

Recommendations

In order to perform its role in PJM market design, the MMU evaluates existing and proposed PJM Market Rules and the design of the PJM Markets.¹ The MMU initiates and proposes changes to the design of the markets and the PJM Market Rules in stakeholder and regulatory proceedings.² In support of this function, the MMU engages in discussions with stakeholders, State Commissions, PJM management, and the PJM Board; participates in PJM stakeholder meetings and working groups regarding market design matters; publishes proposals, reports and studies on market design issues; and makes filings with the Commission on market design issues.³ The MMU also recommends changes to the PJM Market Rules to the staff of the Commission's Office of Energy Market Regulation, State Commissions, and the PJM Board.⁴ The MMU may provide in its annual, quarterly and other reports "recommendations regarding any matter within its purview."⁵

Priority rankings are relative. The creation of rankings recognizes that there are limited resources available to address market issues and that problems must be ranked in order to determine the order in which to address them. It does not mean that all the problems should not be addressed. Priority rankings are dynamic and as new issues are identified, priority rankings will change. The rankings reflect a number of factors including the significance of the issue for efficient markets, the difficulty of completion and the degree to which items are already in progress. A low ranking does not necessarily mean that an issue is not important, but could mean that the issue would be easy to resolve.

There are three priority rankings: High, Medium and Low. High priority indicates that the recommendation requires action because it addresses a market design issue that creates significant market inefficiencies and/or long lasting negative market effects. Medium priority indicates that the recommendation addresses a market design issue that creates intermediate market inefficiencies and/or near term negative market effects. Low priority indicates that the recommendation addresses a market design issue that creates smaller

market inefficiencies and/or more limited market effects or that it could be easily resolved.

The MMU is also tracking PJM's progress in responding to these recommendations. Each recommendation includes a status. The status categories are:

- **Adopted in full:** PJM has implemented the recommendation made by the MMU.
- **Adopted partially:** PJM has implemented part of the recommendation made by the MMU.
- **Not adopted:** PJM does not plan to implement the recommendation made by the MMU, or has not yet implemented any part of the recommendation made by the MMU.

New Recommendations for 2014

Consistent with its core function to "[e]valuate existing and proposed market rules, tariff provisions and market design elements and recommend proposed rule and tariff changes,"⁶ the MMU recommends specific enhancements to existing market rules and implementation of new rules that are required for competitive results in PJM markets and for continued improvements in the functioning of PJM markets. In this *2014 State of the Market Report for PJM*, the MMU includes 15 recommendations that were new in 2014. Eight of the 15 new recommendations for 2014 are reported for the first time in this annual state of the market report.

From Section 3, Energy Market

- The MMU recommends that PJM require all generating units to identify the fuel type associated with each of their offered schedules. (Priority: Low. First reported Q2, 2014. Status: Adopted in full, Q4, 2014.)
- The MMU recommends that generation owners be permitted to submit cost-based offers above the \$1,000/MWh energy offer cap if they are calculated in accordance with PJM's Cost Development Guidelines excluding the ten percent adder, subject to after the fact review by the MMU. Such offers should be allowed to set LMP. (Priority: Medium. New recommendation. Status: Not adopted.)

¹ OATT Attachment M § IV.D.

² *Id.*

³ *Id.*

⁴ *Id.*

⁵ OATT Attachment M § VI.A.

⁶ 18 CFR § 35.28(g)(3)(ii)(A); see also OATT Attachment M § IV.D.

From Section 4, Energy Uplift

- The MMU recommends calculating LOC based on segments of hours not on an hourly basis in the calculation of credits paid to combustion turbines and diesels scheduled in the Day-Ahead Energy Market but not committed in real time. (Priority: Medium. New recommendation. Status: Not adopted.)
- The MMU recommends allocating the energy uplift payments to units scheduled as must run in the Day-Ahead Energy Market for reasons other than voltage/reactive or black start services as a reliability charge to real-time load, real-time exports and real-time wheels. (Priority: Medium. New recommendation. Status: Not adopted.)
- The MMU recommends including real-time exports and real-time wheels in the allocation of the cost of providing reactive support to the 500 kV system or above which is currently allocated to real-time RTO load. (Priority: Low. First reported Q2, 2014. Status: Not adopted.)
- The MMU recommends enhancing the current energy uplift allocation rules to reflect the elimination of day-ahead operating reserves, the timing of commitment decisions and the commitment reasons. (Priority: High. First reported Q1, 2014. Status: Not adopted.)

