UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

	)	
PJM Interconnection, L.L.C.	)	Docket No. EL14-37-000
	)	

ANSWER AND MOTION FOR LEAVE TO ANSWER
OF THE INDEPENDENT MARKET MONITOR FOR PJM

Pursuant to Rules 212 and 213 of the Commission's Rules and Regulations,[1] Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor for PJM[2] ("Market Monitor"), submits this answer to, and moves for leave to answer, the joint answer submitted by certain financial marketing companies, including eXion Energy, Inc., Inertia Power I, LLC, Dyon, LLC and Angell Energy, LLC ("Financial Marketers") on July 1, 2015.

I. ANSWER

A. FTR Forfeiture Rule As Applied to UTCs.

The Financial Marketers mischaracterize the Market Monitor's proposed application of the FTR Forfeiture Rule to UTC transactions when they assert that the Market Monitor's proposal would have each UTC "be analyzed as a separate INC and DEC to determine if

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1 18 CFR §§ 385.212 & 385.213 (2014).

2 PJM Interconnection, L.L.C. ("PJM") is a Commission-approved Regional Transmission Organization. Capitalized terms used herein and not otherwise defined have the meaning used in the PJM Open Access Transmission Tariff ("OATT") or the PJM Operating Agreement ("OA").

forfeiture is appropriate."[3] The modification, proposed by the Market Monitor, of the current FTR Forfeiture Rule to apply to UTCs does not treat UTCs as separate INCs and DECs. Instead, the Market Monitor's proposed rule would capture the net impact of a UTC on a single constraint by using the net dfax of the UTC as either an injection or a withdrawal. This recognizes that a UTC is a paired transaction and provides the net impact the paired transaction would have on the constraint being examined. The Market Monitor agrees with Exion that power does not flow according to contract paths in real-time, and would extend that to day-ahead as well. In contrast, PJM's currently implemented FTR Forfeiture Rule as applied to UTCs does assume that power flows on the contract path. PJM's implementation has not been approved by the Commission and the Market Monitor continues to disagree with PJM's method. The Market Monitor's Forfeiture Rule does not make this assumption.

Under the Market Monitor's proposed portfolio approach, which would represent a significant change to the current rule, the total injections and withdrawals of all virtuals on a constraint define the net volume of virtual transactions on a constraint. The net flow of the UTC is accounted for as is the net flow of all other virtual transactions.

B. The FTR Forfeiture Rule Should be Applied to Counterflow FTRs

The Financial Participants argue (at 16) "[n]o party has presented any evidence suggesting that counterflow FTRs are vulnerable to the same or similar manipulative conduct that the FTR Forfeiture Rule is intended to deter." The Financial Marketers further argue (at 16) that it is riskier to attempt to reduce congestion to increase the value of counterflow FTRs rather than to attempt to increase congestion to increase the value of prevailing flow FTRs, and that therefore there is no need to apply the forfeiture rule to counterflow FTRs.

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3 "Joint Answer of Exion Energy, Inc., Inertia Power I, LLC, Twin Cities Power Holdings, LLC, Dyon, LLC and Angell Energy, LLC," Docket No. EL14-37-000 (July 1, 2015), at 14.

There is no basis for these assertions. Even if the assertions were true, the rule should be modified to address potential manipulation using counterflow FTRs. Even if the risk were higher, that will affect the details of the behavior but does not remove the incentive to manipulate the value of counterflow FTRs. If the manipulation does not occur, the FTR rule will have no consequences. Therefore, there is no valid reason to exclude counterflow FTRs from the FTR Forfeiture Rule.

