

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

PJM Interconnection, L.L.C.

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Docket No. EL16-6-003

**COMMENTS OF THE INDEPENDENT MARKET MONITOR FOR PJM**

Pursuant to Rule 211 of the Commission’s Rules and Regulations,<sup>1</sup> Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor for PJM<sup>2</sup> (“Market Monitor”), submits these comments responding to the filing submitted in the above proceeding by PJM Interconnection, L.L.C. (“PJM”) on November 14, 2016 (“November 14<sup>th</sup> Filing”) in compliance with the Commission order issued September 15, 2016 (“September 15<sup>th</sup> Order”).<sup>3</sup> The Market Monitor and other parties have submitted requests for rehearing of the September 15<sup>th</sup> Order.<sup>4</sup> If the September 15<sup>th</sup> Order is ultimately implemented despite the Market Monitor’s and others’ objections, PJM proposes rules in compliance with the September 15<sup>th</sup> Order. In some case PJM’s proposed rules would inflict greater damage to the market than is necessary in order to comply with the directives in that order. In other cases, PJM has not developed clear rules and it is not possible for anyone to evaluate PJM’s proposal in those cases. Such proposed rules should be rejected, and PJM should be

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<sup>1</sup> 18 CFR § 385.211 (2016).

<sup>2</sup> 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”).

<sup>3</sup> *PJM Interconnection, L.L.C., et al.*, 156 FERC ¶ 61,180 (2016).

<sup>4</sup> *E.g.*, Request for Rehearing of the Independent Market Monitor for PJM, EL16-6-000 et al. (October 14, 2016).

directed to submit a new compliance filing that avoids the identified errors and includes the details required for an evaluation of the proposed methods.

## I. COMMENTS

### A. ARR Historical Resources

#### 1. PJM's Stage 1A Revisions Should Be Postponed Until An Actual Method is Provided.

PJM's proposed Stage 1A ARR changes will result in significant changes in the availability and value of ARRs, and therefore FTRs. PJM's proposed changes will result in potentially significant changes in the LSEs that receive ARRs. But PJM has failed to develop a detailed method for complying with the Commission Order to eliminate reliance on outdated generation to load paths. PJM should be directed to develop a detailed method to calculate the distributional impact on load compared to the status quo and to review the method and the results in detail with participants prior to filing with the Commission and prior to implementation. Market participants will be unable to form an opinion or to respond meaningfully to PJM without such information. Market participants in the ARR and FTR market must be able to understand the allocation of ARRs and the expected impact on participants prior to receiving a bill.

Based on PJM's description of how it proposes to redefine ARR Stage 1A paths, there is no way for ARR holders to know where their ARRs will source, no way to know the direction of the ARR paths, no way to estimate the MW associated with the new ARR source positions and no way to estimate the value of the new ARR source and sink paths. This leaves ARR holders without any idea of the congestion values that can be expected. The plan is also vague as to how and when all of these determinations would be made and whether they will change over time, or be fixed subject only to new retirements.

There are a number of other areas that are not addressed in PJM's proposal. For example, while the current tariff outlines how Stage 1A rights are assigned when new zones are added to PJM when PJM expands, the proposed plan does not address how ARRs will

be allocated to new zones in the event of further PJM expansion. PJM's proposed plan does not include any explanation of how PJM will guarantee the status of 10-year ARR for currently allocated ARRs. PJM's proposed plan does not explain how ongoing retirements will be treated.

The November 14<sup>th</sup> Filing explains that key details will be included in PJM manuals rather than the PJM Tariff. Such rules should not be included in the manuals, where they can be modified at PJM's discretion. Inclusion in the manuals will also mean that the rules will not have to be defined publicly and clearly and will not be subject to review by the Commission and market participants. This is not a just and reasonable approach to implementing such significant market changes. Currently Stage 1A ARRs are well defined within the Tariff, and any mandated changes should remain well defined within the Tariff, to ensure that the proposed changes and any future changes undergo a reasonable, rigorous stakeholder review process and the Commission has an opportunity to evaluate them.

## **2. PJM's Qualified Replacement Resource Logic is Not Clearly Defined.**

PJM states (at 5) that it "will ensure Qualified Replacement Resources maximize the economic value of ARRs while maintaining Simultaneous Feasibility, as further described in the PJM Manuals." PJM does not, however, describe the method that will produce this result. PJM does not indicate, for example, whether PJM will apply actual optimization logic to the ARR source placement, or will use a more manual, discretionary approach to ARR source placement. In either case, the approach, logic and points of discretion, if any, need to be explained and vetted by the market participants that will be affected. The results also need to be made public and reviewed by market participants and the Commission.

