March 26, 2013

PJM Board of Managers
e/o Mr. Howard Schneider, Chair
PJM Interconnection, L.L.C.
Valley Forge Corporate Center
995 Jefferson Avenue
Norristown, Pennsylvania 19403

Re: Comments of the Financial Marketers Coalition on Draft Request for Proposal (RFP) for Market Monitoring Services

Dear PJM Board of Managers:

The Financial Marketers Coalition ("Coalition") is pleased to provide the following comments on the draft request for proposals ("RFP"), and the related comments submitted to date, concerning the provision of market monitoring services to PJM and its Members. The Coalition believes the provision of market monitoring services by a fair, vigilant and independent entity is vital to assuring a competitive and well functioning PJM market. Thus, the Coalition commends the Board for its decision to use a thorough and rigorous RFP process. Such a process is essential for assessing whether the current level of market monitoring services is meeting the needs of PJM and its Members. The RFP process also allows PJM to take a fresh look at the range of companies and services available to meet the future needs of this growing and changing marketplace. The Coalition supports the use of an RFP because an open, competitive RFP process is essential to assuring that the future market oversight needs of PJM and its Members are met.

The Financial Marketers Coalition is an informal trade association of independent power marketing companies that trade financial and/or physical electricity products in PJM and in other organized ISO/RTO markets. Financial marketers are a growing trading sector within PJM and play a vital role in providing transparency, liquidity, market-based signals, price convergence and increased competition in PJM and other ISO markets. The importance of this sector has been well recognized by PJM, as well as by FERC in orders and directives issued in numerous proceedings over the past 10 years. The Coalition is an active participant in the PJM Stakeholder
process and a strong proponent of increased competition, transparency and the development of enhanced trading options that help all Members respond to changing energy market conditions.

The Coalition submits these comments to support the Board’s draft RFP and to emphasize the primary factors it believes should be emphasized in finalizing this document and in assessing all candidates considered for the next contract term.

1. Fairness.

The Coalition believes the single most important consideration for the Board in selecting a market monitor is a candidate’s strong commitment to fairness and impartiality. All market participants must be able to rely on the market monitor to be scrupulously fair, impartial and to never single out any particular company or market sector for preferential or discriminatory treatment. Further, no Member or sector in PJM should ever have to fear retribution by the market monitor simply for making its views known or for disagreeing with the market monitoring office’s proposals. This commitment to fairness and impartiality must be judged both by each candidate’s commitment to this fundamental value and by their track-record.

2. Accurate and Transparent Market Data.

Because the market monitor reviews and releases a great deal of market data analysis to the Members, and others, it is essential that all market data provided be accurate, well documented and transparent. Many decisions made by PJM Stakeholders are based on conclusions and recommendations provided by the market monitor thus it is essential that all information provided be accurate, representative and well supported.

In light of the extensive powers entrusted to the market monitoring service, the duty to fully document and disclose how all conclusions are reached is essential to creating and preserving trust in the market monitoring unit’s recommendations and conclusions. This is a significant issue because Members do not have access to most PJM data relied on by the market monitoring service for its conclusions and policy recommendations. Thus, there is often no way for Members to confirm or check the accuracy of positions taken or policies that may be advocated by the market monitoring unit.

Additionally, it is important that any market monitor selected is very careful not to advocate for or against particular trading products, cost allocations or policies unless those positions are grounded in well documented studies and factual analyses. In the Coalition’s view, and consistent with the role set out in Attachment M of the PJM tariff, the market monitor should not become a “super Stakeholder,” rather this office should contribute to Stakeholder decision making regarding market design issues through unbiased, factual analyses and documented studies that enable Members and PJM to make informed decisions on market design issues.

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1 To the extent proprietary information is used in any analysis care must be taken to protect this data, such as through masking company names, using composite data and other standard techniques. The Coalition believes that with care the twin goals of data transparency and protection of sensitive competitive information can be achieved.
Thus, the Coalition believes the draft RFP is consistent with the role of the market monitor as set out in Attachment M of the PJM tariff.

3. Responsiveness and Accountability

To maintain a well functioning market monitoring service it is critical that any provider selected by the Board be committed to openness and responsiveness to Member questions, requests for information and concerns. Members have a right to have the market monitoring office return their phone calls, and receive a timely response to all their requests for information.