The Market Monitor agrees with PJM's filed comments that the application of the FTR Forfeiture Rule to counterflow FTRs is appropriate.[4]

C. PJM and the Market Monitor Have Shown That UTCs Affect Uplift

While the Financial Marketers note that both PJM (at 2) and the Market Monitor (at 6) have provided analysis, based on data from PJM studies, that supports the conclusion that UTCs affect commitment and thereby affect uplift, the Financial Marketers claim (at 1), that PJM and the Market Monitor "have failed to show that UTCs cause uplift." The Financial Marketers' disagreement is based on the assertion (at 2) that the studies do "not take into account the fact that virtual transactions may, and most likely do, result in more efficient dispatch and, thus, reduce costs for all Market Participants."

The Financial Marketers claim is that this "may" be the result, despite the fact that the evidence does not support the claim. Based on data and analysis provided by both PJM and the Market Monitor, the Market Monitor disagrees with this conjecture.

The analysis performed by both PJM and the Market Monitor, over two separate periods, was specifically performed to ascertain whether or not UTCs affected unit commitment and dispatch, and therefore whether or not UTCs affect uplift. The IMM and PJM analysis definitively determined that UTCs affect commitment, dispatch and uplift.

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4 *See* "Comments of PJM Interconnection, LLC," Docket No. EL14-37-000, at 5-6.

Further, the premise that UTCs can make market results "more efficient" is predicated on the ability of UTCs to affect unit commitment and dispatch, and therefore uplift. Absent an ability to affect commitment, dispatch and uplift, UTCs cannot improve the efficiency of the market. Absent such possible effects, UTCs could provide no benefit to the market, and would be merely an inefficient wealth transfer from physical participants to UTC transactions.

D. The Decrease in UTC Activity Has Not Resulted in Increased Divergence in Day Ahead and Real Time Prices in PJM.

The Financial Marketers, citing the memo by Yes Energy, claim (at 3) that "the dramatic decrease in volume caused by potential exposure to PJM's volatile uplift mechanism, has reduced convergence between the day-ahead and real-time prices." The evidence does not support this assertion. It would be expected that if the Financial Marketers' claim about the beneficial impacts of UTCs were correct, that the market efficiency would have deteriorated after the UTC volume declined on September 8, 2014, and thereafter and that this decline would be quite obvious. But market efficiency did not deteriorate and the Financial Marketers have failed to make even a weak case that it did.

The Market Monitor has performed a number of studies of UTC volumes and day ahead and real time price differences and has found no evidence that UTC volumes contribute to LMP convergence or that the reduction in UTC volume negatively affected convergence.

Analysis based on reviews of market results do not support the conclusion that UTC activity results in price convergence. Table 1 and Table 2 show the proportions of cleared UTC bids that were profitable, and thereby consistent with convergence behavior, for the January 1, 2014, through June 30, 2015. Table 1 shows the results by the number of cleared UTC bids. Table 2 shows the results by cleared UTC MW. The data show that, from January 1, 2014, through June 30, 2015, only 3.32 percent of UTC bids and 3.14 percent of UTC MW were profitable at both ends of the transaction and therefore consistent with price convergence at both ends of the UTC transaction. These results do not support the conclusion that UTC activity improves price convergence.

Table 1 Cleared number of UTC bid metrics: January 2014 through June 30, , 2015

	Total	Profitable at both ends	Profitable at one end	Unprofitable at one end	Unprofitable at both ends
Profitable UTC Count	13,659,702	788,604	12,871,098	12,871,098	NA
Unprofitable UTC Count	10,068,488	NA	9,685,124	9,685,124	383,364
Total	23,728,190	788,604	22,556,222	22,556,222	383,364
	Total	Profitable at both ends	Profitable at one end	Unprofitable at one end	Unprofitable at both ends
Profitable UTC Count	57.57%	3.32%	54.24%	54.24%	NA
Unprofitable UTC Count	42.43%	NA	40.82%	40.82%	1.62%
Total	100.00%	3.32%	95.06%	95.06%	1.62%