In ranking the possible economic value of Qualified Replacement Resources, PJM states (at 6) that it will use LMP differences based on three years of historical LMP data.

While PJM's approach is an effort to calculate the value of ARRs over defined paths, it has nothing to do with the actual usage of the defined path and nothing to do with

congestion for the identified load. Congestion is the difference between what load pays and what generators are paid.

While PJM proposes to make the Qualified Replacement Resource determination “each year for the following Planning Period,” it is not clear whether PJM intends to just perform an annual review and assignment based on new retirements and new capacity changes, or if PJM also intends to include a full review and possible reassignment of prior Qualified Replacement Resource from prior planning years under its “Expected LMP Values” approach. PJM should be required to clarify exactly what will be included in the annual review.

PJM indicates (at 7) that in its review of potential Qualified Replacement Resources “PJM will determine if the Qualified Replacement Resource should be either: (1) a capacity resource that has been included in the rate base of specific LSE(s) in a particular Zone; or (2) from a non-rate-based capacity resource.”

There is no reasonable basis to distinguish generators as rate based or non-rate based for consideration as possible source points for specific zones or customers. The transmission system is a network. Power flows and congestion have nothing to do with the financing method used by the generators. The financing method of the generating units should not be included in the ARR definition method.

The difficulties that PJM is facing in developing a detailed method for defining current generation to load paths is a result of the fact that load is not served on defined generation to load paths but is served over a network. It is, for that reason, impossible to correctly define current generation to load paths.

PJM’s method has not yet been described, defined or specified in a way that can be evaluated by participants and/or the Commission.

### **3. PJM’s Proposed Stage 1A Revisions Degrade the Value of Stage 1A ARRs.**

PJM’s proposal makes Stage 1A rights based on Qualified Replacement Resources reassignment inferior to Stage 1A rights provided to other Stage 1A rights holders.

The September 15<sup>th</sup> Order directed (at P 39) that “PJM to modify its tariff to remove the use of historical generation resources for requested ARR in Stage 1A of the allocation process if those resources are no longer in service and develop a just and reasonable method of allocating Stage 1A ARRs based on source points that reflect actual system usage.”

PJM’s proposed Stage 1A allocation method goes beyond the scope of the Commission’s directive by degrading the value of Stage 1A ARRs for reassigned source points. In the reassignment of the Stage 1A rights from retired to new source points, PJM proposes (at 5–6) to remove the priority guarantee of ARR MW assigned in the Stage 1A process by assigning them subject to a simultaneous feasibility test “to ensure such resource does not increase the MW flow on facilities binding in the current ARR allocation or in future Stage 1A allocations and does not cause MW flow to exceed applicable ratings on any other facilities in either set of conditions.” While this should not reduce the total MW assigned to these ARR holders, it may reduce the value of the ARRs. PJM has not provided enough information to permit the impacts to be evaluated.

If PJM reassigned Stage 1A ARRs appropriately, they would reflect actual system usage and therefore be feasible by definition and not subject to reduction.

PJM should be directed to maintain the current priority status of Stage 1A ARR allocations.

## **B. Balancing Congestion Allocation**

### **1. PJM’s Proposed Revisions Confuse FTR and ARR Revenues.**

PJM’s compliance filing states (at 10) that day-ahead congestion plus excess FTR auction revenue in excess of FTR target allocations will be allocated to load and exports. PJM’s compliance filing is silent, however, on how it will allocate a day-ahead congestion revenue plus excess FTR auction revenue which is less than FTR target allocations. The Commission should direct PJM to clearly define the proposed approach.

It is essential to maintain complete separation between revenues received by ARR holders and revenues received by FTR holders. PJM's proposal mixes the two sources of revenue in confusing ways and in ways that are likely to require load to subsidize FTR holders even more than anticipated.

If PJM's approach to FTRs is to be followed, it must be done consistently. In that case, congestion revenues should flow to FTR holders and not to ARR holders. This means that any excess or shortfall in day ahead congestion revenues relative to FTR target allocations should be allocated to FTR holders. This means that all excess FTR auction revenues should be allocated to ARR holders.

PJM's proposes to allocate day-ahead congestion in excess of FTR target allocations to load. Day-ahead congestion revenues in excess of FTR target allocations should be assigned to FTR holders. Day-ahead congestion revenues less than FTR target allocations should be assigned to FTR holders.

