

Energy Market

The PJM energy market comprises all types of energy transactions, including the sale or purchase of energy in PJM's Day-Ahead and Real-Time Energy Markets, bilateral and forward markets and self-supply. Energy transactions analyzed in this report include those in the PJM Day-Ahead and Real-Time Energy Markets. These markets provide key benchmarks against which market participants may measure results of transactions in other markets.

The Market Monitoring Unit (MMU) analyzed measures of market structure, participant conduct and market performance in the first three months of 2018, including market size, concentration, residual supply index, and price.¹ The MMU concludes that the PJM energy market results were competitive in the first three months of 2018.

Table 3-1 The energy market results were competitive

| Market Element | Evaluation | Market Design |
|------------------------------------|-----------------------|---------------|
| Market Structure: Aggregate Market | Partially Competitive | |
| Market Structure: Local Market | Not Competitive | |
| Participant Behavior | Competitive | |
| Market Performance | Competitive | Effective |

- The aggregate market structure was evaluated as partially competitive because the aggregate market power test based on pivotal suppliers indicates that the aggregate day-ahead market structure was not competitive on every day. The hourly HHI (Herfindahl-Hirschman Index) results indicate that the PJM energy market in the first three months of 2018 was unconcentrated by FERC HHI standards. Average HHI was 852 with a minimum of 705 and a maximum of 1102 in the first three months of 2018. The fact that the average HHI is in the unconcentrated range and the maximum hourly HHI is in the moderately concentrated range does not mean that the aggregate market was competitive in all

hours. As demonstrated for the day-ahead market, it is possible to have pivotal suppliers in the aggregate market even when the HHI level is not in the highly concentrated range. It is possible to have an exercise of market power even when the HHI level is not in the highly concentrated range. The number of pivotal suppliers in the energy market is a more precise measure of structural market power than the HHI. The HHI is not a definitive measure of structural market power. The PJM energy market peaking segment of supply was highly concentrated.

- The local market structure was evaluated as not competitive due to the highly concentrated ownership of supply in local markets created by transmission constraints and local reliability issues. The results of the three pivotal supplier (TPS) test, used to test local market structure, indicate the existence of market power in local markets created by transmission constraints. The local market performance is competitive as a result of the application of the TPS test. While transmission constraints create the potential for the exercise of local market power, PJM's application of the three pivotal supplier test identified local market power and resulted in offer capping to force competitive offers, correcting for structural issues created by local transmission constraints. There are, however, identified issues with the application of market power mitigation to resources whose owners fail the TPS test that need to be addressed because unit owners can exercise market power even when mitigated.
- Participant behavior was evaluated as competitive because the analysis of markup shows that marginal units generally make offers at, or close to, their marginal costs in both Day-Ahead and Real-Time Energy Markets, although the behavior of some participants both routinely and during periods of high demand is consistent with economic withholding.
- Market performance was evaluated as competitive because market results in the energy market reflect the outcome of a competitive market, as PJM prices are set, on average, by marginal units operating at, or close to, their marginal costs in both Day-Ahead and Real-Time Energy Markets, although high markups during periods of high demand did affect prices.

¹ Analysis of 2018 market results requires comparison to prior years. In 2004 and 2005, PJM conducted the phased integration of five control zones: ComEd, American Electric Power (AEP), The Dayton Power & Light Company (DAY), Duquesne Light Company (DLCO) and Dominion. In June 2011, PJM integrated the American Transmission Systems, Inc. (ATSI) Control Zone. In January 2012, PJM integrated the Duke Energy Ohio/Kentucky (DEOK) Control Zone. In June 2013, PJM integrated the Eastern Kentucky Power Cooperative (EKPC). By convention, control zones bear the name of a large utility service provider working within their boundaries. The nomenclature applies to the geographic area, not to any single company. For additional information on the control zones, the integrations, their timing and their impact on the footprint of the PJM service territory, see the 2017 State of the Market Report for PJM, Appendix A, "PJM Geography."

- Market design was evaluated as effective because the analysis shows that the PJM energy market resulted in competitive market outcomes. In general, PJM's energy market design provides incentives for competitive behavior and results in competitive outcomes. In local markets, where market power is an issue, the market design identifies market power and causes the market to provide competitive market outcomes in most cases although issues with the implementation of market power mitigation and development of cost-based offers remain. The role of UTCs in the Day-Ahead Energy Market continues to cause concerns.

PJM markets are designed to promote competitive outcomes derived from the interaction of supply and demand in each of the PJM markets. Market design itself is the primary means of achieving and promoting competitive outcomes in PJM markets. One of the MMU's primary goals is to identify actual or potential market design flaws.² The approach to market power mitigation in PJM has focused on market designs that promote competition (a structural basis for competitive outcomes) and on limiting market power mitigation to instances where the market structure is not competitive and thus where market design alone cannot mitigate market power. In the PJM energy market, this occurs primarily in the case of local market power. When a transmission constraint creates the potential for local market power, PJM applies a structural test to determine if the local market is competitive, applies a behavioral test to determine if generator offers exceed competitive levels and applies a market performance test to determine if such generator offers would affect the market price.³ There are, however, identified issues with the application of market power mitigation to resources whose owners fail the TPS test that can result in the exercise of local market power even when market power mitigation rules are applied. These issues need to be addressed. There are issues related to the definition of gas costs includable in energy offers that need to be addressed. There are issues related to the level of variable operating and maintenance expense includable in energy offers that need to be addressed. There are currently no market power mitigation rules in place that limit the ability to exercise market power when aggregate

² OATT Attachment M (PJM Market Monitoring Plan).

³ The market performance test means that offer capping is not applied if the offer does not exceed the competitive level and therefore market power would not affect market performance.

market conditions are tight and there are pivotal suppliers in the aggregate market. Aggregate market power needs to be addressed. Now that generators are allowed to modify offers hourly, market design must reflect appropriate incentives for competitive behavior, the application of local market power mitigation needs to be fixed, the definition of a competitive offer needs to be fixed, and aggregate market power mitigation rules need to be developed. The importance of these issues is amplified by the new rules permitting cost-based offers in excess of \$1,000 per MWh.

Overview

Market Structure

- **Supply.** Supply includes physical generation and imports and virtual transactions. The maximum of average hourly offered real-time supply was 143,617 MW for January, 134,154 for February and 125,538 MW for March. In the first three months of 2018, 1,947.6 MW of new resources were added, 160.2 MW were retired.

PJM average real-time cleared generation in the first three months of 2018 increased by 4.8 percent from the first three months of 2017, from 91,074 MW to 95,491 MW.

PJM average day-ahead cleared supply in the first three months of 2018, including INCs and up to congestion transactions, decreased by 14.2 percent from the first three months of 2017, from 140,756 MW to 120,754 MW.

- **Aggregate Pivotal Suppliers.** The PJM energy market at times requires generation from pivotal suppliers to meet the daily peak load, resulting in aggregate market power even when the HHI level indicates that the aggregate market is unconcentrated.
- **Generation Fuel Mix.** In the first three months of 2018, coal units provided 31.4 percent, nuclear units 34.4 percent and natural gas units 27.0 percent of total generation. Compared to the first three months of 2017, generation from coal units decreased 1.0 percent, generation from natural gas units increased 14.8 percent and generation from nuclear units increased 0.9 percent.

- **Fuel Diversity.** In the first three months of 2018, the fuel diversity of energy generation, measured by the fuel diversity index for energy (FDIe), increased 1.0 percent over the FDI for the first three months of 2017.
- **Marginal Resources.** In the PJM Real-Time Energy Market, in the first three months of 2018, coal units were 30.4 percent of marginal resources and natural gas units were 58.3 percent of marginal resources. In the first three months of 2017, coal units were 34.2 percent and natural gas units were 51.1 percent of the marginal resources.

In the PJM Day-Ahead Energy Market, in the first three months of 2018, up to congestion transactions were 76.1 percent of marginal resources, INCs were 6.2 percent of marginal resources, DECs were 10.1 percent of marginal resources, and generation resources were 7.5 percent of marginal resources. In the first three months of 2017, up to congestion transactions were 83.7 percent of marginal resources, INCs were 4.6 percent of marginal resources, DECs were 7.6 percent of marginal resources, and generation resources were 4.1 percent of marginal resources.

- **Demand.** Demand includes physical load and exports and virtual transactions. The PJM accounting peak load during the first three months of 2018 was 133,851 MW in the HE 1800 on January 05, 2018, which was 9,641 MW, 7.8 percent, higher than the PJM peak load for the first three months of 2017, which was 124,210 MW in the HE 0700 on January 09, 2017.

PJM average real-time demand in the first three months of 2018 increased by 5.9 percent from the first three months of 2017, from 87,598 MW to 92,761 MW. PJM average day-ahead demand in the first three months of 2018, including DECs and up to congestion transactions, decreased by 14.0 percent from the first three months of 2017, from 135,560 MW to 116,635 MW.

- **Supply and Demand: Load and Spot Market.** Companies that serve load in PJM do so using a combination of self-supply, bilateral market purchases and spot market purchases. For the first three months of 2018, 11.4 percent of real-time load was supplied by bilateral contracts, 31.1 percent by spot market purchases and 58.4 percent by self-supply.

Compared to the first three months of 2017, reliance on bilateral contracts decreased by 3.0 percentage points, reliance on spot market purchases increased by 3.6 percentage points and reliance on self-supply decreased by 0.4 percentage points.

- **Supply and Demand: Scarcity.** There were no five minute shortage pricing events in the first three months of 2018.

Market Behavior

- **Offer Capping for Local Market Power.** PJM offer caps units when the local market structure is noncompetitive. Offer capping is an effective means of addressing local market power when the rules are designed and implemented properly. Offer capping levels have historically been low in PJM. In the Day-Ahead Energy Market, for units committed to provide energy for local constraint relief, offer-capped unit hours increased from 0.0 percent in the first three months of 2017 to 0.1 percent in the first three months of 2018. In the Real-Time Energy Market, for units committed to provide energy for local constraint relief, offer-capped unit hours increased from 0.2 percent in the first three months of 2017 to 0.9 percent in the first three months of 2018.

In the first three months of 2018, 13 control zones experienced congestion resulting from one or more constraints binding for 25 or more hours. The analysis of the application of the TPS test to local markets demonstrates that it is working successfully to identify pivotal owners when the market structure is noncompetitive and to ensure that owners are not subject to offer capping when the market structure is competitive. There are, however, identified issues with the application of market power mitigation to resources whose owners fail the TPS test that can result in the exercise of local market power. These issues need to be addressed.

- **Offer Capping for Reliability.** PJM also offer caps units that are committed for reliability reasons, specifically for black start service and reactive service. In the Day-Ahead Energy Market, for units committed for reliability reasons, offer-capped unit hours decreased from 0.2 percent in the first three months of 2017 to 0.0 percent in the first three months of 2018. In the Real-Time Energy Market, for units committed for reliability

reasons, offer-capped unit hours decreased from 0.2 percent in the first three months of 2017 to 0.0 percent in the first three months of 2018.

- **Markup Index.** The markup index is a summary measure of participant offer behavior for individual marginal units. In the first three months of 2018, in the PJM Real-Time Energy Market, 85.5 percent of marginal units had offer prices less than \$50 per MWh. The average dollar markup of units with offer prices less than \$25 was negative when using unadjusted cost-based offers. The average dollar markup of units with offer prices between \$25 and \$50 was positive when using unadjusted cost-based offers. Negative markup means the unit is offering to run at a price less than its cost-based offer, demonstrating a revealed short run marginal cost that is less than the allowable cost-based offer under the PJM market rules. Some marginal units did have substantial markups. Using the unadjusted cost-based offers, the highest markup for any marginal unit in the first three months of 2018 was more than \$500 per MWh while the highest markup in the first three months of 2017 was more than \$200 per MWh. During the period of cold weather and high demand in January, several units in the PJM market were offered with high markups.

In the first three months of 2018, in the PJM Day-Ahead Energy Market, 90.6 percent of marginal generating units had offer prices less than \$50 per MWh. The average dollar markup of units with offer prices less than \$25 was positive when using unadjusted cost-based offers. The average dollar markup of units with offer prices between \$25 and \$50 was positive when using unadjusted cost-based offers. Using the unadjusted cost-based offers, the highest markup for any marginal unit in the first three months of 2018 was about \$200 per MWh, while the highest markup in the first three months of 2017 was about \$40 per MWh.

- **Markup.** The markup frequency distributions show that a significant proportion of units make price-based offers less than the cost-based offers permitted under the PJM market rules. This behavior means that competitive price-based offers reveal actual unit marginal costs and that PJM market rules permit the inclusion of costs in cost-based offers that are not short run marginal costs.

The markup behavior shown in the markup frequency distributions also shows that a substantial number of units were offered with high markups, consistent with the exercise of market power.

- **Frequently Mitigated Units (FMU) and Associated Units (AU).** A new FMU rule became effective November 1, 2014, limiting the availability of FMU adders to units with net revenues less than unit going forward costs. The number of units that were eligible for an FMU or AU adder declined from an average of 70 units during the first 11 months of 2014, to zero since December 2014.
- **Virtual Offers and Bids.** Any market participant in the PJM Day-Ahead Energy Market can use increment offers, decrement bids, up to congestion transactions, import transactions and export transactions as financial instruments that do not require physical generation or load. In the first three months of 2018, the average hourly increment offers submitted and cleared MW decreased by 40.8 percent and 54.6 percent, from 10,304 MW and 6,048 MW in the first three months of 2017 to 6,100 MW and 2,745 MW in the first three months of 2018. The average hourly decrement bids submitted and cleared MW decreased by 24.1 percent and 46.4 percent, from 9,570 MW and 4,815 MW in the first three months of 2017 to 7,265 MW and 2,581 MW in the first three months of 2018. The average hourly up to congestion submitted and cleared MW decreased by 56.7 percent and 40.8 percent, from 189,103 MW and 36,711 MW in the first three months of 2017 to 81,876 MW and 21,750 MW in the first three months of 2018.
- **Generator Offers.** Generator offers are categorized as dispatchable and self scheduled. Units which are available for economic dispatch are dispatchable. Units which are self scheduled to generate fixed output are categorized as self scheduled. Units which are self scheduled at their economic minimum and are available for economic dispatch up to their economic maximum are categorized as self scheduled and dispatchable. Of all generator offers by MW in the first three months of 2018, 24.9 percent were offered as available for economic dispatch, 30.4 percent were offered at the economic minimum, 5.0 percent were offered as

emergency dispatch, 19.8 percent were offered as self scheduled, and 18.4 percent were offered as self scheduled and dispatchable.

Market Performance

- **Prices.** PJM LMPs are a direct measure of market performance. Price level is a good, general indicator of market performance, although the number of factors influencing the overall level of prices means it must be analyzed carefully. Among other things, overall average prices reflect changes in supply and demand, generation fuel mix, the cost of fuel, emissions related expenses, markup and local price differences caused by congestion. PJM also may administratively set prices with the creation of closed loop interfaces related to demand side resources or reactive power, the application of transmission penalty factors, or the application of price setting logic.

PJM real-time energy market prices increased in the first three months of 2018 compared to the first three months of 2017. The load-weighted, average real-time LMP was 63.3 percent higher in the first three months of 2018 than in the first three months of 2017, \$49.45 per MWh versus \$30.28 per MWh.

PJM day-ahead energy market prices increased in the first three months of 2018 compared to the first three months of 2017. The load-weighted, average day-ahead LMP was 56.4 percent higher in the first three months of 2018 than in the first three months of 2017, \$47.55 per MWh versus \$30.40 per MWh.