Table 2 Cleared UTC MW bid metrics: January 2014 through June 30, 2015

	Total	Profitable at both ends	Profitable at one end	Unprofitable at one end	Unprofitable at both ends
Profitable UTC MW	291,823,666	16,000,235	275,823,431	275,823,431	NA
Unprofitable UTC MW	217,442,375	NA	209,133,677	209,133,677	8,308,698
	509,266,041	16,000,235	484,957,108	484,957,108	8,308,698
	Total	Profitable at both ends	Profitable at one end	Unprofitable at one end	Unprofitable at both ends
Profitable UTC Count	57.30%	3.14%	54.16%	54.16%	NA
Unprofitable UTC Count	42.70%	NA	41.07%	41.07%	1.63%
Total	100.00%	3.14%	95.23%	95.23%	1.63%

E. UTCs on The Margin Is Not Evidence That UTCs Improve Efficiency

The Financial Marketers argue (at 3) that "UTCs set price 67 percent of the time, even following an 80 percent drop in volume since the refund effective date; this demonstrates they are the most economical bid." Further, the Financial Marketers argue (at 7) that "[v]irtual transactions contribute to system reliability by facilitating the most economical, most efficient unit commitment." There is no evidence to support either of these assertions as applied to UTCs.

UTC bids are cleared as a spreads, not point specific prices. When they affect generation dispatch and commitment, they are doing so on the basis of the spread bid being met, not on the basis of improving commitment or providing the most efficient unit commitment. The evidence is that UTCs do not contribute to price convergence and therefore do not contribute to an optimal commitment.

F. PJM data and analysis does not support the conclusion that there is no relationship between UTC and uplift

The Financial Marketers assert (at 6) "PJM has previously analyzed the issue and concluded that there is no relationship between UTCs and uplift costs." But the Financial Marketer's assertion is not based on PJM's most recent report that PJM filed with the Commission as part of this proceeding. Instead, the Financial Marketers are basing their assertion on the results of an earlier PJM analysis which was reviewed and refuted by the Market Monitor.[5] [6] The Financial Marketers ignore the Market Monitor's review of this earlier analysis and ignore the most recent PJM analysis, filed by PJM In this proceeding, both of which support the conclusion that UTCs do affect uplift.

The Financial Marketers further claim (at 6) that the Market Monitor's "studies have neither been filed in the instant proceeding nor are they publically available." This claim is not true.. The results of the Market Monitors studies and presentations of the Market Monitor's studies are available on the Monitoring Analytics website.[7]

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[5] The Financial Marketers' refer to PJM's presentation at the June 24, 2013, PJM Members Committee, which they attached to their reply as Attachment I.

[6] See the 2014 State of the PJM Market for PJM, v. II (August 14, 2014) at 139–178; see also IMM MC Webinar presentation of June 24, 2013; February 7, 2014 PJM UTC Study submitted to the Commission (EL13-1654-000) at 8–9; IMM MC Webinar presentation of February 24, 2014, IMM MIC Webinar presentation of April 10, 2014; IMM MC Webinar presentation of June 23, 2014, IMM MC Webinar presentation of August 19, 2014; IMM MC Webinar presentation of September 15, 2014; IMM MC Webinar presentation of October 27, 2014; IMM MC Webinar presentation of November 17, 2014 (available at: < http://monitoringanalytics.com/reports/Presentations/2014.shtml >. See also IMM MC Webinar presentation of June 24, 2013; IMM MC Webinar presentation of July 29, 2013; IMM MC Webinar presentation of September 23, 2013. <http://monitoringanalytics.com/reports/Presentations/2013.shtml>.

[7] Ibid.

II. MOTION FOR LEAVE TO ANSWER

The Commission's Rule 213 does not permit answers to answers or protests unless otherwise ordered by the decisional authority.[8] The Commission has made exceptions, however, where an answer clarifies the issues or assists in creating a complete record.[9] 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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8 18 CFR § 385.213(a)(2).

9 *See*, *e.g.*, *N.Y. Indep. Sys. 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); *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).

III. CONCLUSION

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

Respectfully submitted,

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Dated: July 17, 2015

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 17th day of July, 2015.

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