From Section 6, Demand Response

- The MMU recommends, as a preferred alternative to having PJM demand side programs, that demand response be on the demand side of the markets and that customers be able to avoid capacity and energy charges by not using capacity and energy at their discretion and that customer payments be determined only by metered load. (Priority: High. New recommendation. Status: Not adopted.)

From Section 9, Interchange Transactions

- The MMU recommends that the submission deadline for real-time dispatchable transactions be modified from 1200 on the day prior, to three hours prior to the requested start time, and that the minimum duration be modified from one hour to 15 minutes. These changes would give PJM a more flexible

product that could be utilized to meet load in the most economic manner. (Priority: Medium. First reported Q3 2014. Status: Not adopted.)

- The MMU recommends that PJM explore an interchange optimization solution with its neighboring balancing authorities that remove the need for market participants to schedule physical transactions across seams. Such a solution would include an optimized joint dispatch approach that treats seams between balancing authorities as constraints, similar to any other constraint within an LMP market. (Priority: Medium. First reported Q3 2014. Status: Not adopted.)
- The MMU recommends that PJM implement additional business rules to remove the incentive to engage in sham scheduling activities using the PJM/IMO interface price. (Priority: Medium. New recommendation. Status: Not adopted.)
- The MMU recommends that PJM file revisions to the Marginal Loss Surplus Allocation method to fully comply with the February 24, 2009, Order. The MMU recommends that marginal loss surplus allocations be capped such that the marginal loss surplus credits cannot exceed the contributions made to the fixed costs of the transmission system for any reason. (Priority: Medium. New recommendation. Status: Not adopted.)

From Section 10, Ancillary Services

- The MMU recommends that no payments be made to tier 1 resources if they are deselected in the PJM market solution. (Priority: High. First reported Q3, 2014. Status: Adopted July 2014.)

From Section 12, Planning

- The MMU recommends an analysis of the study phase of PJM's transmission planning to reduce the need for postponements of study results, to decrease study completion times, and to improve the likelihood that a project at a given phase in the study process will successfully go into service. (Priority: Medium. First reported Q1, 2014. Status: Not adopted.)
- The MMU recommends that PJM establish fair terms of access to rights of way and property, such as at substations, in order to permit competition between incumbent transmission providers and

nonincumbent providers. (Priority: Medium. New recommendation. Status: Not adopted.)

- The MMU recommends that PJM reevaluate transmission outage tickets when the outage is rescheduled. (Priority: Low. New recommendation. Status: Not adopted.)

Complete List of MMU Recommendations

The following recommendations are explained in greater detail in each section of the report.

Section 3, Energy Market

- The MMU recommended the elimination of FMU and AU adders. Since the implementation of FMU adders, PJM has undertaken major redesigns of its market rules that affect revenue adequacy, including implementation of the RPM capacity market construct in 2007, and changes to the scarcity pricing rules in 2012. The reasons that FMU and AU adders were implemented no longer exist. FMU and AU adders no longer serve the purpose for which they were created and interfere with the efficient operation of PJM markets. (Priority: Medium. First reported 2012. Status: Adopted partially, Q4, 2014.)
The MMU and PJM proposed, and on October 31, 2014, the Commission approved, a compromise that limited FMU adders to units with net revenues less than unit going forward costs or ACR.⁷
- The MMU recommends that PJM require all generating units to identify the fuel type associated with each of their offered schedules. (Priority: Low. First reported Q2, 2014. Status: Adopted in full, Q4, 2014.)
- The MMU recommends that the definition of maximum emergency status in the tariff apply at all times rather than just during maximum emergency events.⁸ (Priority: Medium. First reported 2012. Status: Not adopted.)
- The MMU recommends that PJM not use the ATSI closed loop interface or create similar interfaces to set zonal prices to accommodate the inadequacies of the demand side resource capacity product.

(Priority: Medium. First reported 2013. Status: Not adopted.)