- **Components of LMP.** In the PJM Real-Time Energy Market, in the first three months of 2018, 14.3 percent of the load-weighted LMP was the result of coal costs, 38.7 percent was the result of gas costs and 0.53 percent was the result of the cost of emission allowances.

In the PJM Day-Ahead Energy Market, in the first three months of 2018, 13.1 percent of the load-weighted LMP was the result of coal costs, 26.2 percent was the result of DEC bid costs, 20.3 percent was the result of gas costs, 14.8 percent was the result of INC bid costs, and 4.4 percent was the result of up to congestion transaction costs.

- **Markup.** The markup conduct of individual owners and units has an identifiable impact on market prices. Markup is a key indicator of the competitiveness of the energy market.

In the PJM Real-Time Energy Market in the first three months of 2018, the adjusted markup component of LMP was \$9.14 per MWh or 18.5 percent of the PJM load-weighted, average LMP. January had the highest adjusted off peak markup component, \$17.70 per MWh, or 20.19 percent of the real-time, peak hour load-weighted, average LMP. There were 13 hours in the first three months of 2018 where the positive markup contribution to the PJM system wide, load-weighted, average LMP exceeded \$135.25 per MWh. During the period of cold weather and high demand in January, several units in the PJM market were offered with high markups.

In the PJM Day-Ahead Energy Market, INCs, DECs and UTCs have zero markups. In the first three months of 2018, the adjusted markup component of LMP resulting from generation resources was \$2.95 per MWh or 6.2 percent of the PJM day-ahead load-weighted average LMP. January had the highest adjusted markup component, \$4.23 per MWh or 5.5 percent of the day-ahead load-weighted average LMP.

Participant behavior was evaluated as competitive because the analysis of markup shows that marginal units generally make offers at, or close to, their marginal costs in both the Day-Ahead and Real-Time Energy Markets, although the behavior of some participants is consistent with economic withholding.

- **Price Convergence.** Hourly and daily price differences between the Day-Ahead and Real-Time Energy Markets fluctuate continuously and substantially from positive to negative. The difference between the average day-ahead and real-time prices was -\$0.20 per MWh in the first three months of 2017 and \$1.07 per MWh in the first three months of 2018. The difference between average day-ahead and real-time prices, by itself, is not a measure of the competitiveness or effectiveness of the Day-Ahead Energy Market.

Scarcity

- There were no five minute shortage pricing events in the first three months of 2018.

Recommendations

- The MMU recommends that the market rules should explicitly require that offers in the Day-Ahead Energy Market be competitive, where competitive is defined to be the short run marginal cost of the units. The short run marginal cost should reflect opportunity cost when and where appropriate. The MMU recommends that the level of incremental costs includable in cost-based offers not exceed the short run marginal cost of the unit. (Priority: Medium. First reported 2009. Status: Not adopted.)
- The MMU recommends that PJM require every market participant to make available at least one cost schedule based on the same hourly fuel type(s) and parameters at least as flexible as their offered price schedule. (Priority: Medium. First reported 2015. Status: Not adopted.)
- The MMU recommends that PJM require that all fuel cost policies be algorithmic, verifiable, and systematic. (Priority: Medium. First reported 2016. Status: Not adopted.)
- The MMU recommends that Manual 15 be replaced with a straightforward description of the components of cost-based offers based on short run marginal costs and the correct calculation of cost-based offers. (Priority: Medium. First reported 2016. Status: Not adopted.)
- The MMU recommends removal of all use of FERC System of Accounts in the Cost Development Guidelines. (Priority: Medium. First reported 2016. Status: Not adopted.)
- The MMU recommends the removal of all use of cyclic starting and peaking factors from the Cost Development Guidelines. (Priority: Medium. First reported 2016. Status: Not adopted.)
- The MMU recommends the removal of all labor costs from the Cost Development Guidelines. (Priority: Medium. First reported 2016. Status: Not adopted.)
- The MMU recommends changing the definition of the start heat input for combined cycles to include only the amount of fuel used from firing each combustion turbine in the combined cycle to the breaker close of each combustion turbine. (Priority: Medium. First reported 2016. Status: Not adopted.)
- The MMU recommends the removal of nuclear fuel and nonfuel operations and maintenance costs that are not short run marginal costs from the Cost Development Guidelines. (Priority: Medium. First reported 2016. Status: Not adopted.)
- The MMU recommends revising the pumped hydro fuel cost calculation to include day-ahead and real-time power purchases. (Priority: Medium. First reported 2016. Status: Not adopted.)
- The MMU recommends revisions to the calculation of energy market opportunity costs to incorporate all time based offer parameters and all limitations that impact the opportunity cost of generating unit output. (Priority: Medium. First reported 2016. Status: Not adopted.)
- The MMU recommends removing the catastrophic designation for force majeure fuel supply limitations in Schedule 2. (Priority: Medium. First reported 2016. Status: Not adopted.)
- The MMU recommends that the rules governing the application of the TPS test be clarified and documented. (Priority: High. First reported 2010. Status: Not adopted.)
- The MMU recommends, in order to ensure effective market power mitigation when the TPS test is failed, that markup be constant across the full MWh range of price and cost-based offers, and that there be at least one cost-based offer using the same fuel as the available price-based offer. (Priority: High. First reported 2015. Status: Not adopted.)
- The MMU recommends that in order to ensure effective market power mitigation when the TPS test is failed, the operating parameters in the cost-based offer and the price-based parameter limited schedule (PLS) offer be at least as flexible as the operating parameters in the available price-based non-PLS offer, and that the price-MW pairs in the price-based

PLS offer be exactly equal to the price-based non-PLS offer. (Priority: High. First reported 2015. Status: Not adopted.)

- The MMU recommends that capacity performance resources and base capacity resources (during the June through September period) be held to the OEM operating parameters of the capacity market CONE reference resource for performance assessment and energy uplift payments and that this standard be applied to all technologies on a uniform basis. (Priority: Medium. First reported 2015. Status: Not adopted.)
- The MMU recommends that under the capacity performance construct, PJM recognize the difference between operational parameters that indicate to PJM dispatchers what a unit is capable of during the operating day and the parameters that are used for capacity performance assessment as well as uplift payments. The parameters which determine nonperformance charges and the amount of uplift payments to those generators should reflect the flexibility goals of the capacity performance construct. (Priority: Medium. First reported 2015. Status: Not adopted.)
- The MMU recommends that PJM retain the \$1,000 per MWh offer cap in the PJM energy market except when cost-based offers exceed \$1,000 per MWh, and retain other existing rules that limit incentives to exercise market power. (Priority: High. First reported 1999. Status: Partially adopted, 1999, 2017.)
- The MMU recommends that PJM not allow nuclear generators which do not respond to prices or which only respond to manual instructions from the dispatcher to set the LMPs in the real-time market. (Priority: Low. First reported 2016. Status: Not adopted.)
- The MMU recommends that PJM document how LMPs are calculated when demand response is marginal. (Priority: Low. First reported 2014. Status: Not Adopted.)
- The MMU recommends that PJM explicitly state its policy on the use of transmission penalty factors including: the level of the penalty factors; the triggers for the use of the penalty factors; the appropriate line ratings to trigger the use of penalty factors; the allowed duration of the violation; the use of constraint relaxation logic; and when the transmission penalty

factors will be used to set the shadow price. (Priority: Medium. First reported 2015. Status: Not adopted. Stakeholder process.)

- The MMU recommends that Market Sellers not be allowed to designate any portion of an available Capacity Resource's ICAP equivalent of cleared UCAP capacity commitment as a Maximum Emergency offer at any time during the delivery year.⁴ (Priority: Medium. First reported 2012. 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: Adopted, 2012.)
- The MMU recommends that PJM include in the tariff or 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.^{5 6} (Priority: Low. First reported 2013. Status: Not adopted.)
- The MMU recommends that all buses with a net withdrawal be treated as load for purposes of calculating load and load-weighted LMP. The MMU 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.)

⁴ This recommendation was accepted by PJM and filed with FERC in 2014 as part of the capacity performance updates to the RPM. See Schedule 1, Section 1.10.1A(d), Revisions to the PJM Open Access Transmission Tariff and PJM Operating Agreement (Marked/Redline Format), EL15-29-000 (December 12, 2014). FERC rejected the proposed change. See 151 FERC ¶ 61,208 at P 476 (2015).

⁵ 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.

⁶ There is currently no PJM documentation in the tariff or manuals explaining how hubs are created and how their definitions are changed. The general definition of a hub can be found in the PJM.com Glossary <<http://www.pjm.com/Glossary.aspx>>.

- The MMU recommends that PJM remove nonspecific fuel types such as other or co-fire other from the list of fuel types available for market participants to identify the fuel type associated with their price and cost schedules. (Priority: Medium. First reported 2015. Status: Partially 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: Partially 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: Partially adopted.)
- The MMU recommends that PJM continue to enhance its posting of market data to promote market efficiency. (Priority: Medium. First reported 2005. Status: Partially adopted.)
- The MMU recommends that PJM create a tariff requirement that all generating units accurately identify the intended hourly fuel type associated with each of their offers. (Priority: Low. First reported 2014. Status: Not Adopted.)
- The MMU recommends that PJM increase the interaction of outage and operational restrictions data submitted by Market Participants via eDART/eGADs and offer data submitted via Markets Gateway. (Priority: Low. First reported 2017. Status: Not adopted.)
- The MMU recommends that the tariff be changed to allow units to have Fuel Cost Policies that do not include fuel procurement practices, including fuel contracts. Fuel procurement practices, including fuel contracts, may be used as the basis for Fuel Cost Policies but should not be required. (Priority: Low. New recommendation. Status: Not adopted.)
- The MMU recommends that PJM change the Fuel Cost Policy requirement to apply only to units that will be offered with non zero cost-based offers. PJM should set to zero the cost-based offers of units without an

approved Fuel Cost Policy. (Priority: Low. New recommendation. Status: Not adopted.)

Conclusion

The MMU analyzed key elements of PJM energy market structure, participant conduct and market performance in the first three months of 2018, including aggregate supply and demand, concentration ratios, aggregate pivotal supplier results, local three pivotal supplier test results, offer capping, participation in demand response programs, loads and prices.

PJM average real-time cleared generation increased by 4,417 MW, 4.8 percent, and peak load increased by 9,641 MW, 7.8 percent, in the first three months of 2018 compared to the first three months of 2017. The relationship between supply and demand, regardless of the specific market, balanced by market concentration and the extent of pivotal suppliers, is referred to as the supply-demand fundamentals or economic fundamentals. The market structure of the PJM aggregate energy market is partially competitive because aggregate market power does exist for a significant number of hours. The HHI is not a definitive measure of structural market power. The number of pivotal suppliers in the energy market is a more precise measure of structural market power than the HHI. It is possible to have pivotal suppliers in the aggregate market even when the HHI level is not in the highly concentrated range. The current market power mitigation rules for the PJM energy market rely on the assumption that the ownership structure of the aggregate market ensures competitive outcomes. This assumption requires that the total demand for energy can be met without the supply from any individual supplier or without the supply from a small group of suppliers. This assumption is not correct. There are pivotal suppliers in the aggregate energy market at times. High markups for some units demonstrate the potential to exercise market power during high demand conditions. The existing market power mitigation measures do not address aggregate market power. The MMU is developing an aggregate market power test and will propose market power mitigation rules to address aggregate market power.

The three pivotal supplier test is applied by PJM on an ongoing basis for local energy markets in order to determine whether offer capping is required for transmission constraints.⁷ However, there are some issues with the application of market power mitigation in the Day-Ahead Energy Market and the Real-Time Energy Market when market sellers fail the TPS test. These issues can be resolved by simple rule changes.

The enforcement of market power mitigation rules is undermined if the definition of a competitive offer is not correct. A competitive offer is equal to short run marginal costs. The significance of competition metrics like markup is also undermined if the definition of a competitive offer is not correct. The definition of a competitive offer, as interpreted by PJM, is not currently correct. Some unit owners include costs that are not short run marginal costs in offers, including maintenance costs. This issue can be resolved by simple rule changes to incorporate a clear and accurate definition of short run marginal costs.

Prices are a key outcome of markets. Prices vary across hours, days and years for multiple reasons. Price is an indicator of the level of competition in a market although individual prices are not always easy to interpret. In a competitive market, prices are directly related to the marginal cost to serve load in each market interval. The pattern of prices within days and across months and years illustrates how prices are directly related to supply and demand conditions and thus also illustrates the potential significance of the impact of the price elasticity of demand on prices. Energy market results in the first three months of 2018 generally reflected supply-demand fundamentals, although the behavior of some participants during high demand periods is consistent with economic withholding. Economic withholding is the ability to increase markups substantially in tight market conditions. There are additional issues in the energy market including the uncertainties about the pricing and availability of natural gas, the way that generation owners incorporate natural gas costs in offers, and the lack of adequate incentives for unit owners to take all necessary actions to acquire fuel and operate rather than take an outage.

⁷ The MMU reviews PJM's application of the TPS test and brings issues to the attention of PJM.

Prices in PJM are not too low. There is no evidence to support the need for a significant change to the calculation of LMP. The underlying problem that fast start pricing and PJM's convex hull pricing approach are attempting to address is actually scarcity pricing, including the impact of operator actions on the definition of scarcity. Prices do not reflect market conditions when the market is tight. Rather than undercutting the basic LMP logic that is core to market efficiency, it would make more sense to directly address scarcity pricing, operator actions and the design of reserve markets.

The objective of efficient short run price signals is to minimize system production costs, not to minimize uplift. Repricing the market to reflect commitment costs would create a tradeoff between minimizing production costs and reduction of uplift. The tradeoff would exist because when commitment costs are included in prices, the price signal no longer equals the short run marginal cost and therefore no longer provides the correct signal for efficient behavior for market participants making decisions on the margin, whether resources, load, interchange transactions, or virtual traders. This tradeoff would be created by PJM's fast start pricing proposal and in a much more extensive form by PJM's modified convex hull pricing proposal.

The fast start pricing and convex hull solutions would undercut LMP logic rather than directly addressing the underlying issues. The solution is not to accept that the inflexible CT should be paid or set price based on its commitment costs rather than its short run marginal costs. The question of why units make inflexible offers should be addressed directly. Are units inflexible because they are old and inefficient, because owners have not invested in increased flexibility or because they serve as a mechanism for the exercise of market power? The question of why this unit was built, whether it was built under cost of service regulation and whether it is efficient to retain the unit should be answered directly. The question of how to provide market incentives for investment in flexible units and for investment in increased flexibility of existing units should be addressed directly. The question of whether inflexible units should be paid uplift at all should be addressed directly. Marginal cost pricing without paying excess uplift to inflexible units would create incentives

for market participants to provide flexible solutions including replacing inefficient units with flexible, efficient units.

With or without a capacity market, energy market design must permit scarcity pricing when such pricing is consistent with market conditions and constrained by reasonable rules to ensure that market power is not exercised. Scarcity pricing can serve two functions in wholesale power markets: revenue adequacy and price signals. Scarcity pricing for revenue adequacy is not required in PJM. Scarcity pricing for price signals that reflect market conditions during periods of scarcity is required in PJM. Scarcity pricing is also part of an appropriate incentive structure facing both load and generation owners in a working wholesale electric power market design. Scarcity pricing must be designed to ensure that market prices reflect actual market conditions, that scarcity pricing occurs with transparent triggers based on measured reserve levels and transparent prices, and that there are strong incentives for competitive behavior and strong disincentives to exercise market power. Such administrative scarcity pricing is a key link between energy and capacity markets.

