UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

PJM Interconnection, L.L.C.	)	Docket No. ER25-785-000

ANSWER AND MOTION FOR LEAVE TO ANSWER OF THE INDEPENDENT MARKET MONITOR FOR PJM

Pursuant to Rules 212 and 213 of the Commission's Rules and Regulations,[1] Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor ("Market Monitor") for PJM Interconnection, L.L.C. ("PJM"),[2] submits this answer to the answer submitted by PJM on January 31, 2025, by Vistra Corp. ("Vistra") submitted February 5, 2025, by Constellation Energy Generation, LLC on January 27, 2025 ("Constellation"), and by Invenergy Wind Development North America LLC, et al. on February 10, 2025 ("Invenergy"), to the Market Monitor's comments in this proceeding filed, January 10, 2025 ("January 10th Comments").

PJM proposes revisions to its rules related to resources that are categorically exempt from the must offer obligation of capacity resources. The stated purpose of the December 20th Filing is to eliminate the exemption from the capacity market must offer rules that currently apply to intermittent and storage resources, termed categorically exempt resources. The must offer exemption is a design flaw that should be addressed immediately. The December 20th Filing packages elimination of the must offer exemption with a proposal to weaken and

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1 18 CFR §§ 385.212 & 385.213 (2024).

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").

undermine the market power mitigation provisions of the tariff for all capacity resources. The inclusion of this poison pill makes PJM's proposal unjust and unreasonable. PJM has not supported its combined proposal as just and reasonable and it should be rejected for that reason. The December 20th Filing should be rejected without prejudice to PJM separately refiling only the revisions to the categorical must offer exemption.[3] As an alternative, the elimination of the categorical must offer exemption should be approved and the modification of the market power mitigation rules should be rejected.

This answer should be accepted because it facilitates the decision making process and ensures a complete record.

I. ANSWER

A. Must Offer Obligation

The Market Monitor supports PJM's elimination of the categorical exemption to the RPM must offer obligation for all capacity market resources. As the Market Monitor has argued for some time, there is no reason to create an exemption for any class of capacity resources.

The Market Monitor points out that PJM's rationale overstates the significance of market power when explaining why no capacity resource should be exempt from the RPM

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[3] PJM argues (at 46–49) that *NRG* does not apply to its December 20th Filing because it does not represent a "PJM-stakeholder compromise package." *See* December 20th Filing at 3–4, citing *NRG Power Mktg., LLC v. FERC*, 862 F.3d 108, 114–15 (D.C. Cir. 2017). However, PJM also argues (at 48–49) that it "is not suggesting" that the proposed revisions to the categorical must offer exemption "should be severable" from its proposed revisions to the MSOC. PJM can decide whether or not the proposals are severable in response to an order approving the proposed revisions to the categorical must offer exemption and rejecting the proposed revisions to the MSOC. Alternatively, the December 20th Filing can be rejected without prejudice to PJM separately filing the revisions to the categorical must offer exemption. Alternatively, the Commission could exercise its authority under Section 206 of the Federal Power Act and grant the complaint in Docket No. EL25-18 supporting elimination of the categorical must offer exemption.

must offer obligation. PJM misstates the Market Monitor's reasons for eliminating the RPM must offer exemption.

Vistra asserts (at 6–7) that market power concerns do not support PJM's proposal to eliminate the categorical exemption from the RPM must offer obligation. Vistra asserts (at 8–10) that the equitable enforcement of the RPM must offer obligation for all capacity resources will result in "over-mitigation." Vistra asserts (at 2) that PJM's proposed MSOC revisions are not adequate to overcome the issues with the RPM must offer obligation.

Vistra emphasizes (*id*.) that market power concerns are not enough to support PJM's proposal to eliminate the categorical exemption. While the Market Monitor agrees that market power is not the most important reason to eliminate the categorical exemption, the Market Monitor disagrees with Vistra's position that market power is not a reason to eliminate the categorical exemption.[4] Vistra's arguments prove too much. If Vistra were to be believed, no resource should have an RPM must offer obligation. Vistra fails to distinguish resources currently exempt from the RPM must offer obligation from those resources subject to the RPM must offer obligation.