- The MMU recommends that PJM routinely review all transmission facility ratings and any changes to those ratings to ensure that the normal, emergency and load dump ratings used in modeling the transmission system are accurate and reflect standard ratings practice. (Priority: Low. First reported 2013. Status: Not adopted.)
- The MMU recommends that PJM update the outage impact studies, the reliability analyses used in RPM for capacity deliverability and the reliability analyses used in RTEP for transmission upgrades to be consistent with the more conservative emergency operations (post contingency load dump limit exceedance analysis) in the energy market that were implemented in June 2013. (Priority: Low. First reported 2013. Status: Not adopted.)
- The MMU recommends that the roles of PJM and the transmission owners in the decision making process to control for local contingencies be clarified, that PJM's role be strengthened and that the process be made transparent. (Priority: Low. First reported 2013. Status: Not adopted.)
- The MMU recommends that PJM explore an interchange optimization solution with its neighboring balancing authorities that removes the need for market participants to schedule transactions. (Priority: Low. First reported 2013. Status: Not adopted.)
- There is currently no PJM documentation in the tariff or manuals explaining how hubs are created and how their definitions are changed.⁹ The MMU recommends that PJM include in the appropriate manual an explanation of the initial creation of hubs, the process for modifying hub definitions and a description of how hub definitions have changed.¹⁰ (Priority: Low. First reported 2013. Status: Not adopted.)
- The MMU recommends that during hours when a generation bus shows a net withdrawal, the energy withdrawal be treated as load, not negative

⁹ The general definition of a hub can be found in PJM. "Manual 35: Definitions and Acronyms," Revision 23 (April 11, 2014).

¹⁰ According to minutes from the first meeting of the Energy Market Committee (EMC) on January 28, 1998, the EMC unanimously agreed to be responsible for approving additions, deletions and changes to the hub definitions to be published and modeled by PJM. Since the EMC has become the Market Implementation Committee (MIC), the MIC now appears to be responsible for such changes.

⁷ 149 FERC ¶ 61,091 (2014).

⁸ PJM. OATT Section: 6A.1.3 Maximum Emergency, (February 25, 2014), p. 1740, 1795.

generation, for purposes of calculating load and load-weighted LMP. The MMU also recommends that during hours when a load bus shows a net injection, the energy injection be treated as generation, not negative load, for purposes of calculating generation and load-weighted LMP. (Priority: Low. First reported 2013. Status: Not adopted.)

- The MMU recommends that PJM identify and collect data on available behind the meter generation resources, including nodal location information and relevant operating parameters. (Priority: Low. First reported 2013. Status: Not adopted.)
- The MMU recommends that generation owners be permitted to submit cost-based offers above the \$1,000/MWh energy offer cap if they are calculated in accordance with PJM's Cost Development Guidelines excluding the ten percent adder, subject to after the fact review by the MMU. Such offers should be allowed to set LMP. (Priority: Medium. New recommendation. Status: Not adopted.)
- The MMU recommends that PJM create and implement clear, explicit and detailed rules that define the conditions under which PJM will and will not recall energy from PJM capacity resources and prohibit new energy exports from PJM capacity resources. The MMU recommends that those rules define the conditions under which PJM will purchase emergency energy while at the same time not recalling energy exports from PJM capacity resources. (Priority: Medium. First reported Q1, 2010. Status: Not adopted.)

Section 4, Energy Uplift

- The MMU recommends that PJM not use closed loop interfaces to set zonal prices, rather than use nodal prices, to accommodate the inadequacies of the demand side resource capacity product or the inability of the LMP model to fully accommodate reactive issues. (Priority: Medium. First reported 2013. Status: Not adopted.)
- The MMU recommends that the implementation of closed loop interface constraints be studied carefully sufficiently in advance to identify issues and that closed loop interfaces be implemented only after such analysis, only after significant advance notice to the markets and only if the result is consistent

with energy market fundamentals. (Priority: Medium. First reported 2013. Status: Not adopted.)