PJM proposes to allocate excess auction revenue from the FTR auction to load but only after making FTR holders whole to their target allocations (at 44). PJM's proposal will not return all excess auction revenue to load. PJM's proposal only returns the portion that is left over after making FTR holders whole to their target allocations and after counter flow buy-backs used to subsidize FTR holders.

## **2. PJM's Proposed Rule Changes Exceed the Bounds of the FERC Order.**

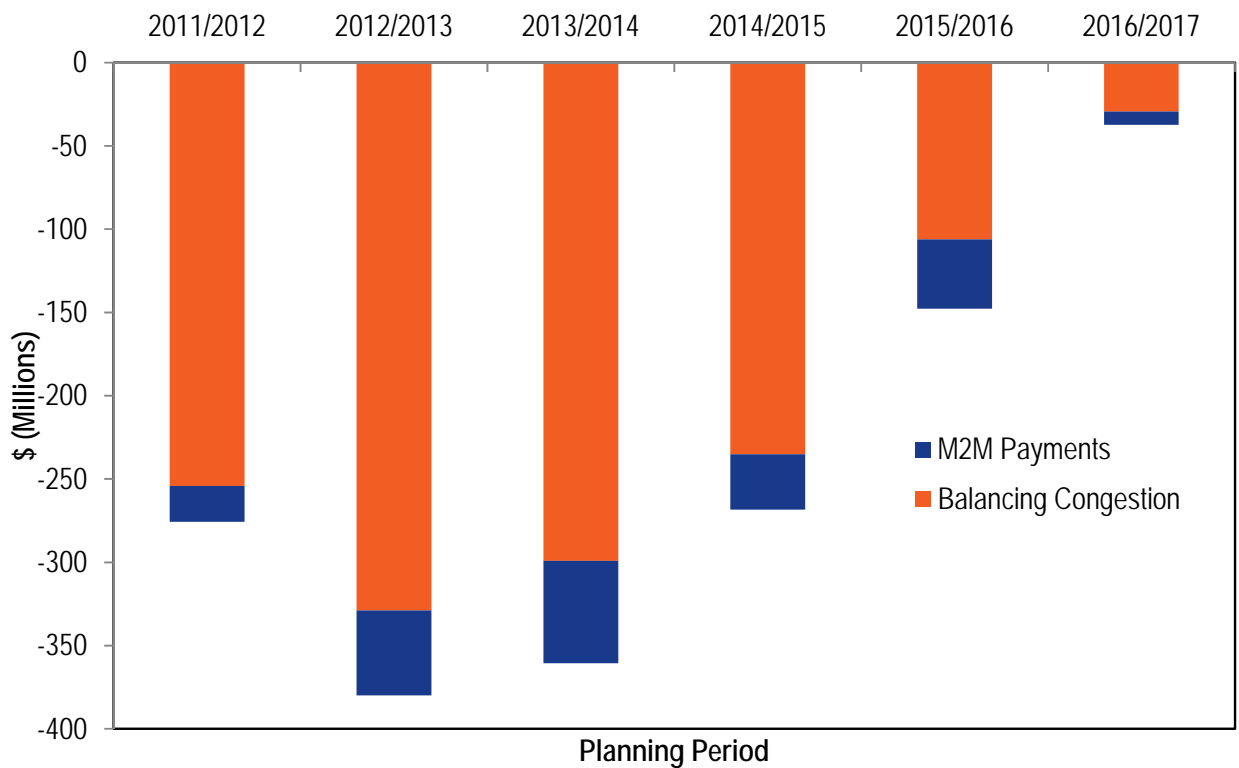
PJM's proposed changes go beyond the scope of the September 15<sup>th</sup> Order. The September 15<sup>th</sup> Order required the allocation of balancing congestion to real-time load and exports. FERC did not require PJM to allocate M2M payments to load.

PJM has unilaterally changed the definition of "Balancing Congestion Charges" to include Market to Market (M2M) payments to and from MISO, NYISO and any other

entities which may be applicable.<sup>5</sup> This is an unsupported and unjustified shift of costs to load.

PJM should not arbitrarily decide to charge load for M2M payments. Figure 1 shows the historical value of balancing congestion and M2M payments. Historically, M2M payments are negative (PJM pays money to MISO and the NYISO). These payments are small relative to balancing congestion charges, but are another unpredictable charge that erodes load’s ability to predictively offset their congestion charges.

**Figure 1 Historical Balancing Congestion and M2M Payments**



<sup>5</sup> November 14<sup>th</sup> Filing, Attachment B (proposed revised OATT, Definitions A–B).

## 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,



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Dated: December 5, 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 5<sup>th</sup> day of December, 2016.



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