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PUBLIC VERSION

BY EMAIL

September 29, 2017

Nathaniel J. Davis, Sr.
Deputy Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Re: *Independent Market Monitor for PJM v. American Electric
Power Service Corporation, Docket No. EL17-22-000*

Dear Mr. Davis:

Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor for PJM (“Market Monitor”), provides this letter in response to your letter dated August 31, 2017, on behalf of the Commission in connection with the above referenced proceeding.

Continued Need for Data

Specifically, you request that the Market Monitor “explain whether and, if so, why the requested data is necessary to ensure correct application of PJM’s current Cost Development Guidelines, or otherwise probe the IMM’s market power concerns with respect to the September 1, 2016 cost-based offer at issue.”

In PJM, Market Sellers are responsible for the development of cost-based offers. Cost-based offers are used by PJM to mitigate the market power of units owned by Market Sellers that fail the three pivotal supplier test. In PJM, the IMM does not calculate cost-based offers for Market Sellers. Market Sellers calculate cost-based offers based on their approved Fuel Cost Policies, the PJM Tariff and the Cost Development Guidelines (PJM Manual 15).

The requested data are necessary because the Market Monitor cannot validate the VOM costs used by AEP in the calculation of cost-based offers without the data. Under Attachment M–Appendix II.A.2., the Market Monitor reviews the incremental costs included in cost-based offers. The Market Monitor cannot carry out this responsibility if a Market Seller refuses to provide the data describing the incremental costs. The Market Monitor regards this data request as a routine request for the basic data required to verify cost-based offers.

The data are not included in other documentation provided by AEP. As explained by the Commission, Fuel Cost Policies do not govern how VOM costs are calculated.¹ The VOM rules are covered in the PJM Tariff and Manual 15. Due to the lack of clarity regarding the interpretation of these rules and due to AEP's refusal to provide the data, the Market Monitor cannot ensure that the rules were correctly applied.

The Market Monitor expects to continue to request similar data from AEP and other generation owners as necessary to validate the level of VOM costs included in cost-based offers that are used in market power mitigation and ensure that incremental costs are correct.

Mitigated Units

You also request that the Market Monitor “clarify whether any of the units at issue were mitigated on September 1, 2016.”

PJM mitigates unit offers when their owner fails the three pivotal supplier (TPS) test. **[REDACTED]**.

The Market Monitor did not choose the date September 1, 2016, based on market conditions or behavior specific to that day. AEP performs VOM calculations yearly. Issues with the September 1, 2016, VOM values are issues for all 2016 VOM values and therefore issues with cost-based offers on all days of the year. The Market Monitor anticipates requesting additional data if the data for this day indicate that VOM costs were not calculated consistent with the tariff.

Impact of Hourly Offer Order

Finally, you inquire as to “whether the Hourly Offer Order [n6: *PJM Interconnection, L.L.C.*, 158 FERC ¶ 61,133, at P 125 (2017) (Hourly Offer Order).], issued on February 3, 2017, has any impact on the IMM's need for the requested data.”

The Hourly Offer Order added VOM costs to the list of includable costs in Schedule 2 of the Operating Agreement, but such costs were already included under “Incremental maintenance cost” and “Other incremental operating costs.”² The new Schedule 2, Section 4, included per the Hourly Offer Order, specifies a PJM review of maintenance costs.³ The Hourly Offer Order does not alter the Market Monitor's responsibilities defined in Attachment M of the tariff to review market behavior.⁴ The implementation of the Hourly Offer Order does not affect the need for the requested data.

¹ Hourly Offer Order at P 54.

² *Id.* at P 53.

³ Hourly Offer Order at P 55.

⁴ *Id.* at P 68.

Sincerely,

A handwritten signature in blue ink that reads "Jeffrey Mayes". The signature is written in a cursive style with a large, looping initial "J".

Jeffrey W. Mayes, General Counsel