- The MMU recommends that PJM clearly identify and classify all reasons for incurring operating reserves in the Day-Ahead and the Real-Time Energy Markets and the associated operating reserve charges in order for all market participants to be made aware of the reasons for these costs and to help ensure a long term solution to the issue of how to allocate the costs of operating reserves. (Priority: Medium. First reported 2012. Status: Adopted partially.)
- The MMU recommends that PJM revise the current operating reserve confidentiality rules in order to allow the disclosure of complete information about the level of operating reserve charges by unit and the detailed reasons for the level of operating reserve credits by unit in the PJM region. (Priority: High. First reported 2013. Status: Not adopted.)
- The MMU recommends the elimination of the day-ahead operating reserve category to ensure that units receive an energy uplift payment based on their real-time output and not their day-ahead scheduled output. (Priority: Medium. First reported 2013. Status: Not adopted.)
- The MMU recommends reincorporating the use of net regulation revenues as an offset in the calculation of balancing operating reserve credits. (Priority: Medium. First reported 2013. Status: Not adopted.)
- The MMU recommends not compensating self-scheduled units for their startup cost when the units are scheduled by PJM to start before the self-scheduled hours. (Priority: Low. First reported 2013. Status: Not adopted.)
- The MMU recommends four modifications to the energy lost opportunity cost calculations:
 - The MMU recommends that the lost opportunity cost in the Energy and Ancillary Services Markets be calculated using the schedule on which the unit was scheduled to run in the Energy Market. (Priority: High. First reported 2012. Status: Not adopted.)
 - The MMU recommends including no load and startup costs as part of the total avoided costs in the calculation of lost opportunity cost credits paid to combustion turbines and diesels

- scheduled in the Day-Ahead Energy Market but not committed in real time. (Priority: Medium. First reported 2012. Status: Not adopted.)
- The MMU recommends using the entire offer curve and not a single point on the offer curve to calculate energy lost opportunity cost. (Priority: Medium. First reported 2012. Status: Not adopted.)
 - The MMU recommends calculating LOC based on segments of hours not on an hourly basis in the calculation of credits paid to combustion turbines and diesels scheduled in the Day-Ahead Energy Market but not committed in real time. (Priority: Medium. New recommendation. Status: Not adopted.)
- The MMU recommends that up-to congestion transactions be required to pay energy uplift charges. (Priority: High. First reported 2013. Status: Not adopted.)
 - The MMU recommends eliminating the use of internal bilateral transactions (IBTs) in the calculation of deviations used to allocate balancing operating reserve charges. (Priority: High. First reported 2013. Status: Not adopted.)
 - The MMU recommends allocating the energy uplift payments to units scheduled as must run in the Day-Ahead Energy Market for reasons other than voltage/reactive or black start services as a reliability charge to real-time load, real-time exports and real-time wheels. (Priority: Medium. New recommendation. Status: Not adopted.)
 - The MMU recommends reallocating the operating reserve credits paid to units supporting the Con Edison – PJM Transmission Service Agreements. (Priority: Medium. First reported 2013. Status: Not adopted.)
 - The MMU recommends that the total cost of providing reactive support be categorized and allocated as reactive services. Reactive services credits should be calculated consistent with the operating reserve credits calculation. (Priority: Medium. First reported 2012. Status: Not adopted.)
 - The MMU recommends including real-time exports and real-time wheels in the allocation of the cost of providing reactive support to the 500 kV system or above which is currently allocated to real-time RTO load. (Priority: Low. First reported Q2, 2014. Status: Not adopted.)
 - The MMU recommends enhancing the current energy uplift allocation rules to reflect the elimination of day-ahead operating reserves, the timing of commitment decisions and the commitment reasons. (Priority: High. First reported Q1, 2014. Status: Not adopted.)

Section 5, Capacity¹¹

- The MMU recommends the enforcement of a consistent definition of capacity resource. The MMU recommends that the requirement to be a physical resource be enforced and enhanced. The requirement to be a physical resource should apply at the time of auctions and should also constitute a commitment to be physical in the relevant Delivery Year. The requirement to be a physical resource should be applied to all resource types, including planned generation, demand resources and imports.^{12,13} (Priority: High. First reported 2013. Status: Not adopted.)
- The MMU recommends that the definition of demand side resources be modified in order to ensure that such resources be fully substitutable for other generation capacity resources. Both the Limited and the Extended Summer DR products should be eliminated in order to ensure that the DR product has the same unlimited obligation to provide capacity year round as generation capacity resources. (Priority: High. First reported 2013. Status: Not adopted.)
- The MMU recommends that the use of the 2.5 percent demand adjustment (Short Term Resource Procurement Target) be terminated immediately. The 2.5 percent should be added back to the overall market demand curve. (Priority: Medium. First reported 2013. Status: Not adopted.)
- The MMU recommends that the test for determining modeled Locational Deliverability Areas in RPM be redefined. A detailed reliability analysis of all at risk

¹¹ The MMU has identified serious market design issues with RPM and the MMU has made specific recommendations to address those issues. These recommendations have been made in public reports.