The PJM Capacity Market is explicitly designed to provide revenue adequacy and the resultant reliability. However, the explicit balancing mechanism that included net revenues directly in unit offers in the prior capacity market design is not present in the Capacity Performance design. The nature of a direct and explicit scarcity pricing net revenue true up mechanism should be addressed if scarcity revenues are expected to increase. PJM implemented scarcity pricing rules in 2012. PJM implemented five minute scarcity pricing on May 11, 2017, and implemented two step operating reserve demand curves on July 12, 2017. There are also significant issues with PJM's scarcity pricing rules, including the absence of a clear trigger based on measured reserve levels (the current triggers are based on estimated reserves) and the lack of adequate locational scarcity pricing options.

The overall energy market results support the conclusion that energy prices in PJM are set, generally, by marginal units operating at, or close to, their marginal costs, although this was not always the case in the first three months

of 2018 or prior years. This is evidence of generally competitive behavior and competitive market outcomes, although the behavior of some participants during high demand periods is consistent with economic withholding. Markups were higher in the first three months of 2018. Given the structure of the energy market which can permit the exercise of aggregate market power at times of high demand, the change in some participants' behavior is a source of concern in the energy market and provides a reason to use correctly defined short run marginal cost as the sole basis for hourly changes in offers or offers greater than \$1,000 per MWh. The MMU concludes that the PJM energy market results were competitive in the first three months of 2018.

Market Structure

Market Concentration

Analysis of supply curve segments of the PJM energy market in the first three months of 2018 indicates low concentration in the base load segment and moderate concentration in the intermediate segment, but high concentration in the peaking segment.⁸ High concentration levels, particularly in the peaking segment, increase the probability that a generation owner will be pivotal in the aggregate market during high demand periods. The fact that the average HHI is in the unconcentrated range and the maximum hourly HHI is in the moderately concentrated range does not mean that the aggregate market was competitive in all hours. It is possible to have pivotal suppliers in the aggregate market even when the HHI level does not indicate a highly concentrated market structure. It is possible to have an exercise of market power even when the HHI level does not indicate a highly concentrated market structure.

When transmission constraints exist, local markets are created with ownership that is typically significantly more concentrated than the overall energy market. PJM offer capping rules that limit the exercise of local market power were generally effective in preventing the exercise of market power in the first three months of 2018, although there are issues with the application of market power mitigation for resources whose owners fail the TPS test that permit local market power to be exercised even when mitigation rules are applied.

⁸ A unit is classified as base load if it runs for more than 50 percent of hours, as intermediate if it runs for less than 50 percent but greater than 10 percent of hours, and as peak if it runs for less than 10 percent of hours.

These issues include the lack of a method for consistently determining the cheaper of the cost and price schedules, and the lack of rules requiring that cost-based offers equal short run marginal costs.

The concentration ratio used here is the Herfindahl-Hirschman Index (HHI), calculated by summing the squares of the market shares of all firms in a market. Hourly PJM energy market HHIs were calculated based on the real-time energy output of generators, adjusted for hourly net imports by owner (Table 3-2).

In theory, the HHI provides insight into the relationship between market structure, behavior, and performance. In the case where participants compete by producing output at constant, but potentially different, marginal costs, the HHI is directly proportional to the expected average price cost markup in the market:⁹

$$\frac{HHI}{\varepsilon} = \frac{P - MC}{P}$$

where ε is the absolute value of the price elasticity of demand, P is the market price, and MC is the average marginal cost of production. The left side of the equation quantifies market structure, and the right side of the equation measures market performance. The assumed participant behavior is profit maximization. If HHI is very low, implying a more competitive market, prices converge to marginal cost, the competitive market outcome. But the effect of a low HHI may be offset, depending on the price elasticity of demand. If HHI is very high, meaning competition is lacking, the prices approach the monopoly level. Price elasticity of demand (ε) determines the degree to which participants with market power can impose higher prices on consumers.

The HHI may not accurately capture market power issues in situations where, for example, there is moderate concentration in all on line resources but there is a high level of concentration in resources needed to meet increases in load. The HHIs for supply curve segments is an indication of such issues with the ownership of incremental resources. An aggregate pivotal supplier test is

required to accurately measure the ability of incremental resources to exercise market power when load is high, for example.

Hourly HHIs were also calculated for baseload, intermediate and peaking segments of generation supply. Hourly energy market HHIs by supply curve segment were calculated based on hourly energy market shares, unadjusted for imports.

The “Merger Policy Statement” of FERC states that a market can be broadly characterized as:

- **Unconcentrated.** Market HHI below 1000, equivalent to 10 firms with equal market shares;
- **Moderately Concentrated.** Market HHI between 1000 and 1800; and
- **Highly Concentrated.** Market HHI greater than 1800, equivalent to between five and six firms with equal market shares.¹⁰

The PJM energy market HHIs and the FERC concentration cutoffs may understate the degree of market power because, in the absence of aggregate market power mitigation, even the unconcentrated HHI level would imply substantial markups due to the low short run price elasticity of demand. For example, research estimates find short run demand elasticity ranging from -0.2 to -0.4. These elasticities imply an average markup ranging from 25 to 50 percent at an HHI of 1000:¹¹

$$\frac{HHI}{\varepsilon} = \frac{0.1}{0.2} = \frac{P - MC}{P} = 50\%$$

If marginal costs were \$30 per MWh and the average HHI is 1000, average PJM prices would theoretically range from \$40 to \$60 per MWh, exceeding marginal costs due to market power. The average PJM markup component in 2018 is lower than in 2017, supporting the MMU’s competitive assessment of the market. However, markup is not zero. In some hours, markup reaches levels that reflect market power.

¹⁰ See “Inquiry Concerning the Commission’s Merger Policy under the Federal Power Act: Policy Statement, 77 FERC ¶ 61,263 mimeo at 80 (1996).

¹¹ The HHI used in the equation is based on market shares. For the FERC HHI thresholds and standard HHI reporting, market shares are multiplied by 100 prior to squaring the market shares.

⁹ See Tirole, Jean. *The Theory of Industrial Organization*, MIT (1988), Chapter 5: Short-Run Price Competition.

PJM HHI Results

Calculations for hourly HHI indicate that by FERC standards, the PJM energy market during the first three months of 2018 was unconcentrated (Table 3-2).

Table 3-2 PJM hourly energy market HHI: January through March, 2017 and 2018¹²

| | Hourly Market HHI (Jan - Mar, 2017) | Hourly Market HHI (Jan - Mar, 2018) |
|--|--|--|
| Average | 980 | 852 |
| Minimum | 882 | 705 |
| Maximum | 1126 | 1102 |
| Highest market share (One hour) | 23% | 25% |
| Average of the highest hourly market share | 17% | 19% |
| # Hours | 2,159 | 2,159 |
| # Hours HHI > 1800 | 0 | 0 |
| % Hours HHI > 1800 | 0% | 0% |

Table 3-3 includes HHI values by supply curve segment, including base, intermediate and peaking plants for the first three months of 2017 and 2018. The PJM energy market was unconcentrated overall with low concentration in the baseload, moderate concentration in the intermediate segment, and high concentration in the peaking segment.

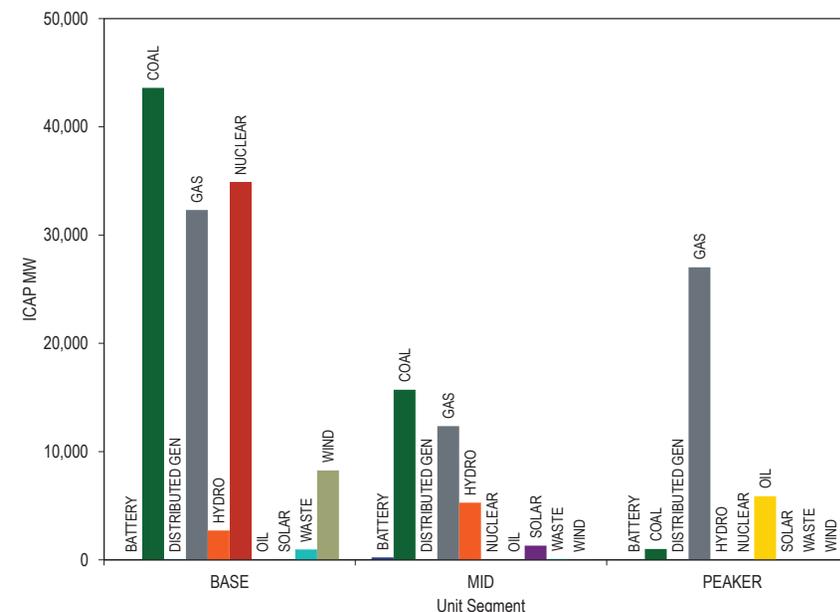
Table 3-3 PJM hourly energy market HHI (By supply segment): January through March, 2017 and 2018

| | Jan - Mar, 2017 | | | Jan - Mar, 2018 | | |
|--------------|-----------------|---------|---------|-----------------|---------|---------|
| | Minimum | Average | Maximum | Minimum | Average | Maximum |
| Base | 840 | 1006 | 1273 | 752 | 900 | 1178 |
| Intermediate | 668 | 1617 | 6764 | 833 | 1765 | 6500 |
| Peak | 821 | 6323 | 10000 | 860 | 6176 | 10000 |

12 This analysis includes all hours in the first three months of 2017 and 2018, regardless of congestion.

Figure 3-1 shows the total installed capacity (ICAP) MW of units in the baseload, intermediate and peaking segments by fuel source in the first three months of 2018.

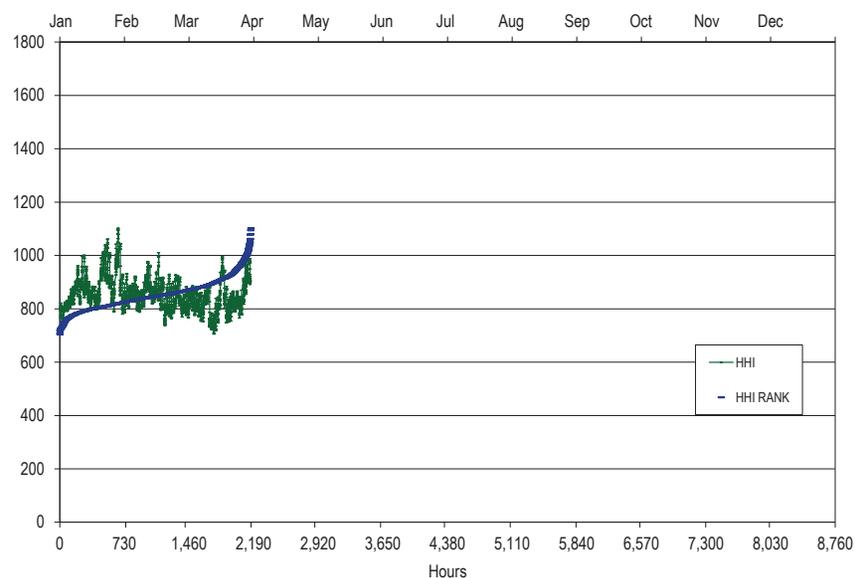
Figure 3-1 Fuel source distribution in unit segments: January through March, 2018¹³



13 The units classified as Distributed Gen are buses within Electric Distribution Companies (EDCs) that are modeled as generation buses to accurately reflect net energy injections from distribution level load buses. The modeling change was the outcome of the Net Energy Metering Task Force stakeholder group in July, 2012. See PJM. "Net Energy Metering Senior Task Force (NEMSTF) 1st Read - Final Report and Proposed Manual Revisions" (June 28, 2012) <<http://www.pjm.com/~media/committees-groups/task-forces/nemstf/postings/20120628-first-read-item-04-nemstf-report-and-proposed-manual-revisions.ashx>>.

Figure 3-2 presents the hourly HHI values in chronological order and an HHI duration curve for the first three months of 2018.

Figure 3-2 PJM hourly energy market HHI: January through March, 2018



Aggregate Market Pivotal Supplier Results

Notwithstanding the HHI level, a supplier may have the ability to raise energy market prices. If reliably meeting the PJM system load requires energy from a single supplier, that supplier is pivotal and has monopoly power in the aggregate energy market. If a small number of suppliers are jointly required to meet load, those suppliers are jointly pivotal and have oligopoly power. The number of pivotal suppliers in the energy market is a more precise measure of structural market power than the HHI. The HHI is not a definitive measure of structural market power.

In the PJM Day-Ahead Energy Market, two suppliers were jointly pivotal on 9 percent of days in the first three months of 2018. Three suppliers were

jointly pivotal on 39 percent of days. Three suppliers were jointly pivotal on 46 percent of days in the first three months of 2017. The frequency of pivotal suppliers increased during the summer months of 2017, on high demand days in September 2017, and from January 1 to 10, 2018.

Day-Ahead Energy Market Aggregate Pivotal Suppliers

To assess the number of pivotal suppliers in the Day-Ahead Energy Market, the MMU determined, for each supplier, the MW available for economic commitment that were already running or were available to start between the close of the Day-Ahead Energy Market and the peak load hour of the operating day. The available supply is defined as MW offered at a price less than 150 percent of the applicable LMP because supply available at higher prices is not competing to meet the demand for energy.¹⁴ Generating units, import transactions, economic demand response, and INCs, are included for each supplier. Demand is the total MW required by PJM to meet physical load, cleared load bids, export transactions, and DECs. A supplier is pivotal if PJM would require some portion of the supplier's available economic capacity in the peak hour of the operating day in order to meet demand. Suppliers are jointly pivotal if PJM would require some portion of the joint suppliers' available economic capacity in the peak hour of the operating day in order to meet demand.

Figure 3-3 shows the number of days in 2017 and in the first three months of 2018 with one pivotal supplier, two jointly pivotal suppliers, and three jointly pivotal suppliers for the Day-Ahead Energy Market along with the number of suppliers meeting each criterion. No supplier was singly pivotal for any day in 2017 or in the first three months of 2018. Two suppliers were jointly pivotal on 8 days in the first three months of 2018. Three suppliers were jointly pivotal on 35 days, despite average HHIs at persistently unconcentrated levels.

¹⁴ Each LMP is scaled by 150 percent to determine the relevant supply, resulting in a different price threshold for each LMP value. The analysis does not solve a redispatch of the PJM market.

Figure 3-3 Days with pivotal suppliers and numbers of pivotal suppliers in the PJM Day-Ahead Energy Market by Quarter

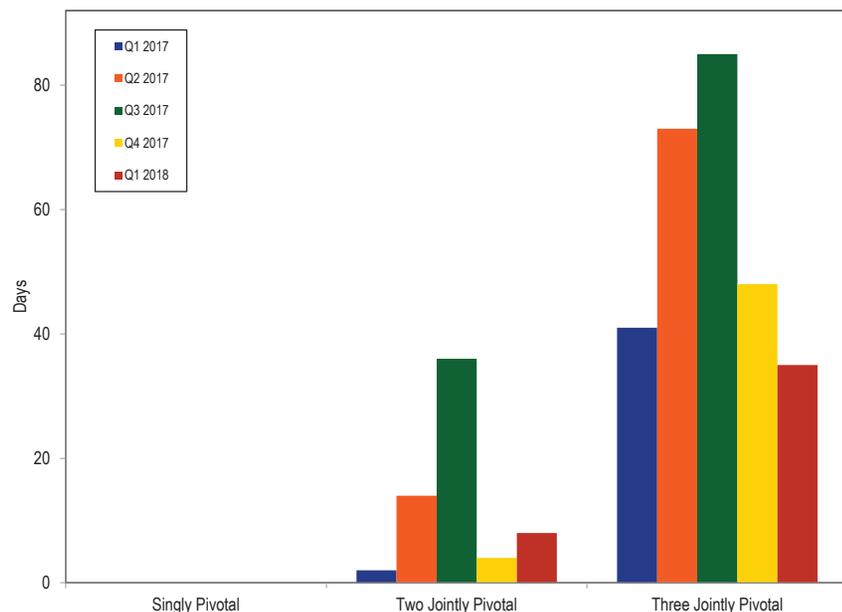


Table 3-4 provides the frequency with which each of the 10 largest suppliers was singly or jointly pivotal for the Day-Ahead Energy Market in the first three months of 2018. The two largest suppliers were one of two pivotal suppliers on eight days, 9 percent of days in the first three months of 2018. All of the top 10 suppliers were one of three pivotal suppliers on at least 17 percent of days, and the largest two suppliers were one of three pivotal suppliers on 39 percent of days.

