

the arguments that continue to be raised in the Answers. This answer is limited to matters that may create confusion in the record, misstatements of facts and mischaracterizations of the Market Monitor's position. Because this answer will contribute to the development of a complete record and will facilitate the decision making process, the Market Monitor requests that it be accepted.

I. ANSWER

A. Ten Percent Adder

Exelon argues that the 10 percent adder should be included for all resource types and that an additional 10 percent fuel variance adder be included for all natural gas fired resources. Exelon fails to explain why uncertainty goes in only one direction. If uncertainty is approximately symmetrical, PJM's cost should be used without the 10 percent adder, as an unbiased estimate of the expected value of the costs. Exelon selectively quotes the Market Monitor's comments in support of its argument on the use of the 10 percent adder for CTs versus all units. The Market Monitor noted that PJM did not add 10 percent to the costs of other units and should not add it to the cost of a CT.

PJM's calculations assume a 10 percent adder, very high maintenance costs added to both start costs and incremental costs and artificially high regulation market revenues. All of these errors should be addressed at the same time to develop a reasonable estimate.

PJM's theoretical CT does not exist in PJM. New gas fired units in PJM have been combined cycle plants and not simple cycle CTs. PJM has provided no data to support the assertion that existing CTs that run for more than 2,000 hours (per PJM model results) include a 10 percent adder and include the high maintenance costs that PJM incorporates and in the manner that PJM incorporates them. If all of PJM's errors were addressed, the Market Monitor's estimate is that CT net revenues would be about 20 percent higher than PJM's calculation. PJM significantly modified its method of calculating the offset in this filing compared to the Quadrennial Review including assumptions about how CTs are actually dispatched, in addition to the required change to a forward looking offset. If PJM is

not going to be required to redo its calculations to address all the issues, it should not be required to undo only those errors that result in a lower offset, as argued by Exelon.

B. Reference Trading Hubs

The Western Hub is by far the most liquid of the forward hubs and for that reason should be used for forward prices. PJM has not demonstrated, and cannot demonstrate, that using the less liquid AEP Dayton Hub and NI Hub provides a more accurate result. Exelon's correlation results do not demonstrate that the basis differentials for NI Hub are more accurate or the total price differs in any significant way from the prices based on West Hub. There is no reason to add unnecessary complexity and lower quality data to the calculations.

C. Calculation of Basis Differentials

All parties appear to recognize that there are differences in prices between the trading hub where forward prices are defined and individual generator buses. These basis differentials must be included in any forward looking EAS offset.

PJM and Exelon propose to use Long Term FTR auction data in place of observed basis differentials. PJM and Exelon propose to ignore the fact that the FTR auction data is for the wrong period and based on the wrong model and is a systematically bad estimator of congestion. PJM notes that FTR auction data is about expectations of the future. While that is correct, it is no more appropriate to use FTR data for a period that is two years off from the relevant period than it would be for PJM to use forwards for 2021 for a 2023/2024 Delivery Year. PJM could use exactly the same argument as the basis for the use of forward data from the wrong year. Vague assertions about future expectations do not address the fact that the proposed FTR data is not for the capacity market auction delivery year. PJM and Exelon ignore the substantial mispricing of long term FTRs compared to realized results. PJM also asserts that reliance on the long term FTR auction is standard practice. That is a meaningless claim not subject to verification. In addition, the claim is not even

specifically that there is reliance on long term FTR auction results as the basis for expectations about basis differentials when calculating expected future revenues.

PJM has not actually provided any details or examples of how its approach would work. There are significant details that affect outcomes. PJM changed its mind in its Answer to agree with Exelon about how to apply the FTR data, but has still not explained exactly, or documented, how the data would be used to calculate applicable basis differentials for individual generator locations. The use of actual basis differentials is fully documented and in use by PJM today.

PJM has apparently not actually done the FTR calculation on which they propose to rely. This method cannot be found to be just and reasonable because it is not defined and has not been implemented.

The use of actual basis differentials by bus is preferable to PJM's proposed use of FTR auction data. PJM knows how to do this adjustment correctly and the method is clearly documented.

D. Estimation Period for Forward Prices

The Market Monitor supports using forward pricing data over a one week period, rather than 30 days. PJM does not oppose using forward pricing data over a one week period. PJM should use forward pricing data over a one week period, rather than 30 days.