¹² See also Comments of the Independent Market Monitor for PJM. Docket No. ER14-503-000 (December 20, 2013).

¹³ See "Analysis of Replacement Capacity for RPM Commitments: June 1, 2007 to June 1, 2013," <http://www.monitoringanalytics.com/reports/Reports/2013/IMM_Report_on_Capacity_Replacement_Activity_2_20130913.pdf> (September 13, 2013).

units should be included in the redefined model. (Priority: Medium. First reported 2013. Status: Not adopted.)

- The MMU recommends that there be an explicit requirement that Capacity Resource offers in the Day-Ahead Energy Market be competitive, where competitive is defined to be the short run marginal cost of the units. (Priority: Low. First reported 2013. Status: Not adopted.)
- The MMU recommends that clear, explicit operational protocols be defined for recalling the energy output of Capacity Resources when PJM is in an emergency condition. PJM has modified these protocols, but they need additional clarification and operational details. (Priority: Low. First reported 2010. Status: Not adopted.)
- The MMU recommends improvements to the performance incentive requirements of RPM:
 - The MMU recommends that Generation Capacity Resources be paid on the basis of whether they produce energy when called upon during any of the hours defined as critical. One hundred percent of capacity market revenue should be at risk rather than only fifty percent. (Priority: High. First reported 2013. Status: Not adopted.)
 - The MMU recommends that a unit which is not capable of supplying energy consistent with its day-ahead offer should reflect an appropriate outage. (Priority: Medium. First reported 2013. Status: Not adopted.)
 - The MMU recommends that PJM eliminate all OMC outages from the calculation of forced outage rates used for any purpose in the PJM Capacity Market. (Priority: Medium. First reported 2013. Status: Not adopted.)
 - The MMU recommends that PJM eliminate the broad exception related to lack of gas during the winter period for single-fuel, natural gas-fired units.¹⁴ (Priority: Medium. First reported 2013. Status: Not adopted.)

¹⁴ For more on this issue and related incentive issues, see the MMU's White Paper included in: Monitoring Analytics, LLC and PJM Interconnection, LLC, "Capacity in the PJM Market," <http://www.monitoringanalytics.com/reports/Reports/2012/IMM_And_PJM_Capacity_White_Papers_On_OPSI_Issues_20120820.pdf> (August 20, 2012).

Section 6, Demand Response

- The MMU recommends that, if demand response remains in the PJM market, there be only one demand response product, with an obligation to respond when called for all hours of the year, and that the demand response be on the demand side of the capacity market. (Priority: High. First reported 2013. Status: Not Adopted.¹⁵)
- The MMU recommends that, if demand response remains in the PJM market, the emergency load response program be classified as an economic program, responding to economic price signals and not an emergency program responding only after an emergency is called. (Priority: High. First reported 2012. Status: Not adopted.)
- The MMU recommends that, if demand response remains in the PJM market, a daily energy market must offer requirement apply to demand resources, comparable to the rule applicable to generation capacity resources.¹⁶ (Priority: High. First reported 2013. Status: Not adopted.)
- The MMU recommends that, if demand response remains in the PJM market, demand response programs adopt an offer cap equal to the offer cap applicable to energy offers from generation capacity resources, currently \$1,000 per MWh.¹⁷ (Priority: High. First reported 2013. Status: Not adopted.)
- The MMU recommends that, if demand response remains in the PJM market, the lead times for demand resources be shortened to 30 minutes with an hour minimum dispatch for all resources. (Priority: Medium. First reported 2013. Status: Adopted in full, Q1, 2014.)
- The MMU recommends that, if demand response remains in the PJM market, demand resources be required to provide their nodal location on the electricity grid. (Priority: High. First reported 2013. Status: Not adopted.)
- The MMU recommends that, if demand response remains in the PJM market, measurement and verification methods for demand resources be

¹⁵ PJM's Capacity Performance proposal includes this change. See "Reforms to the Reliability Pricing Market ("RPM") and Related Rules in the PJM Open Access Transmission Tariff ("Tariff") and Reliability Assurance Agreement Among Load Serving Entities ("RAA")," Docket No. ER15-632-000 and "PJM Interconnection, LLC," Docket No. EL15-29-000.