Table 3-4 Frequency of days as a pivotal supplier for the 10 largest suppliers: January through March, 2018

| Pivotal Supplier Rank | Days Singly Pivotal | Percent of Days | Days Jointly Pivotal with One Other Supplier | | Days Jointly Pivotal with Two Other Suppliers | |
|-----------------------|---------------------|-----------------|--|-----------------|---|-----------------|
| | | | Days | Percent of Days | Days | Percent of Days |
| 1 | 0 | 0% | 8 | 9% | 35 | 39% |
| 2 | 0 | 0% | 8 | 9% | 35 | 39% |
| 3 | 0 | 0% | 4 | 4% | 33 | 37% |
| 4 | 0 | 0% | 3 | 3% | 32 | 36% |
| 5 | 0 | 0% | 6 | 7% | 26 | 29% |
| 6 | 0 | 0% | 2 | 2% | 29 | 32% |
| 7 | 0 | 0% | 1 | 1% | 21 | 23% |
| 8 | 0 | 0% | 0 | 0% | 18 | 20% |
| 9 | 0 | 0% | 0 | 0% | 18 | 20% |
| 10 | 0 | 0% | 1 | 1% | 15 | 17% |

The current market power mitigation rules for the PJM energy market rely on the assumption that the aggregate market includes sufficient competing sellers to ensure competitive market outcomes. With sufficient competition, any attempt to economically or physically withhold generation would not result in higher market prices, because another supplier would replace the generation at a similar price. This assumption requires that the total demand for energy can be met without the supply from any individual supplier or without the supply from a small group of suppliers. This assumption is not correct, as demonstrated by these results. There are pivotal suppliers in the aggregate energy market.

The existing market power mitigation measures do not address aggregate market power.¹⁵ The MMU is developing an aggregate market power test for the day-ahead and real-time energy markets based on pivotal suppliers and will propose appropriate market power mitigation rules to address aggregate market power.

¹⁵ One supplier, Exelon, is partially mitigated for aggregate market power through its merger agreement. The agreement is not part of the PJM market rules. See Monitoring Analytics, LLC, Letter attaching Settlement Terms and Conditions, FERC Docket No. EC11-83-000 and Maryland PSC Case No. 9271 (October 11, 2011).

Ownership of Marginal Resources

Table 3-5 shows the contribution to real-time, load-weighted LMP by individual marginal resource owners.¹⁶ The contribution of each marginal resource to price at each load bus is calculated for each five-minute interval of the first three months of 2018, and summed by the parent company that offers the marginal resource into the Real-Time Energy Market. In the first three months of 2018, the offers of one company resulted in 12.5 percent of the real-time, load-weighted PJM system LMP and the offers of the top four companies resulted in 42.8 percent of the real-time, load-weighted, average PJM system LMP. During the first three months of 2017, the offers of one company resulted in 16.8 percent of the real-time, load-weighted PJM system LMP and offers of the top four companies resulted in 56.6 percent of the real-time, load-weighted, average PJM system LMP. In the first three months of 2018, the offers of one company resulted in 13.7 percent of the peak hour real-time, load weighted PJM system LMP. In the first three months of 2017, the offers of one company resulted in 16.6 percent of the peak hour, real-time, load weighted PJM system LMP. The decline in the concentration of marginal resource ownership largely paralleled the decline in the share of marginal coal resources in the real time energy market. In the PJM energy market, the ownership of coal resources is highly concentrated unlike the ownership of new entrant natural gas resources.

Table 3-5 Marginal unit contribution to PJM real-time, load-weighted LMP (By parent company): January through March, 2017 and 2018

| Company | 2017 (Jan - Mar) | | | | | | 2018 (Jan - Mar) | | | | | |
|----------------------|------------------|--------------------|----------------------|------------------|--------------------|----------------------|------------------|--------------------|----------------------|------------------|--------------------|---------|
| | All Hours | | | Peak Hours | | | All Hours | | | Peak Hours | | |
| | Percent of Price | Cumulative Percent | Company | Percent of Price | Cumulative Percent | Company | Percent of Price | Cumulative Percent | Company | Percent of Price | Cumulative Percent | Company |
| 1 | 16.8% | 16.8% | 1 | 16.6% | 16.6% | 1 | 12.5% | 12.5% | 1 | 13.7% | 13.7% | |
| 2 | 16.8% | 33.6% | 2 | 16.5% | 33.1% | 2 | 10.9% | 23.4% | 2 | 10.3% | 24.0% | |
| 3 | 14.5% | 48.2% | 3 | 13.1% | 46.2% | 3 | 10.9% | 34.3% | 3 | 9.6% | 33.6% | |
| 4 | 8.5% | 56.6% | 4 | 7.8% | 54.0% | 4 | 8.5% | 42.8% | 4 | 7.4% | 40.9% | |
| 5 | 6.3% | 62.9% | 5 | 6.7% | 60.7% | 5 | 6.0% | 48.8% | 5 | 6.7% | 47.6% | |
| 6 | 4.9% | 67.8% | 6 | 6.3% | 67.0% | 6 | 5.6% | 54.4% | 6 | 6.2% | 53.8% | |
| 7 | 4.3% | 72.1% | 7 | 4.3% | 71.3% | 7 | 5.6% | 60.0% | 7 | 4.6% | 58.5% | |
| 8 | 3.3% | 75.4% | 8 | 2.9% | 74.2% | 8 | 4.3% | 64.4% | 8 | 4.6% | 63.1% | |
| 9 | 2.6% | 78.0% | 9 | 2.6% | 76.8% | 9 | 4.3% | 68.7% | 9 | 4.5% | 67.5% | |
| Other (58 companies) | 22.0% | 100.0% | Other (53 companies) | 23.2% | 100.0% | Other (62 companies) | 31.3% | 100.0% | Other (58 companies) | 32.5% | 100.0% | |

Table 3-6 shows the contribution to day-ahead, load-weighted LMP by individual marginal resource owners.¹⁷ The contribution of each marginal resource to price at each load bus is calculated hourly, and summed by the parent company that offers the marginal resource into the Day-Ahead Energy Market. The results show that in the first three months of 2018, the offers of one company contributed 9.9 percent of the day-ahead, load-weighted, PJM system LMP and that the offers of the top four companies contributed 34.3 percent of the day-ahead, load-weighted, average, PJM system LMP. In the first three months of 2017, the offers of one company contributed 8.9 percent of the day-ahead, load-weighted PJM system LMP and offers of the top four companies contributed 32.1 percent of the day-ahead, load-weighted, average PJM system LMP.

¹⁶ See the *MMU Technical Reference for PJM Markets*, at "Calculation and Use of Generator Sensitivity/Unit Participation Factors."

¹⁷ *Id.*

Table 3-6 Marginal resource contribution to PJM day-ahead, load-weighted LMP (By parent company): January through March, 2017 and 2018

| Company | 2017 (Jan - Mar) | | | | | | 2018 (Jan - Mar) | | | | | |
|-----------------------|------------------|--------------------|-----------------------|------------------|--------------------|-----------------------|------------------|--------------------|-----------------------|------------------|--------------------|---------|
| | All Hours | | | Peak Hours | | | All Hours | | | Peak Hours | | |
| | Percent of Price | Cumulative Percent | Company | Percent of Price | Cumulative Percent | Company | Percent of Price | Cumulative Percent | Company | Percent of Price | Cumulative Percent | Company |
| 1 | 8.9% | 8.9% | 1 | 9.6% | 9.6% | 1 | 9.9% | 9.9% | 1 | 11.5% | 11.5% | |
| 2 | 8.9% | 17.8% | 2 | 7.6% | 7.6% | 2 | 9.5% | 19.4% | 2 | 9.7% | 21.3% | |
| 3 | 7.3% | 25.1% | 3 | 7.3% | 7.3% | 3 | 7.8% | 27.3% | 3 | 9.0% | 30.2% | |
| 4 | 7.0% | 32.1% | 4 | 6.5% | 6.5% | 4 | 7.0% | 34.3% | 4 | 6.5% | 36.8% | |
| 5 | 6.3% | 38.5% | 5 | 5.4% | 5.4% | 5 | 5.3% | 39.6% | 5 | 5.4% | 42.1% | |
| 6 | 6.1% | 44.6% | 6 | 5.4% | 5.4% | 6 | 4.7% | 44.3% | 6 | 4.5% | 46.7% | |
| 7 | 4.5% | 49.1% | 7 | 5.0% | 5.0% | 7 | 4.3% | 48.6% | 7 | 4.5% | 51.2% | |
| 8 | 3.9% | 53.0% | 8 | 4.6% | 4.6% | 8 | 3.8% | 52.4% | 8 | 4.1% | 55.3% | |
| 9 | 3.0% | 56.0% | 9 | 3.8% | 3.8% | 9 | 3.6% | 56.1% | 9 | 4.1% | 59.5% | |
| Other (126 companies) | 44.0% | 100.0% | Other (122 companies) | 44.8% | 44.8% | Other (140 companies) | 43.9% | 100.0% | Other (123 companies) | 40.5% | 100.0% | |

Type of Marginal Resources

LMPs result from the operation of a market based on security-constrained, least-cost dispatch in which marginal resources determine system LMPs, based on their offers. Marginal resource designation is not limited to physical resources in the Day-Ahead Energy Market. INC offers, DEC bids and up to congestion transactions are dispatchable injections and withdrawals in the Day-Ahead Energy Market that can set price via their offers and bids.

Table 3-7 shows the type of fuel used by marginal resources in the Real-Time Energy Market. There can be more than one marginal resource in any given interval as a result of transmission constraints. In the first three months of 2018, coal units were 30.4 percent and natural gas units were 58.3 percent of marginal resources. In the first three months of 2017, coal units were 34.2 percent and natural gas units were 51.1 percent of the total marginal resources. In the first three months of 2018, 65.7 percent of the wind marginal units had negative offer prices, 31.3 percent had zero offer prices and 3.0 percent had positive offer prices. In the first three months of 2017, 80.1 percent of the wind marginal units had negative offer prices, 4.0 percent had zero offer prices and 15.9 percent had positive offer prices.

The proportion of marginal nuclear units decreased from 0.78 percent in the first three months of 2017 to 0.44 percent in the first three months of 2018. Most nuclear units are offered as fixed generation in the PJM market. A small number of nuclear units were offered with a dispatchable range. The dispatchable nuclear units do not always respond to dispatch instructions.

Table 3-7 Type of fuel used (By real-time marginal units): January through March, 2014 through 2018

| Type/Fuel | (Jan - Mar) | | | | |
|-----------------|-------------|--------|--------|--------|--------|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| Gas | 42.61% | 33.10% | 42.03% | 51.05% | 58.34% |
| Coal | 46.59% | 57.21% | 45.86% | 34.23% | 30.40% |
| Oil | 4.53% | 6.29% | 7.65% | 6.56% | 5.98% |
| Wind | 5.17% | 2.91% | 4.06% | 7.05% | 4.54% |
| Uranium | 0.15% | 0.01% | 0.09% | 0.78% | 0.44% |
| Other | 0.76% | 0.43% | 0.20% | 0.26% | 0.22% |
| Municipal Waste | 0.03% | 0.05% | 0.11% | 0.07% | 0.08% |
| Emergency DR | 0.15% | 0.00% | 0.00% | 0.00% | 0.00% |

Figure 3-4 shows the type of fuel used by marginal resources in the Real-Time Energy Market since 2004. The role of coal as a marginal resource has declined while the role of gas as a marginal resource has increased.

Figure 3-4 Type of fuel used (By real-time marginal units): January through March, 2004 through 2018

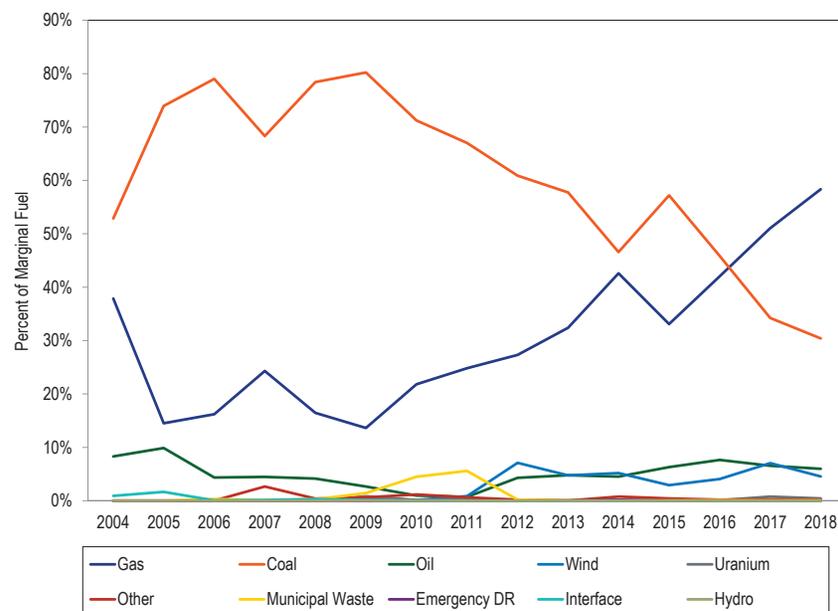


Table 3-8 shows the type and fuel type where relevant, of marginal resources in the Day-Ahead Energy Market. In the first three months of 2018, up to congestion transactions were 76.13 percent of marginal resources. Up to congestion transactions were 83.70 percent of marginal resources in the first three months of 2017.

