



UTCs are unique and therefore has not justified unique treatment, in terms of allowable bid points, of UTCs relative to INCs and DEC.

XO's assertions about the Market Monitor's statements about UTCs are incorrect. The Market Monitor's statements are not contradictory. Unique treatment of UTCs' allowable biddable points is fully supported. The fact that, taken alone, a UTC injection looks like an INC and, taken alone, a UTC withdrawal looks like a DEC, does not mean that the UTC product, which includes both an injection and a withdrawal, is like an INC or a DEC. The UTC product is unique.

UTCs are fundamentally different from INCs and DEC.

The profitability of a UTC transaction is the net of the separate profitability of the component injection and withdrawal. A UTC can be profitable if one side of the UTC transaction is profitable and the other side loses money and the profit exceeds the loss. This means that a profitable UTC can be contributing, simultaneously, to price convergence at one node on the system and price divergence at another node on the system. This is not true of an INC or a DEC. Unlike INCs and DEC, the profit incentives to use UTCs are not necessarily consistent with point specific price convergence and are, under some regularly occurring conditions, inconsistent with price convergence. This is a unique characteristic of UTCs relative to INCs and DEC.

UTCs are fundamentally different from INCs and DEC.

UTCs are modeled and clear in PJM's day ahead market in very different ways than INCs and DEC.

UTCs bid in and clear as a spread bid (a price difference between the source and sink points of the UTC). The trigger for clearing is whether or not the spread requirement is met, not on the basis of a specified call price at the source node and a specified sink price at the sink node. This is a unique characteristic of UTCs relative to INCs and DEC.

INC and DEC clear on the basis of a specified call price being met at the identified node.

Once cleared, UTCs are an injection at one node that is matched by a withdrawal at another node. Once cleared, the flows created by UTCs are like every other source of injections and withdrawals in terms of their effects on the system. In this particular

characteristic, UTC injections are not unique relative to INCs and UTCs withdrawals are not unique relative to DECs.

**B. XO Confuses a Reduced Number of Constraints with No Constraints.**

XO takes issue (at 2) with the Market Monitor's statement that "UTC profitability is primarily a result of constraints not modeled by PJM in the day-ahead model that bind in the real-time market." XO argues (at 2) that "if this were true, then one would expect that the day-ahead spreads on profitable UTCs would be at or close to \$0.00." XO then presents a number of tables from the SOM showing that there were profitable UTC paths with positive DA spreads as support for their position. (XO 3-5). XO argues (at 5) that the SOM "analysis indicates that, instead, constraints on these significant paths were modeled" and, therefore, "profitability of UTCs cannot be primarily a result of unmodeled day-ahead constraints."

There is no basis for XO's assertions.

The Market Monitor did not state that there were no constraints modeled in the day ahead market that could cause price separation in the day ahead market results. The Market Monitor did not claim that there were no binding constraints in the day ahead market that also bound in real time. The Market Monitor also did not indicate that there no UTC that were profitable on the basis of day ahead constraints.

The Market Monitor did indicate that the PJM day-ahead market model is a simplified approximation of the real-time model with a greatly reduced number of enforced constraints. On average, PJM only models about 25 percent of the physical transmission elements in the day-ahead market. This reduced model creates false arbitrage opportunities for UTCs. UTC profitability is primarily, but not exclusively, a result of constraints not modeled by PJM in the day-ahead model that are modeled and do bind in the real-time market. These discrepancies create balancing congestion, which a significant portion of UTCs profit from. This can be seen, in part, in the SOM table 11-10 provided in XO's answer (at 6). The table shows that, in net, UTCs paid \$32.7 million in the day ahead congestion

charges but were paid \$47.0 million in balancing congestion payments, for a net profit of \$14.3 million.

## 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.<sup>3</sup> 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.

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<sup>3</sup> 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 these comments as the Commission resolves the issues raised in this proceeding.

Respectfully submitted,



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Dated: January 12, 2018

## 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 12<sup>th</sup> day of January, 2018.



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