The purpose of the RPM must offer rule is to ensure that the capacity market works based on the inclusion of all demand and all supply, to ensure equal access to the transmission system through capacity interconnection rights ("CIRs"), and to prevent the exercise of market power via withholding of supply.

Vistra asserts that PJM's proposal would result in over mitigation. But Vistra fails to explain why a competitive offer equal to net Avoidable Cost Rate ("ACR") is over mitigation. Vistra fails to explain why all capacity resources should not have the same RPM must offer obligation.

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4 *See* Monitoring Analytics, *Analysis of the 2025/2026 RPM Base Residual Auction Part A* (September 20, 2024) ("IMM BRA Report Part A").

Vistra asserts (at 14) that PJM did not provide adequate evidence to support the December 20th Filing. Vistra ignores the evidence provided by the Market Monitor in the Comments filed on January 10, 2025. The Market Monitor's evidence included the fact that a significant level of categorically exempt resources did not offer in the 2025/2026 Base Residual Auction ("BRA").[5] The Market Monitor's evidence included the fact that this failure to offer resulted in significantly higher BRA prices than would have occurred had they offered. As stated in the Market Monitor's January 10th Comments, the failure to offer capacity that was categorically exempt from the RPM must offer requirement resulted in a 39.3 percent increase in RPM revenues for the 2025/2026 RPM Base Residual Auction compared to what RPM revenues would have been had the categorically exempt resources been subject to the RPM must offer requirement.

Invenergy apparently fails to recognize (at 2–5) that the existing tariff provides for an offer based on the opportunity cost of selling capacity outside PJM.[6]

B. Market Seller Offer Cap (MSOC)

PJM's attempt to support the proposal to set the market seller offer cap ("MSOC") at the higher of net avoidable cost rate ("ACR") or the risk component of ACR (Capacity Performance Quantifiable Risk or CPQR) fails the basic tests of algebra and logic. The Market Monitor agrees that the definition of CPQR is not at issue in this matter. The only issues are addition and subtraction.

The MSOC equals gross ACR minus the net revenue offset (EAS). The simple fact is that gross ACR includes CPQR. If EAS equals or exceeds gross ACR, then net ACR is zero or negative and the MSOC is set at zero. The math is simple, the logic is simple and the conclusion is simple.

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5 *See* IMM BRA Report Part A at 9 (Scenario 2), 12 (Table 2).

6 ***See*** OATT Attachment DD § 6.7(d).

No amount of hand waving about risk can change the fact that CPQR is clearly defined and is included in gross ACR. When net ACR is zero or negative, all of the avoidable costs of being a capacity resource, including the cost of mitigating risk (CPQR) are covered by the PJM markets and the correct and competitive MSOC is zero.

PJM includes some inexplicable comments in its Answer (at 20). While asserting repeatedly that the definition of CPQR is not at issue in this matter, PJM states (*id*.) that MSOC values that include CPQR as an avoidable cost, which it is defined to be in the tariff, "may not adequately reflect the non-performance risks associated with obtaining a capacity obligation." PJM asserts (*id*.) that such offers may be "confiscatory" without providing any logical or tariff based support or even defining what PJM means by confiscatory. These assertions are not consistent with PJM's strongly stated position in its Answer that CPQR and its logic are established and are not at issue in this matter.

PJM states (at 37): "A resource that is expected to receive significant profits in the EAS markets (i.e., profits sufficient to offset fixed and variable costs of continuing operation as a committed Capacity Resource), nevertheless may not, in fact, have net avoidable costs of zero." PJM is simply wrong. CPQR is defined to be the cost of mitigating risk. CPQR is defined to be an avoidable cost. When EAS is equal to or greater than gross avoidable costs, net avoidable costs are zero or negative and the MSOC is zero.

Constellation repeats its unsupported and incomprehensible assertions about CPQR being an avoidable cost but not really an avoidable cost.