Table 3-8 Day-ahead marginal resources by type/fuel: January through March, 2011 through 2018

| Type/Fuel | (Jan - Mar) | | | | | | | |
|------------------------------|-------------|---------|---------|---------|---------|---------|---------|---------|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| Up to Congestion Transaction | 65.72% | 84.85% | 93.54% | 94.68% | 72.79% | 83.21% | 83.70% | 76.13% |
| DEC | 14.80% | 5.78% | 1.71% | 1.60% | 8.48% | 6.86% | 7.62% | 10.12% |
| INC | 9.08% | 5.51% | 1.44% | 1.07% | 5.74% | 3.99% | 4.57% | 6.15% |
| Gas | 2.40% | 0.95% | 0.92% | 1.08% | 3.80% | 2.44% | 1.80% | 4.07% |
| Coal | 7.43% | 2.70% | 2.26% | 1.27% | 8.20% | 2.76% | 1.71% | 3.12% |
| Wind | 0.00% | 0.03% | 0.02% | 0.05% | 0.16% | 0.04% | 0.16% | 0.17% |
| Dispatchable Transaction | 0.27% | 0.08% | 0.09% | 0.19% | 0.58% | 0.06% | 0.04% | 0.12% |
| Oil | 0.00% | 0.00% | 0.00% | 0.04% | 0.17% | 0.59% | 0.38% | 0.09% |
| Price Sensitive Demand | 0.29% | 0.11% | 0.01% | 0.02% | 0.07% | 0.00% | 0.00% | 0.02% |
| Uranium | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.04% | 0.02% | 0.01% |
| Other | 0.00% | 0.00% | 0.00% | 0.00% | 0.01% | 0.01% | 0.00% | 0.01% |
| Municipal Waste | 0.02% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Hydro | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Total | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

Figure 3-5 shows, for the Day-Ahead Energy Market from January 2014, through March 2018, the daily proportion of marginal resources that were up to congestion transaction and/or generation units. The percent of marginal up to congestion transactions (UTC) decreased significantly and that of generation units increased beginning on September 8, 2014, as a result of FERC's UTC uplift refund notice which became effective on that date.¹⁸ That trend has reversed as a result of the expiration of the fifteen month uplift refund period for UTC transactions. In the first three months of 2018, in the Day-Ahead Energy Market, the percent of marginal up to congestion transactions decreased significantly as the result of a FERC order issued on February 20, 2018 and implemented on February 22, 2018.¹⁹ The order limited UTC trading to hubs, residual metered load, and interfaces. The share of marginal UTCs decreased from 82.0 percent in the period February 22, 2017, through March 31, 2017, to 46.1 percent in the period February 22, 2018, through March 31, 2018. The share of marginal generation resources increased from 4.3 percent in the period February 22, 2017, through March 31, 2017, to 17.7 percent in the period February 22, 2018, through March 31, 2018.

¹⁸ See 18 CFR § 385.213 (2014).

¹⁹ 162 FERC ¶ 61,139 (2018).

Figure 3-5 Day-ahead marginal up to congestion transaction and generation units: January 2014 through March 2018

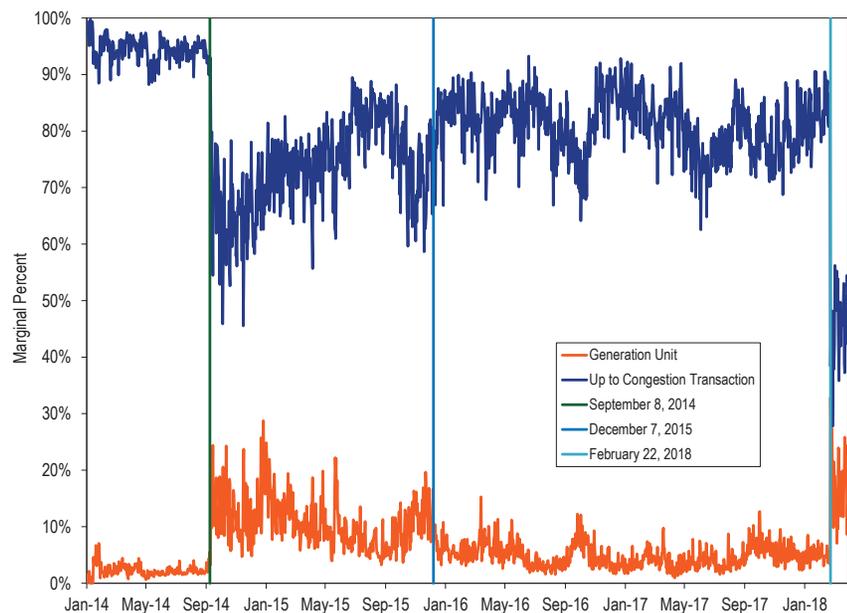
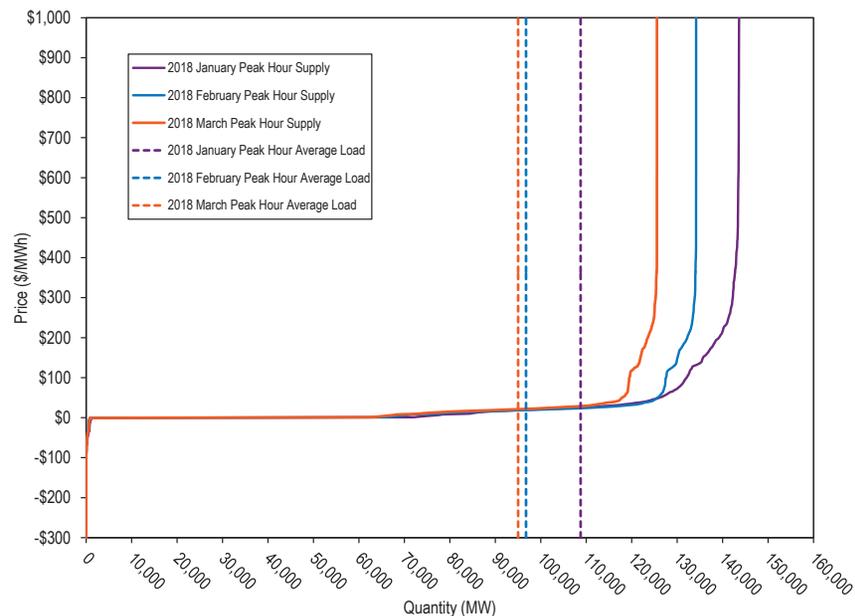


Figure 3-6 Average hourly real time supply curves: January through March, 2018



Supply

Supply includes physical generation and imports and virtual transactions.

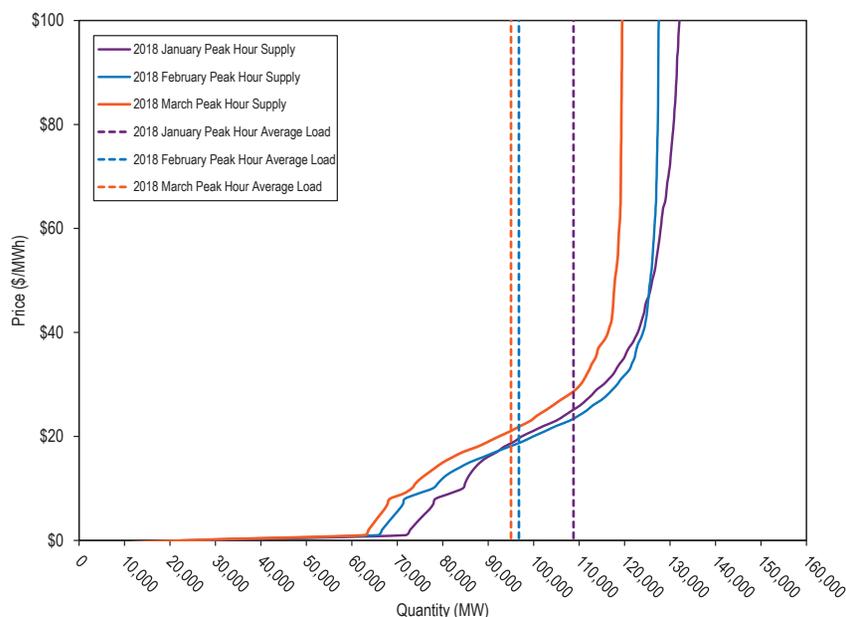
In the first three months of 2018, 1,947.6 MW of new resources were added and 160.2 MW were retired.

Figure 3-6 is a supply curve, which shows the average hourly real-time supply and average load for the on peak hours of the first three months of 2018.²⁰

²⁰ Prices are the real-time hourly offers. Prior versions of the supply curve show more total MW compared to the current one, because this supply curve includes only MW from units online or available to start in less than one hour, and uses one hour unit ramping limits.

Figure 3-7 shows Figure 3-7the average hourly real-time supply curves in the typical dispatch range.

Figure 3-7 Typical dispatch range of average hourly real time supply curves: January through March, 2018



Energy Production by Fuel Source

Table 3-9 shows PJM generation by fuel source in GWh for the first three months of 2017 and 2018. In the first three months of 2018, generation from coal units decreased 1.0 percent, generation from natural gas units increased 14.8 percent, and generation from oil increased 281.5 percent compared to the first three months of 2017. ²¹

Table 3-9 PJM generation (By fuel source (GWh)): January through March, 2017 and 2018^{22 23 24}

| | 2017 (Jan - Mar) | | 2018 (Jan - Mar) | | Change in Output |
|----------------------------|------------------|---------------|------------------|---------------|------------------|
| | GWh | Percent | GWh | Percent | |
| Coal | 66,271.8 | 33.3% | 65,611.6 | 31.4% | (1.0%) |
| Bituminous | 56,739.0 | 28.5% | 55,169.7 | 26.4% | (2.8%) |
| Sub Bituminous | 7,327.5 | 3.7% | 7,992.7 | 3.8% | 9.1% |
| Other Coal | 2,205.2 | 1.1% | 2,449.3 | 1.2% | 11.1% |
| Nuclear | 71,205.0 | 35.8% | 71,827.2 | 34.4% | 0.9% |
| Gas | 49,142.2 | 24.7% | 56,310.4 | 27.0% | 14.6% |
| Natural Gas | 48,526.8 | 24.4% | 55,717.0 | 26.7% | 14.8% |
| Landfill Gas | 615.5 | 0.3% | 593.4 | 0.3% | (3.6%) |
| Other Gas | 0.0 | 0.0% | 0.0 | 0.0% | NA |
| Hydroelectric | 3,565.8 | 1.8% | 3,849.9 | 1.8% | 8.0% |
| Pumped Storage | 898.6 | 0.5% | 1,098.2 | 0.5% | 22.2% |
| Run of River | 2,389.9 | 1.2% | 2,429.7 | 1.2% | 1.7% |
| Other Hydro | 277.3 | 0.1% | 322.0 | 0.2% | 16.1% |
| Wind | 6,496.1 | 3.3% | 7,395.3 | 3.5% | 13.8% |
| Waste | 1,022.0 | 0.5% | 1,097.8 | 0.5% | 7.4% |
| Solid Waste | 948.7 | 0.5% | 1,025.4 | 0.5% | 8.1% |
| Miscellaneous | 73.3 | 0.0% | 72.4 | 0.0% | (1.2%) |
| Oil | 476.3 | 0.2% | 1,817.1 | 0.9% | 281.5% |
| Heavy Oil | 3.6 | 0.0% | 257.0 | 0.1% | 6,978.5% |
| Light Oil | 87.3 | 0.0% | 746.6 | 0.4% | 755.6% |
| Diesel | 7.1 | 0.0% | 332.8 | 0.2% | 4,568.2% |
| Gasoline | 0.0 | 0.0% | 0.0 | 0.0% | NA |
| Kerosene | 0.8 | 0.0% | 55.6 | 0.0% | 6,520.2% |
| Jet Oil | 0.0 | 0.0% | 8.0 | 0.0% | NA |
| Other Oil | 377.4 | 0.2% | 417.0 | 0.2% | 10.5% |
| Solar, Net Energy Metering | 267.1 | 0.1% | 391.2 | 0.2% | 46.5% |
| Energy Storage | 9.1 | 0.0% | 3.7 | 0.0% | (59.4%) |
| Battery | 9.1 | 0.0% | 3.7 | 0.0% | (59.4%) |
| Compressed Air | 0.0 | 0.0% | 0.0 | 0.0% | NA |
| Biofuel | 434.4 | 0.2% | 460.5 | 0.2% | 6.0% |
| Geothermal | 0.0 | 0.0% | 0.0 | 0.0% | NA |
| Other Fuel Type | 0.0 | 0.0% | 0.0 | 0.0% | NA |
| Total | 198,889.6 | 100.0% | 208,764.6 | 100.0% | 5.0% |

²¹ Generation data are the sum of MWh for each fuel by source at every generation bus in PJM with positive output and reflect gross generation without offset for station use of any kind.

²² All generation is total gross generation output and does not net out the MWh withdrawn at a generation bus to provide auxiliary/parasitic power or station power, power to synchronous condenser motors, or power to run pumped storage pumps.

²³ Net Energy Metering is combined with Solar due to data confidentiality reasons.

²⁴ Other Gas includes: Propane, Butane, Hydrogen, Gasified Coal, and Refinery Gas.

Table 3-10 Monthly PJM generation (By fuel source (GWh)): January through March, 2018

| | Jan | Feb | Mar | Total |
|----------------------------|----------|----------|----------|-----------|
| Coal | 27,514.6 | 18,362.3 | 19,734.7 | 65,611.6 |
| Bituminous | 23,012.8 | 15,782.6 | 16,374.3 | 55,169.7 |
| Sub Bituminous | 3,544.9 | 1,876.0 | 2,571.7 | 7,992.7 |
| Other Coal | 956.9 | 703.7 | 788.7 | 2,449.3 |
| Nuclear | 26,301.0 | 22,971.9 | 22,554.2 | 71,827.2 |
| Gas | 18,503.1 | 17,732.1 | 20,075.1 | 56,310.4 |
| Natural Gas | 18,303.6 | 17,543.4 | 19,869.9 | 55,717.0 |
| Landfill Gas | 199.5 | 188.7 | 205.2 | 593.4 |
| Other Gas | 0.0 | 0.0 | 0.0 | 0.0 |
| Hydroelectric | 1,194.4 | 1,301.4 | 1,354.2 | 3,849.9 |
| Pumped Storage | 384.8 | 324.9 | 388.4 | 1,098.2 |
| Run of River | 685.7 | 879.0 | 865.0 | 2,429.7 |
| Other Hydro | 123.8 | 97.4 | 100.8 | 322.0 |
| Wind | 2,857.3 | 2,149.0 | 2,389.0 | 7,395.3 |
| Waste | 378.8 | 351.9 | 367.1 | 1,097.8 |
| Solid Waste | 354.3 | 329.2 | 341.9 | 1,025.4 |
| Miscellaneous | 24.5 | 22.7 | 25.2 | 72.4 |
| Oil | 1,538.4 | 155.3 | 123.3 | 1,817.1 |
| Heavy Oil | 257.0 | 0.0 | 0.0 | 257.0 |
| Light Oil | 728.0 | 11.8 | 6.8 | 746.6 |
| Diesel | 330.5 | 0.7 | 1.7 | 332.8 |
| Gasoline | 0.0 | 0.0 | 0.0 | 0.0 |
| Kerosene | 55.6 | 0.0 | 0.0 | 55.6 |
| Jet Oil | 8.0 | 0.0 | 0.0 | 8.0 |
| Other Oil | 159.3 | 142.9 | 114.9 | 417.0 |
| Solar, Net Energy Metering | 113.6 | 100.6 | 177.0 | 391.2 |
| Energy Storage | 1.4 | 1.0 | 1.4 | 3.7 |
| Battery | 1.4 | 1.0 | 1.4 | 3.7 |
| Compressed Air | 0.0 | 0.0 | 0.0 | 0.0 |
| Biofuel | 170.3 | 129.9 | 160.3 | 460.5 |
| Geothermal | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Fuel Type | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 78,572.9 | 63,255.5 | 66,936.2 | 208,764.6 |

Generator Offers

Generator offers are categorized as dispatchable (Table 3-11) or self scheduled (Table 3-12).²⁵ Units which are available for economic dispatch are dispatchable. Units which are self scheduled to generate fixed output are self scheduled and must run. Units which are self scheduled at their economic minimum and are available for economic dispatch up to their economic maximum are self scheduled and dispatchable. Table 3-11 and Table 3-12 do not include units that did not indicate their offer status or units that were offered as available to run only during emergency events. Units that do not indicate their offer status are unavailable for dispatch by PJM. The MW offered beyond the economic range of a unit are categorized as emergency MW. Emergency MW are included in both tables.

