

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

PJM Interconnection, L.L.C.)
) Docket No. ER18-88-000
)

COMMENTS OF THE INDEPENDENT MARKET MONITOR FOR PJM

Pursuant to Rule 211 of the Commission’s Rules and Regulations,¹ Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor for PJM² (“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 appropriately “align the eligible bidding locations for Virtual Transactions with areas where they can have the most significant market benefits while reducing opportunities for them to be used to profit from the market without adding commensurate value.” While the Market Monitor does not agree that any significant market benefits from Virtual Transactions have been demonstrated, the Market Monitor supports the proposed revisions as a reasonable step to limit the negative impacts of Virtual Transactions. PJM’s proposed revisions should be accepted as filed, without delay.

¹ 18 CFR § 385.211 (2017).

² 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”).

I. COMMENTS

A. INCs and DECs Should Be Limited to Locations Where Physical Load and Generation Settle.

The Market Monitor agrees with PJM (at 10) that INCs and DECs should be limited to locations where physical load and generation settle and where the ability to profit from modeling differences are minimized.

The Market Monitor agrees with PJM (at 5–6) that virtual bidding in “locations where there is a systematic price difference between the Day-ahead and Real-time Energy Markets due to a modeling difference between the Day-ahead Energy Market and Real-time Energy Market” does not benefit the market. Where profitable trading opportunities are created by systematic modeling differences, such as differences between the day-ahead and real-time modeled transmission contingencies and marginal loss calculations and areas where physical injections or withdrawals cannot occur, virtual trading cannot result in more efficient market outcomes. Virtual trading will continue to be profitable without reducing or eliminating the spread as would happen in an efficient market. This is false arbitrage. False arbitrage permits traders to extract money from the market while adding no value to the market.

The Market Monitor agrees with PJM (at 10) that trading of INCs and DECs should be limited to points “where either generation, load or interchange transactions are settled, or at trading hubs where forward positions can be taken.”

B. UTC Trading Should Be Limited to Interfaces, Hubs and Zones.

The Market Monitor agrees with PJM (at 11) that there are differences between INCs and DECs, and UTCs, that justify limiting UTCs to interfaces, hubs and zones.

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 the profit on one side of the UTC transaction exceeds the losses on the other side.

In 2016, 48.3 percent of all cleared UTC transactions were profitable. Of cleared UTC transactions, 64.4 percent were profitable on the source side and 35.0 were profitable on the sink side but only 5.6 percent were profitable on both the source and sink side.³ The Market Monitor found that UTC profitability was primarily driven by the predictably unmodeled transmission constraints in the day-ahead market that were binding in the real-time market. In such circumstances UTCs did not bring convergence in LMPs, commitment, or dispatch between the day-ahead and real-time markets. UTC profits resulting from these circumstances continued until PJM intervened and included the unmodeled constraints in the day-ahead market. There is no evidence that UTCs contribute to price convergence or to market efficiency improvements in the PJM market.

The Market Monitor agrees with PJM's conclusion (at 11) that, unlike INCs and DECs, there is no physical, real-time parallel product to UTCs within PJM. PJM notes (at 11) that "[a] point-to-point transaction within the PJM pool does not exist and therefore it is unclear how the conditions created by a UTC in the Day-ahead Energy Market can ever be replicated in real-time."

The Market Monitor continues to recommend eliminating the UTC product. But in this matter, the Market Monitor supports PJM's recommendation to limit UTC bid locations to interfaces, hubs and zones. Limiting UTCs to these aggregated, high volume trading locations will reduce opportunities to engage in false arbitrage generated by systematic modeling differences.

³ See 2016 State of the Market Report for PJM, Vol. 2 (March 9, 2017) at 166.

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 7th day of November, 2017.



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