¹⁶ See "Complaint and Motion to Consolidate of the Independent Market Monitor for PJM," Docket No. EL14-20-000 (January 27, 2014) at 1.

¹⁷ *Id.* at 1.

further modified to more accurately reflect compliance. (Priority: Medium. First reported 2012. Status: Not adopted.)

- The MMU recommends that, if demand response remains in the PJM market, compliance rules be revised to include submittal of all necessary hourly load data, and that negative values be included when calculating event compliance across hours and registrations. (Priority: Medium. First reported 2012. Status: Not adopted.)
- The MMU recommends that, if demand response remains in the PJM market, PJM adopt the ISO-NE five-minute metering requirements in order to ensure that dispatchers have the necessary information for reliability and that market payments to demand resources be calculated based on interval meter data at the site of the demand reductions.¹⁸ (Priority: Medium. First reported 2013. Status: Not adopted.)
- The MMU recommends that, if demand response remains in the PJM market, demand response event compliance be calculated for each hour and the penalty structure reflect hourly compliance. (Priority: Medium. First reported 2013. Status: Not adopted.)
- The MMU recommends that, if demand response remains in the PJM market, demand resources whose load drop method is designated as “Other” explicitly record the method of load drop. (Priority: Low. First reported 2013. Status: Adopted in full, Q2, 2014.)
- The MMU recommends that, if demand response remains in the PJM market, load management testing be initiated by PJM with limited warning to CSPs in order to more accurately represent the conditions of an emergency event. (Priority: Low. First reported 2013. Status: Not adopted.)
- The MMU recommends, as a preferred alternative to having PJM demand side programs, that demand response be on the demand side of the markets and that customers be able to avoid capacity and energy charges by not using capacity and energy at their discretion and that customer payments be

determined only by metered load. (Priority: High. New recommendation. Status: Not adopted.)

Section 7, Net Revenue

There are no recommendations in this section.

Section 8, Environmental

There are no recommendations in this section.

Section 9, Interchange Transactions

- The MMU recommends that PJM eliminate the IMO interface pricing point, and assign the transactions that originate or sink in the IESO balancing authority to the MISO interface pricing point. (Priority: Medium. First reported 2013. Status: Not adopted.)
- The MMU recommends that PJM monitor, and adjust as necessary, the weights applied to the components of the interfaces to ensure that the interface prices reflect ongoing changes in system conditions and that loop flows are accounted for on a dynamic basis. The MMU also recommends that PJM review the mappings of external balancing authorities to individual interface pricing points to reflect changes to the impact of the external power source on PJM tie lines as a result of system topology changes. The MMU recommends that this review occur at least annually. (Priority: Low. First reported 2009. Status: Adopted partially, Q2 2014.)
- The MMU recommends that the submission deadline for real-time dispatchable transactions be modified from 1200 on the day prior, to three hours prior to the requested start time, and that the minimum duration be modified from one hour to 15 minutes. These changes would give PJM a more flexible product that could be utilized to meet load in the most economic manner. (Priority: Medium. First reported Q3 2014. Status: Not adopted.)
- The MMU recommends that PJM explore an interchange optimization solution with its neighboring balancing authorities that remove the need for market participants to schedule physical transactions across seams. Such a solution would include an optimized joint dispatch approach that treats seams between balancing authorities as constraints, similar to any other constraint within

¹⁸ See ISO-NE Tariff, Section III, Market Rule 1, Appendix E1 and Appendix E2, “Demand Response,” <http://www.iso-ne.com/regulatory/tariff/sect_3/mr1_append-e.pdf>. (Accessed February 17, 2015) ISO-NE requires that DR have an interval meter with five minute data reported to the ISO and each behind the meter generator is required to have a separate interval meter. After June 1, 2017, demand response resources in ISO-NE must also be registered at a single node.

an LMP market. (Priority: Medium. First reported Q3 2014. Status: Not adopted.)