Just as important, there needs to be ongoing accountability for a market monitor’s actions in order to assure that fairness, accountability and responsiveness are maintained throughout the market monitor’s contract term. Although the Coalition well understands and supports the need for independence (in fact the financial marketing sector was one of the strongest advocates for creating an independent market monitoring function), there also needs to be regular communications with and accountability to the PJM Board and FERC. That accountability needs to be transparent and ongoing and certainly not just confined to reviewing market monitoring performance when the contract term is expiring. Further, if Stakeholders have concerns about a market monitor’s actions or fairness there needs to be some defined process for making those concerns known, and for having them addressed by the IMM, Board and/or FERC.

Ongoing accountability is a key component of any well-functioning market monitoring office. In fact, Attachment M specifically calls for the PJM Board and the market monitor to “meet and confer from time to time on matters relevant to the discharge of the PJM Board’s and the market monitoring units duties under the plan.” (See Attachment M at D. 2) Attachment M also states that it is the duty of the Board “during the term of any contract” to assess whether the market monitoring unit has not “adequately performed its functions set forth in this plan,” and if so may propose to terminate the contract. (See F.2a(2)). The only way the Board can make this assessment, and meet its ongoing “meet and confer” requirements, is through regular consultations with the IMM as contemplated in MMSA § 24. This type of accountability is vitally important to assure the market monitoring unit is performing its duties and that the Board has the information necessary to meet its own public trust and due-diligence obligations under the tariff.

4. Avoid Evergreening

Some of those submitting comments on the draft RFP have challenged the use of an RFP process and support, without further review, the blanket extension of the existing market monitoring service and contract. As a policy matter, the Coalition believes such an approach would be inconsistent with the Board’s due diligence responsibility and would not serve the interests and needs of all PJM Members. There should be no assumption that a contract for services should simply be continued, or evergreened, without a systematic and careful review of past performance and future needs. In order for the market monitoring services to remain relevant, vital and responsive it is essential that at the end of each contract period the Board and Members review performance and take a fresh look at future needs. The Coalition believes the evaluation
5. Role of the Market Monitor

The Board needs to consider what changes or enhancements to market monitoring services are needed for this important function to remain responsive to a changing marketplace and to remain consistent with Attachment M. For example, when the market monitoring service was initially implemented, a primary duty of the office was (and remains) investigating potential violations of FERC or PJM market rules. However, over time the current market monitor has taken on a much broader role of advocating for specific policy changes and policy directives in the Stakeholder process, well beyond the “market design” comment role contemplated in Attachment M. The draft RFP recognizes the market monitor has a dual role, noting that monitoring tasks include: i) observing the conduct of market participants to identify anomalous or suspect behavior; and ii) evaluating, reporting and commenting on PJM’s market design and market implementation. Because the market design advisory role will continue, and the Coalition believes it can be a very useful one with the correct protections (e.g. data transparency), then the market monitor selected must have a strong grounding in industry fundamentals, economics, statistics and complex data analysis.

The RFP adequately reflects this need, establishing as necessary qualifications: “Technical knowledge of complex, rule-defined organized wholesale electric energy markets,” “Experience in developing and analyzing economic models” and “Demonstrated experience in gathering and analyzing large data sets . . . .” Although the Coalition supports these requirements it would add to this list an in-depth knowledge of how other market systems operate. In light of the growing connection between markets, the market monitor selected must have an in-depth understanding of the market rules and financial principles used by other ISOs, as well as those used in other financial markets. Thus, in assessing all applicants the Board should assure that any applicant selected not only meets the basic standards set out in the RFP but should also have a broad understanding of how other markets operate and their market rules and credit policies.

The Coalition would support a role consistent with Attachment M and the draft RFP, with the market monitoring service spending much of its time and resources investigating and acting upon potential market rule violations, and some of its time helping PJM and the Stakeholders make good market design choices by preparing studies and fully documented factual reports that will support fact-based decision making. The latter role is primarily the responsibility of PJM; thus the market monitor should assist and, where it deems appropriate in its independent judgment, provide well-supported, fact-based proposals for change or an alternative approach for new policies. Further, any company selected should understand that the market monitor’s role in commenting on marketing design choices must adhere to the basic Federal Power Act principle that cost allocation must be based on cost-incurrence principles, not simply the expedient of allocating costs based on which sector is less able to protect its interests in the Stakeholder process. Thus, strong analytical skills and a commitment to providing cost causation data to Stakeholders are essential for any market monitor selected.
Conclusion:
The Coalition appreciates the opportunity to comment on the draft RFP and to give its views on some of the comments submitted by others. All of the Coalition companies share the Board’s opinion that robust market monitoring is critical to PJM’s mission in administering fair and efficient wholesale electricity markets and thank the Board for considering these comments.

Respectfully,

[Signature]

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