

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

PJM Interconnection, L.L.C. )  
 ) Docket No. ER18-86-000  
 )

**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 supporting the tariff revisions proposed by PJM Interconnection, L.L.C. (“PJM”) on October 17, 2017. PJM states that the proposed revisions would “more equitably allocate uplift to all Virtual Transactions by allocating uplift to UTCs in the same way that uplift is currently allocated to INCs and DECs.” The Market Monitor supports the proposed revisions as a reasonable and consistent approach to allocating uplift. An appropriate allocation of uplift will improve incentives and improve market efficiency. PJM’s proposed revisions should be accepted as filed, without delay.

**I. COMMENTS**

**A. PJM’s Proposal to Allocate Uplift to UTCs Corrects a Longstanding Oversight in the Market Rules.**

The Market Monitor agrees with PJM that up to congestion transactions (UTCs) should be allocated uplift.

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<sup>1</sup> 18 CFR § 385.211 (2017).

<sup>2</sup> Capitalized terms used herein and not otherwise defined have the meaning used in the PJM Open Access Transmission Tariff (“OATT”) and the PJM Operating Agreement (“OA”).

UTCs were originally created to permit market participants to limit their congestion exposure on scheduled physical transactions in to, out of or through the PJM Real-Time Energy Market.<sup>3</sup> UTCs required a transmission service reservation and associated charge in the day-ahead market. The real-time physical transaction associated with the UTC paid uplift.

The concept of a virtual spread bid product was discussed and rejected on two separate occasions in the PJM stakeholder process as a result of an inability to agree on how to allocate uplift to the product. At the time of the proposals, the Market Monitor raised concerns regarding uplift, as well as possible market manipulation opportunities and inefficient price arbitrage incentives.

As a result of PJM's incorrect allocation of marginal loss surplus to UTCs in 2010, which resulted in UTCs receiving marginal loss surplus payments in excess of the cost of transmission, some participants engaged in wash trades solely for the purpose of making money on the trade of transmission costs for surplus allocation. This was acknowledged to be a problem. Rather than directly fix the surplus allocation issue, PJM recommended that UTCs no longer pay for transmission service. On September 17, 2010, the requirement that UTCs procure and pay for transmission service was eliminated.<sup>4</sup> The elimination of the requirement to pay for transmission service, in combination with no uplift charges, significantly changed the nature of the product. The elimination of the requirement to procure transmission service removed a physical limit on the product and the absence of transmission charges and uplift charges made the UTC a much cheaper substitute for INCs and DECs. The result was a dramatic increase in UTC volume.<sup>5</sup> Participants began to use

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<sup>3</sup> See 2012 State of the Market Report for PJM, Vol. 2, Section 8 (Interchange Transactions).

<sup>4</sup> See *PJM Interconnection, L.L.C.*, 132 FERC ¶ 61,244 (2010).

<sup>5</sup> See 2016 State of the Market Report for PJM, Vol. 2, Section 3: Energy Market (Virtual Offers and Bids).

UTCs as a financial product without FERC review or approval. As of 2010, 99.99 percent of UTCs were purely financial.<sup>6</sup>

PJM's conversion of UTCs into a virtual product without an uplift allocation was the result of an oversight. The oversight, while identified at the time by the Market Monitor, took a very long time to address through the PJM stakeholder process. UTC traders strongly resisted efforts to allocate any uplift or place any limits on the product.

The uplift issue was addressed in the Energy Market Uplift Senior Task Force (EMUSTF), which has been in and out of session since May 2013. The Market Monitor and PJM introduced evidence that UTCs had an effect on unit commitment, unit dispatch, uplift and FTR funding.<sup>7</sup> The proposal before the Commission is a result of this effort at the EMUSTF.

UTCs, as currently implemented in PJM's market, are virtual injections and withdrawals in the day-ahead market. Like other virtual products, UTCs create associated deviations in the real-time market and should be allocated uplift.

**B. Proposed Modification to the Calculation of Operating Reserve Credits to Cover Costs Associated with Following PJM Dispatch.**

The proposed modification is a separate issue from the main issue of this filing, which is the allocation of uplift and not its calculation. While the Market Monitor recognizes that the proposed modification to the calculation of uplift credits was approved in the stakeholder process, the Market Monitor disagrees with this type of one off modification rather than a more comprehensive approach. The proposed modification was part of a broader and balanced set of modifications to the calculation of uplift proposed by PJM and the Market Monitor. Some modifications increased uplift and others reduced uplift. This specific one off modification increases payments.

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<sup>6</sup> See 2010 State of the Market Report for PJM, Vol. 2, Section 4: Interchange Transactions.

<sup>7</sup> See 2016 State of the Market Report for PJM, Vol. 2, Section 13: FTRs and ARRs (FTR Forfeitures).

Modifications to the calculation of uplift should be part of a comprehensive review of generators' incentives for following PJM dispatch. Such review should take into account generators' incentives across all of PJM's markets including the Capacity Market. The review should also clarify the language in the tariff and in the manuals regarding the calculation of uplift and should use mathematical formulas for clarity. It is very difficult if not impossible to understand and evaluate PJM's proposal based on the PJM filing.

PJM's proposed language and related discussion do not clearly explain what PJM is proposing to do. The Market Monitor requests that the Commission request clarification of PJM's proposal and that PJM provide examples of what it is proposing and how it would work, including a clear definition of the relevant time intervals over which the resource would be made whole.

**C. PJM's Proposal to Exclude Internal Bilateral Transactions from the Calculation of Supply and Demand Deviations.<sup>8</sup>**

The Market Monitor agrees (at 12) with PJM that Internal Bilateral Transactions (IBTs) should be excluded from the calculation of supply and demand deviations.

Internal bilateral transactions are used by market participants to transfer the financial responsibility for energy withdrawn or injected into the system in the Day-Ahead and Real-Time Energy Markets. IBTs allow PJM to track which market participants hold title to the energy, which is necessary for PJM's settlement process.

IBTs are not virtual transactions and unlike all other transaction types, internal bilateral sales and purchases do not affect unit commitment, dispatch, energy flows or market prices in either the day-ahead or real-time markets. Accordingly, IBTs should be excluded from the calculation of supply and demand deviations between day-ahead and real-time market positions. The result would be to eliminate the balancing operating reserve

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<sup>8</sup> The Market Monitor refers to bilateral transactions as internal bilateral transactions (IBTs). This is the more common name used in reference to these transactions for PJM business purposes and reporting by the Market Monitor.

charges to participants that use real-time IBTs and the incentive for those market participants to place other transactions, such as INCs and DECc, which do affect the energy market, in order to offset the deviations incurred by using the IBTs.

## II. CONCLUSION

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

Respectfully submitted,



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Dated: November 7, 2017

## 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 7<sup>th</sup> day of November, 2017.



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