Table 3-11 shows the proportion of MW offered by dispatchable units, by unit type and by offer price range, in the first three months of 2018. For example, 45.5 percent of all CC offers were the economic minimum offered MW and 31.9 percent of CC offers were dispatchable and in the \$0 to \$200 per MWh offer price range. The total column is the proportion of all MW offers by unit type that were dispatchable. For example, 86.0 percent of all CC MW offers were dispatchable, including the 6.3 percent of emergency MW offered by CC units. The all dispatchable offers row is the proportion of MW that were offered as available for economic dispatch within a given range by all unit types. For example, 19.7 percent of all dispatchable offers were in the \$0 to \$200 per MWh price range. The total column in the all dispatchable offers row is the proportion of all MW offers that were offered as available for economic dispatch, including emergency MW. Among all the generator offers in the first three months of 2018, 24.9 percent were offered as available for economic dispatch, excluding emergency MW and economic minimum MW (60.3 percent less 5.0 and 30.4 percent).

²⁵ Each range in the tables is greater than or equal to the lower value and less than the higher value. The unit type battery is not included in these tables because batteries do not make energy offers. The unit type fuel cell is not included in these tables because of the small number of owners and the small number of units.

Table 3-11 Distribution of MW for dispatchable unit offer prices: January through March, 2018

| Unit Type | Economic Minimum | Dispatchable (Range) | | | | | | | Total |
|-------------------------|------------------|----------------------|-------------|---------------|---------------|---------------|-----------------|-----------|-------|
| | | (\$200 - \$0) | \$0 - \$200 | \$200 - \$400 | \$400 - \$600 | \$600 - \$800 | \$800 - \$1,000 | Emergency | |
| CC | 45.5% | 0.0% | 31.9% | 1.3% | 0.7% | 0.1% | 0.3% | 6.3% | 86.0% |
| CT | 66.1% | 0.0% | 19.9% | 3.5% | 1.5% | 0.3% | 0.1% | 7.4% | 98.9% |
| Diesel | 40.0% | 0.0% | 11.6% | 8.0% | 0.5% | 0.0% | 0.1% | 17.0% | 77.3% |
| Fuel Cell | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Nuclear | 5.6% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 5.6% |
| Pumped Storage | 0.0% | 0.0% | 1.0% | 0.0% | 0.2% | 0.0% | 0.0% | 32.0% | 33.3% |
| Run of River | 0.0% | 0.0% | 0.1% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.1% |
| Solar | 0.0% | 0.0% | 5.7% | 0.0% | 0.1% | 0.0% | 0.0% | 0.0% | 5.8% |
| Steam | 22.9% | 0.0% | 27.3% | 1.0% | 0.4% | 0.0% | 0.1% | 2.5% | 54.2% |
| Transaction | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Wind | 0.4% | 0.0% | 4.2% | 0.0% | 0.0% | 0.0% | 0.0% | 0.4% | 5.0% |
| All Dispatchable Offers | 30.4% | 0.0% | 19.7% | 1.2% | 0.6% | 0.1% | 0.1% | 5.0% | 60.3% |

Table 3-12 Distribution of MW for self scheduled and dispatchable unit offer prices: January through March, 2018

| Unit Type | Self Scheduled | | Self Scheduled and Dispatchable (Range) | | | | | | | | Total |
|---------------------------|----------------|-----------|---|---------------|-------------|---------------|---------------|---------------|-----------------|-----------|--------|
| | Must Run | Emergency | Economic Minimum | (\$200 - \$0) | \$0 - \$200 | \$200 - \$400 | \$400 - \$600 | \$600 - \$800 | \$800 - \$1,000 | Emergency | |
| CC | 1.8% | 0.7% | 6.2% | 0.0% | 4.1% | 0.2% | 0.1% | 0.0% | 0.1% | 0.8% | 13.9% |
| CT | 0.2% | 0.0% | 0.5% | 0.0% | 0.2% | 0.0% | 0.0% | 0.0% | 0.0% | 0.1% | 1.1% |
| Diesel | 17.7% | 1.6% | 0.7% | 0.0% | 0.1% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 20.2% |
| Fuel Cell | 100.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 100.0% |
| Nuclear | 81.3% | 0.9% | 9.0% | 0.0% | 0.9% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 92.1% |
| Pumped Storage | 1.8% | 16.7% | 0.7% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 2.1% | 21.3% |
| Run of River | 60.7% | 13.1% | 1.6% | 0.0% | 17.1% | 0.0% | 0.2% | 0.0% | 0.0% | 1.5% | 94.2% |
| Solar | 6.4% | 5.8% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 12.3% |
| Steam | 3.9% | 1.2% | 19.9% | 0.0% | 18.4% | 0.0% | 0.3% | 0.0% | 0.0% | 1.9% | 45.6% |
| Transaction | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Wind | 1.9% | 1.9% | 3.5% | 0.0% | 0.7% | 0.0% | 0.0% | 0.0% | 0.0% | 3.5% | 11.5% |
| All Self-Scheduled Offers | 18.1% | 1.7% | 9.8% | 0.0% | 7.4% | 0.1% | 0.1% | 0.0% | 0.0% | 1.0% | 39.2% |

Table 3-12 shows the proportion of MW offers by unit type that were self scheduled to generate fixed output and by unit type and price range for self scheduled and dispatchable units, for the first three months of 2018. For example, 6.2 percent of CC offers were the economic minimum and 4.1 percent of CC offers were self scheduled and dispatchable and in the \$0 to \$200 offer price range. The total column is the proportion of all MW offers by

unit type that were self scheduled to generate fixed output or are self scheduled and dispatchable. For example, 13.9 percent of all CC MW offers were either self scheduled to generate at fixed output or self scheduled to generate at economic minimum and dispatchable up to economic maximum, including the 0.8 percent of emergency MW offered by CC units. The all self scheduled offers row is the proportion of MW that were offered as either self scheduled to generate at fixed output or self scheduled to generate at economic minimum and dispatchable up to economic maximum within a given range by all unit types. For example, units that were self scheduled to generate at fixed output accounted for 18.1 percent of all offers and self scheduled and dispatchable units accounted for 17.4 percent of all offers. The total column in the all self scheduled offers row is the proportion of all MW offers that were either self scheduled to generate at fixed output or self scheduled to generate at economic minimum and dispatchable up to economic maximum, including emergency MW. Among all the generator offers in the first three months of 2018, 19.8 percent were offered as self scheduled and 18.4 percent were offered as self scheduled and dispatchable.

Fuel Diversity

Figure 3-8 shows the fuel diversity index (FDI_c) for PJM energy generation.²⁶ The FDI_c is defined as $1 - \sum_{i=1}^N s_i^2$, where s_i is the share of fuel type i . The minimum possible value for the FDI_c is zero, corresponding to all generation from a single fuel type. The maximum possible value for the FDI_c is achieved when each fuel type has an equal share of total generation. For a generation fleet composed of 10 fuel types, the maximum achievable index is 0.9. The fuel type categories used in the calculation of the FDI_c are the 10 primary fuel sources in Table 3-9 with nonzero generation values. As fuel diversity has increased, the seasonality in the FDI_c has decreased and the FDI_c has exhibited less volatility. Since 2012, the monthly FDI_c has been less volatile as a result of the decline in the share of coal from 51.3 percent prior to 2012 to 38.2 percent from 2012 through the first quarter of 2018. A significant drop in the FDI_c occurred in the fall of 2004 as a result of the expansion of the PJM market footprint into ComEd, AEP, and Dayton Power & Light control zones and the increased shares of coal and nuclear that resulted.²⁷ The increasing trend that began in 2008 corresponds to a period of decreasing coal generation, increasing gas generation and increasing wind generation. Coal generation as a share of total generation dropped 23.2 percentage points from 2008 to 2017 and gas generation increased 19.8 percentage points. Wind generation was 3.5 percent of total generation in the first three months of 2018 and 0.5 percent of total generation in the first three months of 2008, an increase of 3.0 percentage points. The average FDI_c increased 1.0 percent in the first three months of 2018 compared to the first three months of 2017.

The FDI_c was used to measure the impact of potential retirements by resources that have been identified as being at risk of retirement by the MMU's net revenue adequacy analysis.²⁸ There were 118 units with installed capacity totaling 30.8 GW identified as the high estimate of units at risk. The 118 at risk resources generated 32.4 GWh in the first three months of 2018, with 31.9 GWh from coal, nuclear and oil fired generators. The dashed line in Figure

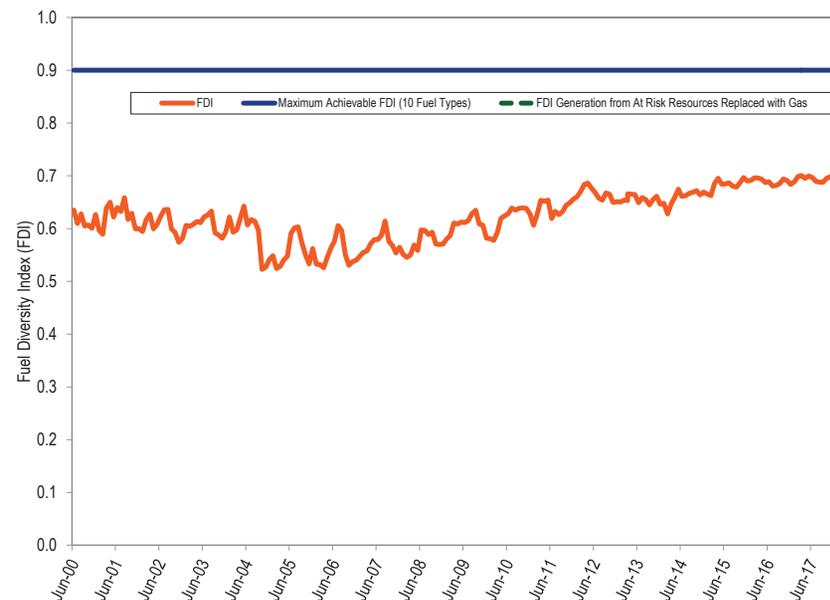
²⁶ Monitoring Analytics developed the FDI to provide an objective metric of fuel diversity. The FDI metric is similar to the HHI used to measure market concentration. The FDI is calculated separately for energy output and for installed capacity.

²⁷ See the 2017 State of the Market Report for PJM, Volume 2, Appendix A, "PJM Geography" for an explanation of the expansion of the PJM footprint. The integration of the ComEd Control Area occurred in May 2004 and the integration of the AEP and Dayton control zones occurred in October 2004.

²⁸ See the 2017 State of the Market Report for PJM, Volume 2, Section 7: Net Revenue, Units at Risk.

3-8 shows the FDI_c calculated assuming that the 31.9 GWh of generation from coal, nuclear and oil fired generators, identified as being at risk resources, were replaced by gas generation. The FDI_c under these assumptions would have decreased in each of the three months with an average monthly decrease of 2.7 percent compared to the actual FDI_c.

Figure 3-8 Fuel diversity index for PJM monthly generation: June 2000 through March 2018



Net Generation and Load

PJM sums all negative (injections) and positive (withdrawals) load at each designated load bus when calculating net load (accounting load). PJM sums all of the negative (withdrawals) and positive (injections) generation at each generation bus when calculating net generation. Netting withdrawals and injections by bus type (generation or load) affects the measurement of total load and total generation. Energy withdrawn at a generation bus to provide,

for example, auxiliary/parasitic power or station power, power to synchronous condenser motors, or power to run pumped storage pumps, is actually load, not negative generation. Energy injected at load buses by behind the meter generation is actually generation, not negative load.

The zonal load-weighted LMP is calculated by weighting the zone's load bus LMPs by the zone's load bus accounting load. The definition of injections and withdrawals of energy as generation or load affects PJM's calculation of zonal load-weighted LMP.

The MMU recommends that during hours when a generation bus shows a net withdrawal, the energy withdrawal be treated as load, not negative 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.

Real-Time Supply

The monthly maximum of average hourly offered real-time supply was 143,617 MW for January, 134,154 for February and 125,538 MW for March.

PJM average real-time cleared generation in the first three months of 2018 increased by 4.8 percent from the first three months of 2017, from 91,074 MW to 95,491 MW.²⁹

PJM average, real-time cleared supply, including imports in the first three months of 2018 increased by 4.9 percent from the first three months 2017, from 93,586 MW to 98,187 MW.

In the PJM Real-Time Energy Market, there are three types of supply offers:

- **Self Scheduled Generation Offer.** Offer to supply a fixed block of MWh, as a price taker, from a unit that may also have a dispatchable component above the minimum.

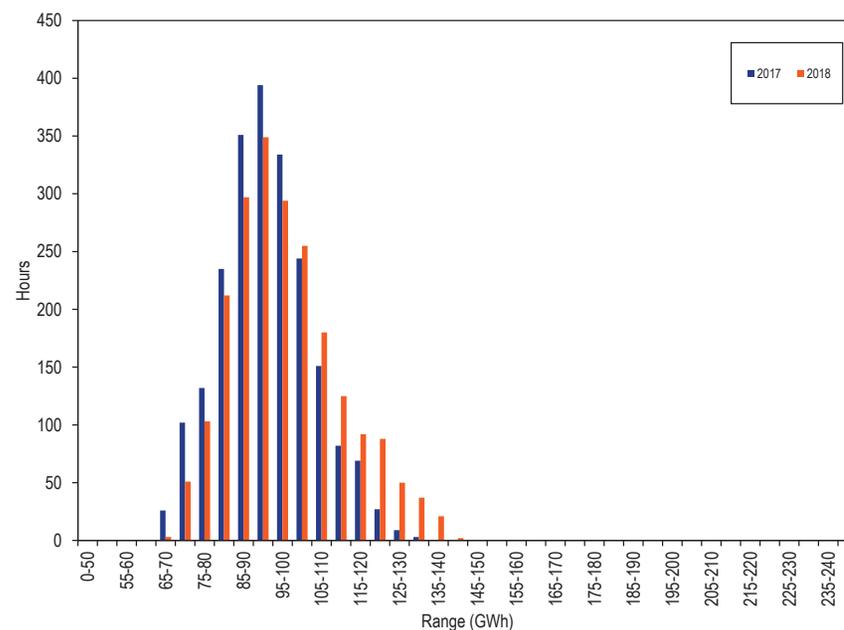
²⁹ Generation data are the net MWh injections and withdrawals MWh at every generation bus in PJM.

- **Dispatchable Generation Offer.** Offer to supply a schedule of MWh and corresponding offer prices from a specific unit.
- **Import.** An import is an external energy transaction scheduled to PJM from another balancing authority. A real-time import must have a valid OASIS reservation when offered, must have available ramp room to support the import, must be accompanied by a NERC Tag, and must pass the neighboring balancing authority checkout process.

PJM Real-Time Supply Duration

Figure 3-9 shows the hourly distribution of PJM real-time generation plus imports for the first three months of 2017 and 2018.

Figure 3-9 Distribution of PJM real-time generation plus imports: January through March, 2017 and 2018³⁰



³⁰ Each range on the horizontal axis excludes the start value and includes the end value.

PJM Real-Time, Average Supply

Table 3-13 presents summary real-time supply statistics for each year for the first three months of 18-year period from 2001 through 2018.