E. Source of Forward Data

PJM should use Platts' forward curves. There is no reason for PJM to introduce complexity and inconsistency in data sources for the same purpose. PJM Manual 15 already uses Platts' forward curves as part of the "Cost Development Guidelines." PJM has provided no substantive reason for its use of ICE other than that is what their consultant used during this quick turnaround development of an offset approach. Platts' forward price curve takes traded contracts from ICE, which may be annual, monthly, on peak or off peak and converts the data into an easily used, widely accepted forward price curve. PJM should use Platts' forward curves.

F. Informational Filings Do Not Correct Bad Methods

The Exelon Answer argues (at 2, 9 & 22) that PJM's approach be approved and that PJM be directed "to make an informational filing after the 22/23 BRA to facilitate a better understanding of how the new EAS Offset methodology is functioning prior to the next quadrennial review." The potential for future corrective action is not an excuse for implementing a flawed proposal. There is no reason for a tradeoff between accuracy and timeliness. PJM already has a straightforward, tested method for calculating forward looking revenues. There was no need to adopt unnecessary and incorrect complexities. In order to avoid any delays in running the next auctions, PJM should use that tested method. A flawed approach should not be approved based on the notion that the flaw can be corrected later after informational filings are submitted. Informational filings do not reopen the proceeding or create a comment date and schedule for regulatory action. After a flawed rule is approved and a requirement for informational filings remains, the burden shifts to parties contesting the flawed rule, even when, as would be the case here, the flawed approach has never been demonstrated to be just and reasonable in the first instance. Approving bad rules will create constituencies that benefit from the flawed approach and are ready and able to defend it. Bad rules by their nature generate continued market performance problems and unnecessarily prolong regulatory uncertainty. Approving bad rules encourages affected parties to advocate offsetting bad rules under the misguided expectation that an efficient market design can be the product of offsetting flaws. The better approach is to put in place the best possible market design for each individual market design element in the first instance. Such an approach best serves the public interest.

II. MOTION FOR LEAVE TO ANSWER

The Commission's Rules of Practice and Procedure, 18 CFR § 385.213(a)(2), do not permit answers to answers or protests unless otherwise ordered by the decisional authority.

The Commission has made exceptions, however, where an answer clarifies the issues or assists in creating a complete record.⁵ In this answer, the Market Monitor provides the Commission with information useful to the Commission's decision making process and which provides a more complete record. Accordingly, the Market Monitor respectfully requests that this answer be permitted.

⁵ See, e.g., *PJM Interconnection, L.L.C.*, 119 FERC ¶61,318 at P 36 (2007) (accepted answer to answer that "provided information that assisted ... decision-making process"); *California Independent System Operator Corporation*, 110 FERC ¶ 61,007 (2005) (answer to answer permitted to assist Commission in decision-making process); *New Power Company v. PJM Interconnection, L.L.C.*, 98 FERC ¶ 61,208 (2002) (answer accepted to provide new factual and legal material to assist the Commission in decision-making process); *N.Y. Independent System Operator, Inc.*, 121 FERC ¶61,112 at P 4 (2007) (answer to protest accepted because it provided information that assisted the Commission in its decision-making process).

III. CONCLUSION

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

Respectfully submitted,



Joseph E. Bowring
Independent Market Monitor for PJM
President
Monitoring Analytics, LLC
2621 Van Buren Avenue, Suite 160
Eagleview, Pennsylvania 19403
(610) 271-8051
joseph.bowring@monitoringanalytics.com

Jeffrey W. Mayes

General Counsel
Monitoring Analytics, LLC
2621 Van Buren Avenue, Suite 160
Eagleview, Pennsylvania 19403
(610) 271-8053
jeffrey.mayes@monitoringanalytics.com

Alexandra Salaneck
Senior Analyst
Monitoring Analytics, LLC
2621 Van Buren Avenue, Suite 160
Eagleview, Pennsylvania 19403
(610) 271-8050
alexandra.salaneck@monitoringanalytics.com

Keri Dorko
Analyst
Monitoring Analytics, LLC
2621 Van Buren Avenue, Suite 160
Eagleview, PA 19403
(610) 271-8050
Keri.Dorko@monitoringanalytics.com

Dated: October 19, 2020

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 19th day of October, 2020.



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