway User Guide (April 29, 2016) at 54–59, which can be accessed at: <http://www.pjm.com/~media/etools/emkt/markets-gateway-user-guide.ashx> ("User Guide").

⁶ Dominion at 9, Affidavit of Charles L. Bonner at para. 16.

offer limitations the Commission found were unjust and unreasonable,” citing recent orders concerning real-time market offer flexibility.⁷ Dominion claims (at 8):

Because Dominion became aware of the VNG pipeline constraint after the 2:15 p.m. deadline for Dominion to change the Ladysmith Units’ supply offer financial parameters for the next operating day, Dominion was unable to reflect the need to run on more expensive back-up fuel oil in its cost-based energy offer.

The argument that lack of offer flexibility created Dominion’s problem is a red herring. Dominion could have reflected its costs had it submitted a cost-based offer for running on fuel oil. Manual 11, Attachment C, specifies procedures that permit resources to update their cost-based schedule during the operating day if PJM asks the unit to run for a period for which it has not been committed. Manual 11 includes the current rules on offer flexibility and provides for offer flexibility. If Dominion had simply followed the rules in Manual 11, it would not have had this issue. The fact that the filed hourly offer flexibility rules are not yet in place is not the reason that Dominion cannot recover its fuel oil costs here. The argument that the offer flexibility proceeding has any bearing on this proceeding has no merit and should be rejected.

B. No Waiver of the Rules Is Justified.

Dominion states the applicable standard for evaluating a waiver request, i.e. whether the waiver request: “(1) is made in good faith; (2) is of limited scope; (3) addresses a concrete problem that will be remedied; and (4) does not have undesirable consequences.”⁸ Because Dominion has not met any of these standards for a waiver of the market rules, the waiver request should be denied.

⁷ Dominion at 2 & n.4, 5 & n.11, citing *Duke Energy Corporation*, 151 FERC ¶ 61,206 at P 73 (2015), *order on reh’g*, 154 FERC ¶ 61,156 (2016); *PJM Interconnection, L.L.C.*, 155 FERC ¶ 61,282 at P 32 (2016).

⁸ Dominion at 14 & n.17, citing, e.g., *Calpine Energy Servs., Inc.*, 154 FERC ¶ 61,082, at P 12 (2016).

1. The Request Is Not in Good Faith.

Dominion's approach to submitting the November 9th Petition does not demonstrate good faith. Dominion should have submitted a cost-based offer for fuel oil and failed to do so. Dominion should submit accurate and complete offers rather than litigate the resulting problems.

The rules that Dominion cites do not apply to Dominion's circumstances because the rules assume submittal of a cost-based offer for the relevant fuel prior to the defined deadline.

The waiver request should be denied because it is not submitted in good faith.

2. The Waiver Request Is Not of Limited Scope.

Dominion's requested waiver is not of limited scope. The Commission should not waive the filed tariff rules in order to provide special relief to participants who would not need relief if they had submitted accurate and complete offers. Waiving the tariff is extraordinary relief that should not be granted to allow participants the benefit of hindsight. Granting waivers under the circumstances does not solve a discrete problem, it invites similar requests whenever a participant wants to reconstruct an offer that it does not like in retrospect.

As PJM observes (at 31-32): "Allowing each Market Seller that decides not to update or have accurate cost schedules in Markets Gateway [to] have an "out" by asking the Commission to permit a waiver of this requirement, which each time would trigger additional compensation to that Market Seller outside of the provisions of the Operating Agreement, could ... have a negative impact on bidding behavior given that it would allow Market Sellers to have a risk-free ability to offer its unit on a lower cost fuel in order to clear the markets, but then later request payment based on a higher cost fuel that was not taken into consideration in the market clearing process."

The waiver request is not of limited scope and should be denied.

3. The Waiver Request Does Not Address a Concrete Problem.

Dominion has not shown that the relief requested addresses a concrete problem. There is no problem with the rules that needs to be addressed. The tariff rules operate, as intended; they create incentives for accurate and complete offers, as intended. The problem in this case is Dominion's failure to follow the rules.

The waiver request does not address a concrete problem and should be denied.

4. Granting the Waiver Request Would Have Undesirable Consequences.

Dominion has not shown that granting the relief requested would not have undesirable consequences. The Market Monitor agrees with PJM (at 31) that allowing participants to avoid losses that result from the failure to have "accurate cost schedules" and to shift those losses to load through uplift "could have significant financial impacts to load." The Market Monitor also agrees with PJM (at 31-32) that granting a waiver in this case "could also have a negative impact on bidding behavior given that it would allow Market Sellers to have a risk-free ability to offer its unit on a lower cost fuel in order to clear the markets, but then later request payment based on a higher cost fuel that was not taken into consideration in the market clearing process."

Granting the requested waiver would have undesirable consequences, and it should be denied.

II. CONCLUSION

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,



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Dated: September 30, 2016

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 September, 2016.



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