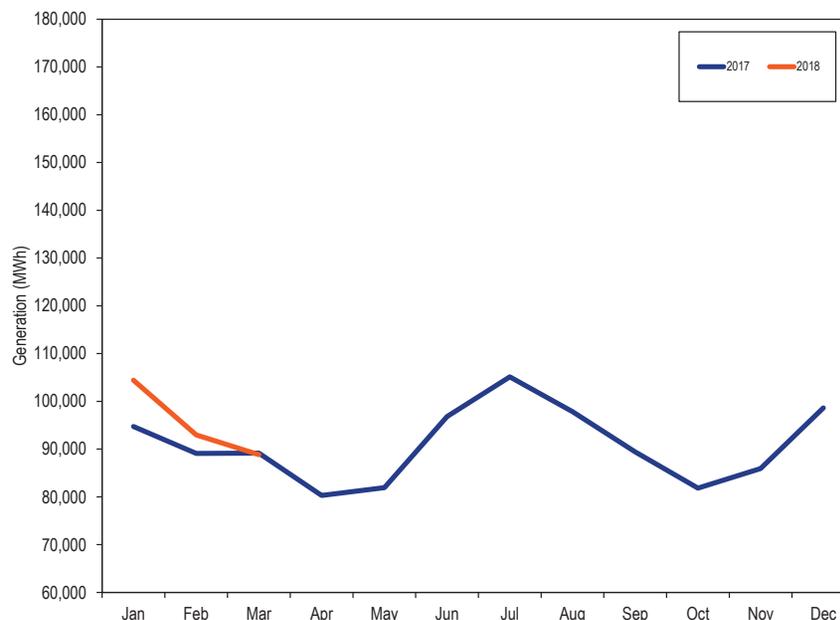
Table 3-13 PJM real-time average hourly generation and real-time average hourly generation plus average hourly imports: January through March, 2001 through 2018

| Jan-Mar | PJM Real-Time Supply (MWh) | | | | Year-to-Year Change | | | |
|---------|----------------------------|-----------|-------------------------|-----------|---------------------|-----------|-------------------------|-----------|
| | Generation | | Generation Plus Imports | | Generation | | Generation Plus Imports | |
| | Standard | Standard | Standard | Standard | Standard | Standard | Standard | Standard |
| | Generation | Deviation | Supply | Deviation | Generation | Deviation | Supply | Deviation |
| 2001 | 30,923 | 3,488 | 33,806 | 3,358 | NA | NA | NA | NA |
| 2002 | 27,948 | 3,416 | 31,465 | 3,508 | (9.6%) | (2.1%) | (6.9%) | 4.5% |
| 2003 | 38,731 | 5,187 | 42,498 | 5,092 | 38.6% | 51.8% | 35.1% | 45.2% |
| 2004 | 37,790 | 4,660 | 41,960 | 4,899 | (2.4%) | (10.2%) | (1.3%) | (3.8%) |
| 2005 | 74,187 | 8,269 | 80,184 | 9,017 | 96.3% | 77.4% | 91.1% | 84.1% |
| 2006 | 82,550 | 7,921 | 87,729 | 8,565 | 11.3% | (4.2%) | 9.4% | (5.0%) |
| 2007 | 86,286 | 10,018 | 91,454 | 11,351 | 4.5% | 26.5% | 4.2% | 32.5% |
| 2008 | 86,690 | 9,375 | 92,075 | 10,150 | 0.5% | (6.4%) | 0.7% | (10.6%) |
| 2009 | 81,987 | 11,417 | 88,148 | 12,213 | (5.4%) | 21.8% | (4.3%) | 20.3% |
| 2010 | 81,676 | 12,801 | 87,009 | 13,236 | (0.4%) | 12.1% | (1.3%) | 8.4% |
| 2011 | 83,505 | 10,116 | 88,750 | 10,884 | 2.2% | (21.0%) | 2.0% | (17.8%) |
| 2012 | 88,068 | 11,177 | 93,128 | 11,685 | 5.5% | 10.5% | 4.9% | 7.4% |
| 2013 | 92,776 | 10,030 | 98,002 | 10,812 | 5.3% | (10.3%) | 5.2% | (7.5%) |
| 2014 | 100,655 | 12,427 | 106,879 | 13,255 | 8.5% | 23.9% | 9.1% | 22.6% |
| 2015 | 97,741 | 13,085 | 105,027 | 14,351 | (2.9%) | 5.3% | (1.7%) | 8.3% |
| 2016 | 88,470 | 12,666 | 94,383 | 13,890 | (9.5%) | (3.2%) | (10.1%) | (3.2%) |
| 2017 | 91,076 | 11,009 | 94,390 | 11,673 | 2.9% | (13.1%) | 0.0% | (16.0%) |
| 2018 | 95,491 | 13,151 | 98,199 | 14,058 | 4.8% | 19.5% | 4.0% | 20.4% |

PJM Real-Time, Monthly Average Generation

Figure 3-10 compares the real-time, monthly average hourly generation in 2017 and the first three months of 2018.

Figure 3-10 PJM real-time monthly average hourly generation: January 2017 through March 2018



Day-Ahead Supply

PJM average, day-ahead cleared supply in the first three months of 2018, including INCs and up to congestion transactions, decreased by 14.2 percent from the first three months of 2017, from 140,756 MW to 120,754 MW.

PJM average, day-ahead cleared supply in the first three months of 2018, including INCs, up to congestion transactions, and imports, decreased by 14.1 percent from the first three months of 2017, from 141,287 MW to 121,313 MW.

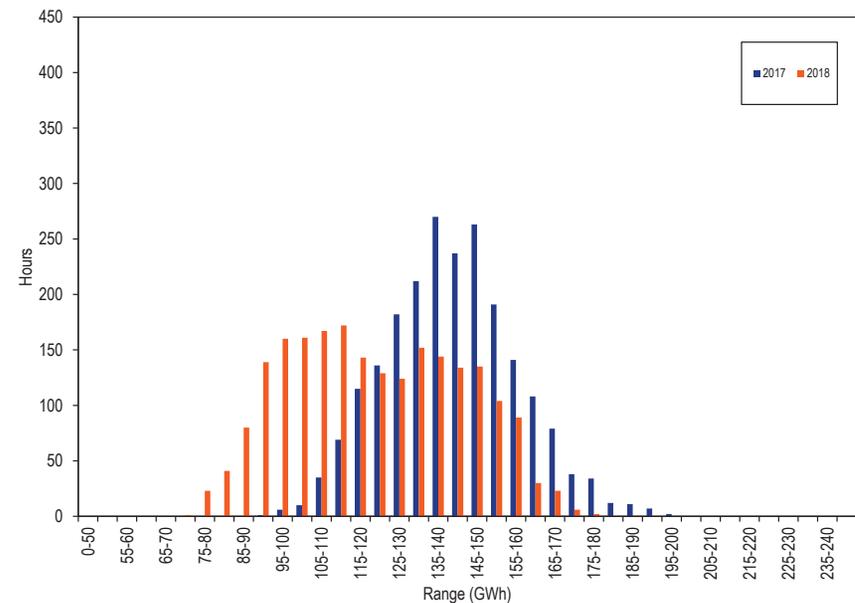
In the PJM Day-Ahead Energy Market, there are five types of financially binding supply offers:

- **Self Scheduled Generation Offer.** Offer to supply a fixed block of MWh, as a price taker, from a unit that may also have a dispatchable component above the minimum.
- **Dispatchable Generation Offer.** Offer to supply a schedule of MWh and corresponding offer prices from a unit.
- **Increment Offer (INC).** Financial offer to supply MWh and corresponding offer prices. INCs can be submitted by any market participant.
- **Up to Congestion Transaction (UTC).** Conditional transaction that permits a market participant to specify a maximum price spread between the transaction source and sink. An up to congestion transaction is evaluated as a matched pair of an injection and a withdrawal analogous to a matched pair of an INC offer and a DEC bid.
- **Import.** An import is an external energy transaction scheduled to PJM from another balancing authority. An import must have a valid willing to pay congestion (WPC) OASIS reservation when offered. An import energy transaction that clears the Day-Ahead Energy Market is financially binding. There is no link between transactions submitted in the PJM Day-Ahead Energy Market and the PJM Real-Time Energy Market, so an import energy transaction approved in the Day-Ahead Energy Market will not physically flow in real time unless it is also submitted through the real-time energy market scheduling process.

PJM Day-Ahead Supply Duration

Figure 3-11 shows the hourly distribution of PJM day-ahead supply, including increment offers, up to congestion transactions, and imports for first three months of 2017 and 2018.

Figure 3-11 Distribution of PJM day-ahead supply plus imports: January through March, 2017 and 2018³¹



³¹ Each range on the horizontal axis excludes the start value and includes the end value.

PJM Day-Ahead, Average Supply

Table 3-14 presents summary day-ahead supply statistics for the first three months of 18-year period from 2001 through 2018.

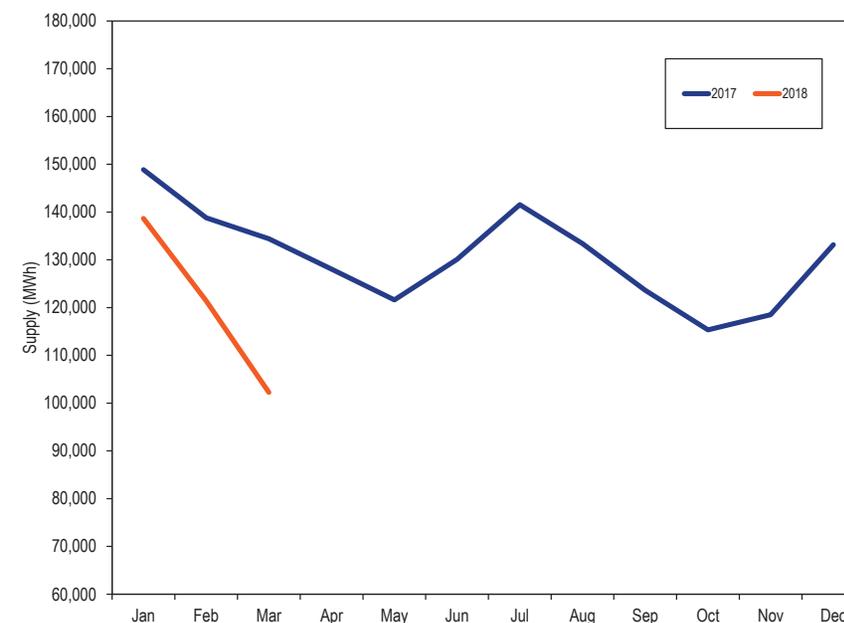
Table 3-14 PJM day-ahead average hourly supply and day-ahead average hourly supply plus average hourly imports: January through March, 2001 through 2018

| Jan-Mar | PJM Day-Ahead Supply (MWh) | | | | Year-to-Year Change | | | |
|---------|----------------------------|--------------------|---------------------|--------------------|---------------------|--------------------|---------------------|--------------------|
| | Supply | | Supply Plus Imports | | Supply | | Supply Plus Imports | |
| | Supply | Standard Deviation | Supply | Standard Deviation | Supply | Standard Deviation | Supply | Standard Deviation |
| 2001 | 28,494 | 2,941 | 29,252 | 3,021 | NA | NA | NA | NA |
| 2002 | 20,274 | 10,131 | 20,827 | 10,134 | (28.8%) | 244.5% | (28.8%) | 235.5% |
| 2003 | 37,147 | 4,337 | 37,807 | 4,389 | 83.2% | (57.2%) | 81.5% | (56.7%) |
| 2004 | 46,591 | 4,794 | 47,377 | 5,039 | 25.4% | 10.5% | 25.3% | 14.8% |
| 2005 | 89,011 | 9,434 | 90,502 | 9,443 | 91.0% | 96.8% | 91.0% | 87.4% |
| 2006 | 97,319 | 9,035 | 99,551 | 9,061 | 9.3% | (4.2%) | 10.0% | (4.0%) |
| 2007 | 110,099 | 11,938 | 112,561 | 12,141 | 13.1% | 32.1% | 13.1% | 34.0% |
| 2008 | 109,711 | 10,479 | 112,165 | 10,671 | (0.4%) | (12.2%) | (0.4%) | (12.1%) |
| 2009 | 104,880 | 13,895 | 107,325 | 14,031 | (4.4%) | 32.6% | (4.3%) | 31.5% |
| 2010 | 101,733 | 13,835 | 104,858 | 13,917 | (3.0%) | (0.4%) | (2.3%) | (0.8%) |
| 2011 | 110,310 | 12,200 | 112,854 | 12,419 | 8.4% | (11.8%) | 7.6% | (10.8%) |
| 2012 | 132,178 | 13,701 | 134,405 | 13,804 | 19.8% | 12.3% | 19.1% | 11.2% |
| 2013 | 147,246 | 13,054 | 149,300 | 13,244 | 11.4% | (4.7%) | 11.1% | (4.1%) |
| 2014 | 168,373 | 11,875 | 170,778 | 11,935 | 14.3% | (9.0%) | 14.4% | (9.9%) |
| 2015 | 123,431 | 14,671 | 125,980 | 14,916 | (26.7%) | 23.5% | (26.2%) | 25.0% |
| 2016 | 133,199 | 19,049 | 135,574 | 19,349 | 7.9% | 29.8% | 7.6% | 29.7% |
| 2017 | 140,771 | 16,923 | 142,094 | 16,938 | 5.7% | (11.2%) | 4.8% | (12.5%) |
| 2018 | 120,754 | 22,172 | 121,313 | 22,177 | (14.2%) | 31.0% | (14.6%) | 30.9% |

PJM Day-Ahead, Monthly Average Supply

Figure 3-12 compares the day-ahead, monthly average hourly supply, including increment offers and up to congestion transactions for 2017 and first three months of 2018.

Figure 3-12 PJM day-ahead monthly average hourly supply: January 2017 through March 2018



Real-Time and Day-Ahead Supply

Table 3-15 presents summary statistics for the first three months of 2017 and 2018, for day-ahead and real-time supply. All data are cleared MW. The last two columns of Table 3-15 are the day-ahead supply minus the real-time supply. The first of these columns is the total day-ahead supply less the total real-time supply and the second of these columns is the total physical day-ahead generation less the total physical real-time generation. In the first three months of 2018, up to congestion transactions were 17.9 percent of the total day-ahead supply compared to 30.1 percent in the first three months of 2017.

Figure 3-13 shows the average hourly cleared volumes of day-ahead supply and real-time supply for the first three months of 2018. The day-ahead supply consists of cleared MW of day-ahead generation, imports, increment offers and up to congestion transactions. The real-time generation includes generation and imports.

