



**Comments of the Independent Market Monitor for PJM on
Draft Loop Flow Recommendations of the Broader Regional Markets Group**

Monitoring Analytics, in its capacity as the Independent Market Monitor for PJM (IMM), respectfully submits the comments herein for consideration by the Broader Regional Markets Group. These comments are submitted as requested during the October 29, 2009 Technical Conference where potential solutions for loop flows were discussed. The IMM generally urges the Broader Regional Markets Group to accord priority attention to accurate interface pricing including the market to market (M2M) approach successfully implemented by the Midwest ISO and PJM.

The proposed schedule should be modified to allow for an improved interface pricing approach and the M2M approach to be implemented ahead of the buy-through congestion solution so that consideration of the buy-through congestion approach could account for the impact of the interface pricing approach and the M2M approach. With appropriate pricing, incentives to create loop flows would be eliminated. The buy-through congestion approach is not a proven approach, and the case for its priority over the interface pricing approach and the M2M approach has not been made.

All details need not be finalized by the time of NYISO's filing, but any such filing should include an estimate of the resource costs for each solution proposed. The Commission and stakeholders should have the information necessary to evaluate the feasibility, effectiveness and cost of each of the proposed solutions.

The IMM offers comments on specific aspects of the proposal below:

1) Interface Pricing

The solution to loop flows should start with appropriate interface pricing that reflects the actual flow of energy. Such an approach to interface pricing assigns interface prices based on the Generation Control Area (GCA) for imports and Load Control Area (LCA) for exports, as designated on the NERC e-Tag. This method for interface pricing has been used by PJM and the Midwest ISO for years, has a demonstrated track record and could be implemented immediately by other RTOs/ISOs at minimal cost. The IMM recommends that the compliance filing address this approach and make it the first priority.

2) Congestion Management Agreements

The IMM supports the creation of a congestion management approach to addressing loop flows in the Northeast as rapidly as possible. Utilizing M2M mechanisms to apply least cost economic dispatch to relieve congestion has proven successful. No reason or significant obstacle has been identified that could justify delay in moving forward to implement this approach more broadly. Extending this concept among all markets in the Northeast would

permit the efficient use of resources and remove incentives to create schedules that cause loop flows. The IMM recommends that the compliance filing give this approach second priority.

3) Physical Solutions

Engineering approaches, such as phase angle regulators (PARs) and variable frequency transformers (VFTs), do not address the underlying market pricing issues and are unlikely to provide a solution to loop flows. The IMM supports investment in additional PARs where it can be shown to meet a demonstrated need in a cost effective manner. Engineering approaches are not an alternative to the development of market solutions.

4) Parallel Flow Visualization

Parallel flow visualization will provide additional information to reliability coordinators. Monitoring Analytics supports this project, as it will provide additional details and archived data to better analyze loop flows. However, the work of the Broader Regional Market Group and the continued development of this tool within the NERC/NAESB arena do not require linkage, and the compliance filing need not address it although a statement of support for this ongoing project is welcome.

5) Buy-Through Congestion

Appropriate pricing is required in order to address the loop flow issue. The buy-through congestion approach is likely to take a long time to implement, have relatively high costs and change control room operator communications. This approach would also require changes to market settlement systems and potentially to the NERC e-Tag software. Implementing a buy through congestion approach is unlikely to resolve the underlying pricing issue. The IMM recommends that, while the buy through congestion approach incorporates a pricing element, it should be considered only after the implementation of interface pricing and the M2M option.

6) Interregional Transaction Coordination

“Interregional Transaction Coordination” has not been presented in enough detail for the IMM to provide meaningful comment. To the extent that this proposal includes NYISO implementation of intra hourly scheduling, the IMM supports that component. To the extent that this proposal would include a “spread” bid product, the IMM questions whether such a product has any value to the markets.