An offer above the competitive level is not required as an incentive to be a capacity resource. PJM's proposal would permit offers above the competitive level. PJM has not shown that such noncompetitive offers are just and reasonable. PJM's proposal is not just and reasonable and should be rejected.

C. Segmented Offers

The key point about PJM's proposal to implement segmented offers is that it is not remotely ready for prime time. History has demonstrated that when PJM attempts to

implement changes that are not fully developed, unintended consequences and litigation follow. The proposed tariff language on segmented offer caps is unacceptably vague, lacks essential details, and is therefore not enforceable. The Market Monitor's experience with the efforts of some participants to make segmented offers shows that such offers are subject to manipulation.

PJM's proposal on segmented offer caps is about weakening market power mitigation rules and about providing the ability to offer at inadequately defined prices that are greater, potentially much greater, than currently defined market seller offer caps.

The PJM proposal would allow segmented Market Seller Offer Caps "comprised of multiple Market Seller Offer Caps."[7] This proposal is a radical change to market seller offer caps that could significantly increase capacity market prices above competitive levels for no reason. The tariff language is unclear and inadequate. PJM has failed to do any testing of the impacts of this change. The result is that market participants and the Commission have no basis for understanding the potentially extreme consequences of this proposal.

The proposed rule change related to segmented offers is not about the flexibility to offer multiple segments. The current rules allow resources to offer different segments of capacity at different prices, all subject to the overall MSOC. The proposed rule change related to segmented offers is about allowing resources to offer at prices above their defined MSOC.

Constellation's assurance that the proposal would result in higher tail block offers rather than higher first block offers is hardly reassuring. In fact, it illustrates the point exactly.

Constellation fails to meaningfully respond to the Market Monitor's point about the inconsistency between ELCC ratings and creating higher MSOCs for parts of a resource.[8] The ELCC is calculated based on the ability of the resource to provide its full ICAP for the entire resource and not, as asserted by Constellation, its UCAP.

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[7] December 20th Filing, Attachment A (Redlines) at Attachment DD § 6.4(e).

[8] *See* Constellation at 6–9.

To further clarify, the Market Monitor does not agree that ELCC actually means that a derated solar offer is equivalent to a nuclear offer and is surprised that Constellation would agree. The Market Monitor's position is that the ELCC rules as implemented and interpreted by PJM imply that equivalence. Anyone looking for solar power after 4:30 PM on Christmas Eve during Winter Storm Elliott understands that argument is not supportable.

PJM has not provided a clear and enforceable definition of MSOC for segmented offers. PJM has not explained why it is consistent with competition and the definition of a competitive offer in the PJM tariff to permit offers significantly greater than the current MSOCs. PJM's proposal is not just and reasonable as a result.

D. PJM's Filing Includes a Poison Pill That Should Be Rejected

PJM and others continue to fail to support the attempt to package inclusion of the unsupported changes to market power mitigation provisions for all resources, with PJM's proposed elimination of the must offer exemption for a subset of currently categorically exempt resources. There is no connection between the two proposals. The arguments about the changes to market power mitigation rules are about the applicability to all resources.

PJM's proposal to recognize that the basic logic of the capacity market requires that all capacity resources have a must offer obligation has been supported by PJM, the Market Monitor and others as just and reasonable and should be accepted for that reason.

PJM's proposal to link the must offer obligation proposal to unwarranted and unsupported changes to the market power mitigation rules has not been shown to be just and reasonable and should be rejected because they are not just and reasonable.

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 protests, answers, or requests for rehearing unless otherwise ordered by the decisional authority. The Commission has made exceptions, however, where an answer

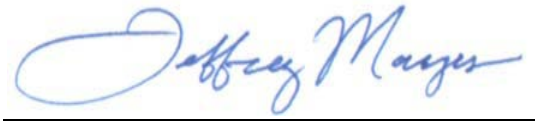
clarifies the issues or assists in creating a complete record.[9] In this answer, the Market Monitor provides the Commission with information useful to the Commission's decision making process and which provides a more complete record. Accordingly, the Market Monitor respectfully requests that this answer be permitted.

[9] *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,



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Dated: February 18, 2025

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 18th day of February, 2025.

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