- The MMU recommends that PJM permit unlimited spot market imports as well as unlimited non-firm point-to-point willing to pay congestion imports and exports at all PJM Interfaces in order to improve the efficiency of the market. (Priority: Medium. First reported 2012. Status: Not adopted.)
- The MMU recommends that PJM implement a validation method for submitted transactions that would prohibit market participants from breaking transactions into smaller segments to defeat the interface pricing rule and receive higher prices (for imports) or lower prices (for exports) from PJM resulting from the inability to identify the true source or sink of the transaction. (Priority: Medium. First reported 2013. Status: Not adopted.)
- The MMU recommends that the validation method also require market participants to submit transactions on market paths that reflect the expected actual power flow in order to reduce unscheduled loop flows. (Priority: Medium. First reported 2013. Status: Not adopted.)
- The MMU recommends that PJM implement rules to prevent sham scheduling. The MMU's proposed validation rules would address sham scheduling. (Priority: High. First reported 2012. Status: Not adopted.)
- The MMU recommends that PJM eliminate the NIPSCO and Southeast interface pricing points from the Day-Ahead and Real-Time Energy Markets and, with VACAR, assign the transactions created under the reserve sharing agreement to the SouthIMP/EXP pricing point. (Priority: Low. First reported 2013. Status: Not adopted.)
- The MMU recommends that PJM immediately provide the required 12-month notice to Duke Energy Progress (DEP) to unilaterally terminate the Joint Operating Agreement. (Priority: Low. First reported 2013. Status: Not adopted.)
- The MMU recommends that PJM and MISO work together to align interface pricing definitions, using the same number of external buses and selecting buses in close proximity on either side of the border with comparable bus weights. (Priority: Medium.

First reported 2012. Status: Adopted partially, Q4 2013.)

- The MMU recommends that PJM implement additional business rules to remove the incentive to engage in sham scheduling activities using the PJM/IMO interface price. (Priority: Medium. New recommendation. Status: Not adopted.)
- The MMU recommends that PJM file revisions to the Marginal Loss Surplus Allocation method to fully comply with the February 24, 2009, Order. The MMU recommends that marginal loss surplus allocations be capped such that the marginal loss surplus credits cannot exceed the contributions made to the fixed costs of the transmission system for any reason. (Priority: Medium. New recommendation. Status: Not adopted.)

Section 10, Ancillary Services

- The MMU recommends that the Regulation Market be modified to incorporate a consistent application of the marginal benefit factor throughout the optimization, assignment and settlement process. (Priority: High. First reported 2013. Status: Not adopted.)
- The MMU recommends that the rule requiring the payment of tier 1 synchronized reserve resources when the non-synchronized reserve price is above zero be eliminated immediately. (Priority: High. First reported 2013. Status: Not adopted.)
- The MMU recommends that no payments be made to tier 1 resources if they are deselected in the PJM market solution. (Priority: High. First reported Q3, 2014. Status: Adopted July 2014.)
- The MMU recommends that the tier 2 synchronized reserve must-offer provision of scarcity pricing be enforced. As of the end of December 31, 2014 compliance with the tier 2 must-offer provision was 99.5 percent. (Priority: Medium. First reported 2013. Status: Adopted partially.)
- The MMU recommends that PJM be more explicit about why tier 1 biasing is used in the optimized solution to the Tier 2 Synchronized Reserve Market. The MMU recommends that PJM define rules for calculating available tier 1 MW and for the use of biasing during any phase of the market solution and then identify the relevant rule for each instance of

biasing. (Priority: Low. First reported 2013. Status: Not adopted.)

- The MMU recommends that PJM determine why secondary reserve was either unavailable or not dispatched on September 10, 2013, January 6, 2014, and January 7, 2014, and that PJM replace the DASR Market with a real time secondary reserve product that is available and dispatchable in real time. (Priority: Low. First reported 2013. Status: Not adopted.)
- The MMU recommends that PJM revise the current confidentiality rules in order to specifically allow a more transparent disclosure of information regarding black start resources and their associated payments in PJM. (Priority: Low. First reported 2013. Status: Not adopted.)
- The MMU recommends that the three pivotal supplier test be incorporated in the DASR Market. (Priority: Low. First reported 2012. Status: Not adopted.)

Section 11, Congestion and Marginal Losses

There are no recommendations in this section.

