

## **PJM/IMM Statement on Interchange Scheduling**

This statement puts market participants on notice that certain external interchange scheduling practices could result in notification of such transactions by PJM, and/or referral by the Independent Market Monitor (IMM), to the FERC Office of Enforcement for investigation. The basis for such referral is that PJM and the IMM believe these transactions provide no value by way of enhanced market efficiencies or operational benefit and could constitute manipulative, harmful or inappropriate market behavior.

External interchange schedules are the mechanism by which PJM market participants schedule power into or out of the PJM region. Such schedules are communicated via the NERC electronic tagging (“eTagging”) system. External interchange schedules can have a significant impact on PJM operations as a Balancing Authority. When significant volumes of interchange are scheduled into or out of a Balancing Authority like PJM, physical resource output adjustments within the Balancing Authority must be made in order to ensure system control is maintained.

### **Hourly Integrated Settlement Issue**

As described in PJM’s compliance filings in response to FERC Order 764<sup>1</sup>, PJM has historically experienced issues with system control when large changes in interchange schedules are requested by market participants in successive, 15-minute intervals. PJM also acknowledged in those FERC filings that the scheduling of interchange for only the last, 15-minute interval of a clock hour in order to take advantage of the hourly integrated nature of PJM’s LMP calculation and market settlements provides no operational benefit to the system, results in additional system costs that must be allocated to other market participants, and could constitute manipulative behavior. Therefore, since 2008, PJM had implemented a minimum, 45-minute scheduling duration for external interchange transactions.

As a result of the PJM compliance process with FERC Order 764, PJM has been required to remove this minimum 45-minute scheduling duration rule. However, as PJM stated in its latest compliance filing in the Order 764 Docket, PJM and the IMM also have indicated that interchange scheduling behavior on the part of market participants that is believed to be manipulative will be referred to the FERC Office of Enforcement. The purpose of this document is to describe such external interchange scheduling behavior(s).

The behavior in question involves market participants observing interface price differentials for the first portion of an hour and, based on such observations, determining what the hourly integrated price differentials are likely to be, and then scheduling interchange in a profitable direction for only the last portion of that same hour. Therefore, market participants that schedule interchange transactions between PJM and external Balancing Authorities that begin at 45 minutes past the hour and end at the top of the very next hour would be subject to referral. Other behaviors that would result in the same or similar settlement could also be subject to referral. For example, modifying the transaction volume of an existing schedule for the last 15 minute interval could also be subject to referral. As another example, scheduling a transaction in one direction (the profitable direction) that begins at 45 minutes past the hour and continues into the next hour, and then scheduling another transaction in the opposite direction that begins at the top of the

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<sup>1</sup> See FERC Docket ER14-381

hour, thereby offsetting the first transaction, could also be subject to referral. Such activity among corporate affiliates could also be subject to referral. Transactions that are scheduled to begin at 45 minutes past the hour and stop at 15 minutes past the top of the next hour could also be subject to referral should PJM and/or the IMM have reason to believe that such transactions were submitted to exploit the hourly integrated nature of PJM settlements.

### **Partial Path Scheduling Issue**

PJM and the IMM have observed external interchange schedules that appear to have been deliberately submitted for the purpose of exploiting interface price differentials without resulting in physical energy flow between the associated Balancing Authorities. External energy schedules submitted at any interface points that appear to be intended to inappropriately garner payments based on interface price differentials but do not result in physical energy flow could be subject to referral. For example, multiple interchange schedules, each of which represents a partial schedule that does not reflect the full physical energy path, or schedules that are in the opposite direction of a portion of a larger transaction that involves multiple Balancing Authorities so as to “cancel out” the physical flow that would otherwise be caused by a portion of the larger transaction could also be subject to referral. The key in these cases would be whether PJM and/or the IMM believes that the schedules together represent a method by which to extract revenues based on interface price differentials without inducing physical energy flow between Balancing Authorities.

Should a market participant seeking to engage in external interchange transactions of the sort described above, nonetheless believe it has a bona fide commercial rationale to support such transaction (exploiting pricing non-convergence arising from different rules and practices across the interface is not a bona fide rationale), such participant is strongly encouraged to discuss the matter in advance with both PJM and the IMM.

Below are the PJM and Monitoring Analytics contacts for any stakeholders with further questions:

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