Section 12, Planning

- The MMU recommends the creation of a mechanism to permit a direct comparison, or competition, between transmission and generation alternatives, including which alternative is less costly and who bears the risks associated with each alternative. (Priority: Low. First reported 2013. Status: Not adopted.)
- The MMU recommends that rules be implemented to permit competition to provide financing for transmission projects. This competition could reduce the cost of capital for transmission projects and significantly reduce total costs to customers. (Priority: Low. First reported 2013. Status: Not adopted.)
- The MMU recommends that the question of whether Capacity Injection Rights (CIRs) should persist after the retirement of a unit be addressed. Even if the treatment of CIRs remains unchanged, the rules need to ensure that incumbents cannot exploit control of

CIRs to block or postpone entry of competitors.¹⁹ (Priority: Low. First reported 2013. Status: Not adopted.)

- The MMU recommends outsourcing interconnection studies to an independent party to avoid potential conflicts of interest. Currently, these studies are performed by incumbent transmission owners under PJM's direction. This creates potential conflicts of interest, particularly when transmission owners are vertically integrated and the owner of transmission also owns generation. (Priority: Low. First reported 2013. Status: Not adopted.)
- The MMU recommends improvements in queue management including that PJM establish a review process to ensure that projects are removed from the queue if they are not viable, as well as a process to allow commercially viable projects to advance in the queue ahead of projects which have failed to make progress, subject to rules to prevent gaming. (Priority: Medium. First reported 2013. Status: Not Adopted.)
- The MMU recommends an analysis of the study phase of PJM's transmission planning to reduce the need for postponements of study results, to decrease study completion times, and to improve the likelihood that a project at a given phase in the study process will successfully go into service. (Priority: Medium. First reported Q1, 2014. Status: Not adopted.)
- The MMU recommends that PJM establish fair terms of access to rights of way and property, such as at substations, in order to permit competition between incumbent transmission providers and nonincumbent providers. (Priority: Medium. New recommendation. Status: Not adopted.)
- The MMU recommends that PJM reevaluate transmission outage tickets when the outage is rescheduled. (Priority: Low. New recommendation. Status: Not adopted.)

¹⁹ See "Comments of the Independent Market Monitor for PJM," <http://www.monitoringanalytics.com/reports/Reports/2012/IMM_Comments_ER12-1177-000_20120312.pdf>.

Section 13, FTRs and ARRs

- The MMU recommends that PJM report correct monthly payout ratios to reduce understatement of payout ratios on a monthly basis. (Priority: Low. First reported 2013. Status: Not adopted.)
- The MMU recommends that PJM eliminate portfolio netting to eliminate cross subsidies among FTR marketplace participants. (Priority: High. First reported 2013. Status: Not adopted.)
- The MMU recommends that PJM eliminate subsidies to counter flow FTRs by applying the payout ratio to counter flow FTRs in the same way the payout ratio is applied to prevailing flow FTRs. (Priority: High. First reported 2013. Status: Not adopted.)
- The MMU recommends that PJM eliminate geographic cross subsidies. (Priority: High. First reported 2013. Status: Not adopted.)
- The MMU recommends that PJM improve transmission outage modeling in the FTR auction models. (Priority: Low. First reported 2013. Status: Adopted partially, 14/15 planning period.)
- The MMU recommends that PJM reduce FTR sales on paths with persistent overallocation of FTRs including clear rules for what defines persistent overallocation and how the reduction will be applied. (Priority: High. First reported 2013. Status: Adopted partially, 14/15 planning period.)
- The MMU recommends that PJM implement a seasonal ARR and FTR allocation system to better represent outages. (Priority: Medium. First reported 2013. Status: Not adopted.)
- The MMU recommends that PJM eliminate overallocation requirement of ARRs in the Annual ARR Allocation process. (Priority: High. First reported 2013. Status: Not adopted.)
- The MMU recommends that PJM apply the FTR forfeiture rule to up to congestion transactions consistent with the application of the FTR forfeiture rule to increment offers and decrement bids. (Priority: High. First reported 2013. Status: Not adopted.)
- The MMU recommends that PJM not use the ATSI Interface or create similar closed loop interfaces to set zonal prices to accommodate the inadequacies of the demand side resource capacity product. Market

prices should be a function of market fundamentals. The MMU recommends that, in general, the implementation of closed loop interface constraints be studied in advance and, if there is good reason to implement, implemented so as to include them in the FTR Auction model to minimize their impact on FTR funding. (Priority: Medium. First reported 2013. Status: Not adopted.)