Table 3-15 Day-ahead and real-time supply (MW): January through March, 2017 and 2018

| | Jan-Mar | Day-Ahead | | | | Total Supply | Real-Time | | Day-Ahead Less Real-Time | |
|-----------------------------|---------|------------|------------|------------------|---------|--------------|------------|--------------|--------------------------|------------------|
| | | Generation | INC Offers | Up to Congestion | Imports | | Generation | Total Supply | Total Supply | Total Generation |
| Average | 2017 | 92,125 | 6,115 | 42,516 | 531 | 141,287 | 91,074 | 93,586 | 47,701 | 1,051 |
| | 2018 | 96,259 | 2,745 | 21,750 | 558 | 121,313 | 95,491 | 98,187 | 23,126 | 769 |
| Median | 2017 | 91,972 | 6,111 | 42,702 | 540 | 141,079 | 90,623 | 92,899 | 48,180 | 1,349 |
| | 2018 | 94,912 | 2,625 | 26,255 | 525 | 119,687 | 93,857 | 95,788 | 23,899 | 1,055 |
| Standard Deviation | 2017 | 11,876 | 1,098 | 7,515 | 174 | 16,926 | 11,009 | 11,650 | 5,276 | 867 |
| | 2018 | 13,274 | 1,105 | 12,209 | 220 | 22,177 | 13,151 | 14,062 | 8,114 | 123 |
| Peak Average | 2017 | 98,367 | 6,626 | 45,126 | 488 | 150,607 | 96,856 | 99,507 | 51,100 | 1,512 |
| | 2018 | 102,288 | 3,380 | 23,403 | 559 | 129,629 | 101,200 | 104,068 | 25,562 | 1,088 |
| Peak Median | 2017 | 97,245 | 6,591 | 44,873 | 509 | 149,270 | 95,955 | 98,613 | 50,657 | 1,291 |
| | 2018 | 100,422 | 3,300 | 29,339 | 512 | 131,212 | 99,339 | 101,628 | 29,584 | 1,083 |
| Peak Standard Deviation | 2017 | 8,655 | 984 | 6,733 | 178 | 13,101 | 8,226 | 9,004 | 4,097 | 429 |
| | 2018 | 11,073 | 1,071 | 12,687 | 240 | 20,654 | 11,219 | 12,065 | 8,589 | (146) |
| Off-Peak Average | 2017 | 86,324 | 5,641 | 40,090 | 571 | 132,625 | 85,700 | 88,083 | 44,542 | 624 |
| | 2018 | 90,656 | 2,155 | 20,213 | 558 | 113,583 | 90,184 | 92,721 | 20,862 | 472 |
| Off-Peak Median | 2017 | 85,365 | 5,575 | 40,154 | 590 | 131,409 | 84,759 | 87,036 | 44,373 | 606 |
| | 2018 | 88,308 | 2,082 | 24,913 | 533 | 111,742 | 87,595 | 89,611 | 22,130 | 713 |
| Off-Peak Standard Deviation | 2017 | 11,519 | 980 | 7,392 | 161 | 15,414 | 10,538 | 11,122 | 4,293 | 981 |
| | 2018 | 12,685 | 753 | 11,544 | 198 | 20,705 | 12,584 | 13,577 | 7,128 | 102 |

Figure 3-13 Day-ahead and real-time supply (Average hourly volumes): January through March, 2018

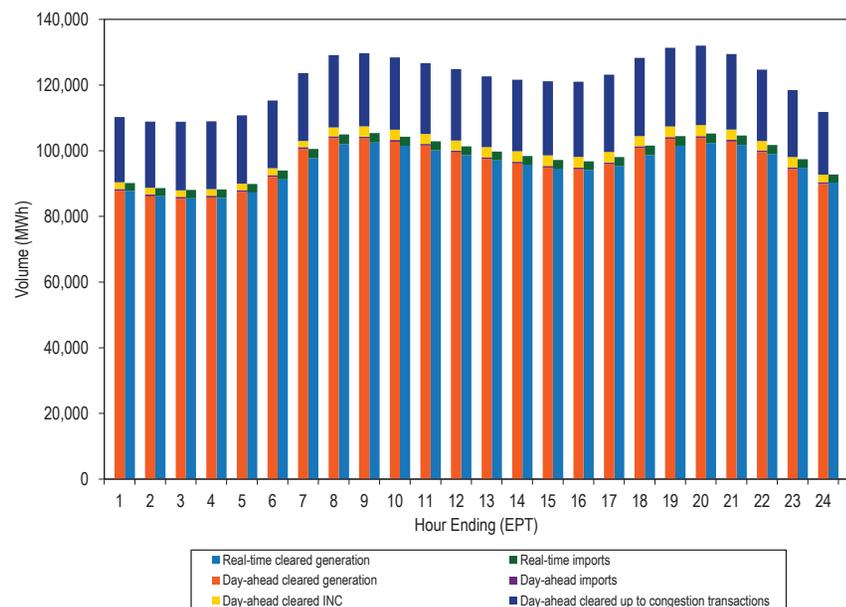


Figure 3-14 shows the difference between the day-ahead and real-time average daily supply for 2017 and the first three months of 2018.

Figure 3-14 Difference between day-ahead and real-time supply (Average daily volumes): January 2017 through March 2018

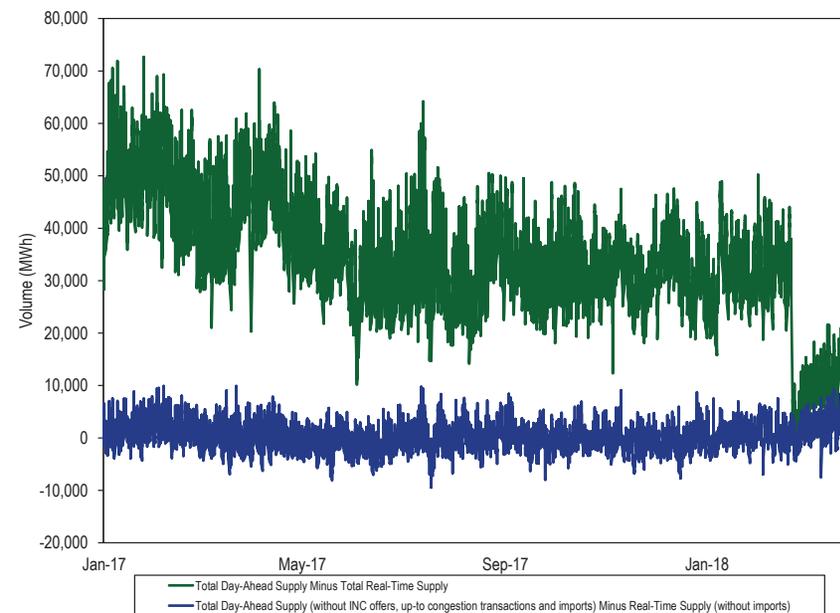
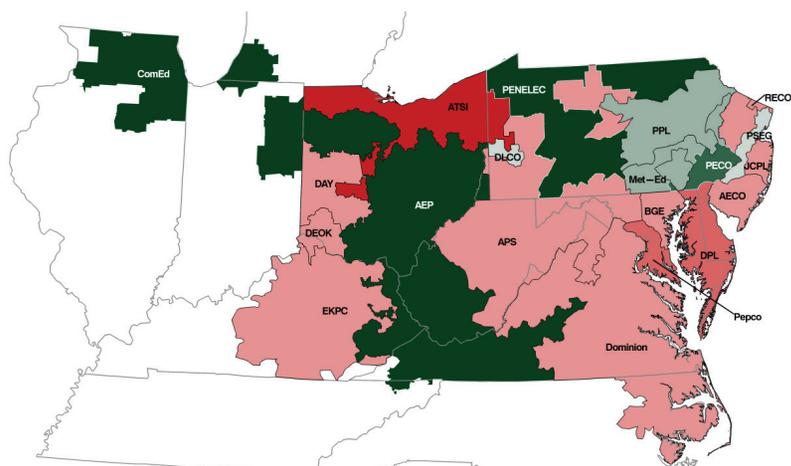


Figure 3-15 shows the difference between the PJM real-time generation and real-time load by zone in the first three months of 2018. Figure 3-15 is color coded using a scale on which red shades represent zones that have less generation than load and green shades represent zones that have more generation than load, with darker shades meaning greater amounts of net generation or load. For example, the Pepco Control Zone has less generation than load, while the PENELEC Control Zone has more generation than load. Table 3-16 shows the difference between the PJM real-time generation and real-time load by zone in the first three months of 2017 and 2018.

Figure 3-15 Map of PJM real-time generation, less real-time load, by zone: January through March, 2018³²



| Zone | Net Gen Minus Load (GWh) | Zone | Net Gen Minus Load (GWh) | Zone | Net Gen Minus Load (GWh) | Zone | Net Gen Minus Load (GWh) |
|------|--------------------------|----------|--------------------------|--------|--------------------------|---------|--------------------------|
| AECO | (815) | ComEd | 8,675 | DPL | (3,118) | PENELEC | 7,046 |
| AEP | 8,332 | DAY | (2,005) | EKPC | (1,268) | Pepco | (4,435) |
| APS | (1,105) | DEOK | (2,609) | JCPL | (1,558) | PPL | 1,415 |
| ATSI | (6,723) | DLCO | 859 | Met-Ed | 1,313 | PSEG | 430 |
| BGE | (2,551) | Dominion | (1,523) | PECO | 5,280 | RECO | (307) |

Table 3-16 PJM real-time generation less real-time load by zone (GWh): January through March, 2017 and 2018

| Zone | Zonal Generation and Load (GWh) | | | Zonal Generation and Load (GWh) | | |
|----------|---------------------------------|----------|-----------|---------------------------------|----------|-----------|
| | Jan-Mar 2017 | | Net | Jan-Mar 2018 | | Net |
| | Generation | Load | | Generation | Load | |
| AECO | 1,726.5 | 2,220.9 | (494.4) | 1,313.6 | 2,128.9 | (815.3) |
| AEP | 39,504.4 | 31,429.8 | 8,074.7 | 39,696.8 | 31,364.5 | 8,332.4 |
| APS | 11,419.3 | 12,336.2 | (916.9) | 11,286.5 | 12,391.5 | (1,105.1) |
| ATSI | 8,521.5 | 16,470.2 | (7,948.7) | 9,054.8 | 15,777.5 | (6,722.7) |
| BGE | 4,222.9 | 7,493.1 | (3,270.2) | 5,037.5 | 7,588.7 | (2,551.2) |
| ComEd | 31,476.1 | 22,902.6 | 8,573.5 | 30,582.2 | 21,907.5 | 8,674.7 |
| DAY | 2,319.9 | 4,196.4 | (1,876.5) | 2,149.3 | 4,154.7 | (2,005.4) |
| DEOK | 5,482.3 | 6,365.8 | (883.5) | 3,676.1 | 6,284.6 | (2,608.5) |
| DLCO | 4,280.2 | 3,262.9 | 1,017.3 | 3,971.3 | 3,112.2 | 859.1 |
| Dominion | 22,862.1 | 23,381.9 | (519.7) | 22,688.5 | 24,211.1 | (1,522.6) |
| DPL | 1,502.7 | 4,459.8 | (2,957.1) | 1,411.6 | 4,529.4 | (3,117.9) |
| EKPC | 1,932.4 | 3,179.9 | (1,247.5) | 2,156.9 | 3,425.3 | (1,268.4) |
| JCPL | 4,267.2 | 5,256.3 | (989.2) | 3,442.1 | 5,000.2 | (1,558.1) |
| Met-Ed | 5,181.9 | 3,848.1 | 1,333.8 | 5,065.6 | 3,752.3 | 1,313.3 |
| PECO | 16,736.5 | 9,712.9 | 7,023.6 | 14,674.2 | 9,393.9 | 5,280.2 |
| PENELEC | 11,845.7 | 4,361.5 | 7,484.1 | 11,258.6 | 4,212.3 | 7,046.3 |
| Pepco | 1,588.3 | 7,077.3 | (5,489.1) | 2,663.6 | 7,098.2 | (4,434.6) |
| PPL | 10,574.7 | 10,581.9 | (7.2) | 11,645.6 | 10,230.9 | 1,414.7 |
| PSEG | 11,183.8 | 10,264.8 | 919.0 | 10,055.0 | 9,624.6 | 430.4 |
| RECO | 0.0 | 322.7 | (322.7) | 0.0 | 307.0 | (307.0) |

Demand

Demand includes physical load and exports and virtual transactions.

Peak Demand

In this section, demand refers to accounting load and exports and in the Day-Ahead Energy Market also includes virtual transactions.³³

The PJM system real-time peak load in the first three months of 2018 was 133,851 MW in the HE 1900 on January 05, 2018, which was 9,641 MW, or 7.8 percent, higher than the peak load in the first three months of 2017, which was 124,210 MW in the HE 0800 on January 09, 2017.

³² Zonal real-time generation data for the map and corresponding table is based on the zonal designation for every bus listed in the most current PJM LMP bus model, which can be found at <<http://www.pjm.com/markets-and-operations/energy/lmp-model-info.aspx>>.

³³ PJM reports peak load including accounting load plus an addback equal to PJM's estimated load drop from demand side resources. This will generally result in PJM reporting peak load values greater than accounting load values. PJM's load drop estimate is based on PJM Manual 19: Load Forecasting and Analysis, Attachment A: Load Drop Estimate Guidelines at <<http://www.pjm.com/~media/documents/manuals/m19.ashx>>.

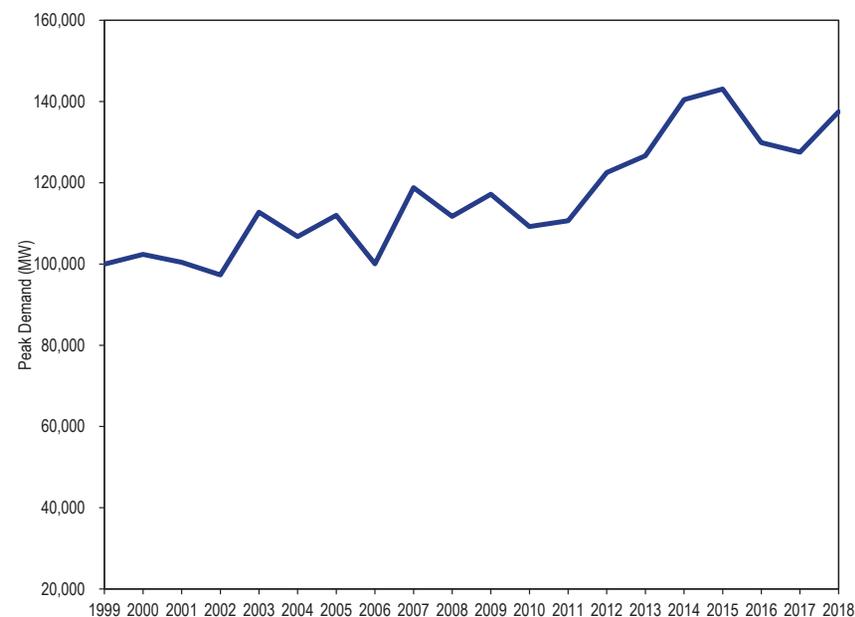
Table 3-17 shows the peak loads for the first three months of 2006 through 2018.

Table 3-17 Actual PJM footprint peak loads: January through March, 2006 to 2018^{34 35}

| (Jan - Mar) | Date | Hour Ending (EPT) | PJM Load (MW) | Annual Change (MW) | Annual Change (%) |
|-------------|------------------|-------------------|---------------|--------------------|-------------------|
| 2006 | Mon, February 13 | 20 | 100,280 | NA | NA |
| 2007 | Mon, February 05 | 20 | 119,072 | 18,792 | 18.7% |
| 2008 | Thu, January 03 | 19 | 109,239 | (9,833) | (8.3%) |
| 2009 | Fri, January 16 | 19 | 114,765 | 5,526 | 5.1% |
| 2010 | Mon, January 04 | 19 | 106,981 | (7,784) | (6.8%) |
| 2011 | Mon, January 24 | 8 | 108,156 | 1,175 | 1.1% |
| 2012 | Tue, January 03 | 19 | 119,450 | 11,294 | 10.4% |
| 2013 | Tue, January 22 | 19 | 123,473 | 4,023 | 3.4% |
| 2014 | Tue, January 07 | 19 | 136,932 | 13,459 | 10.9% |
| 2015 | Fri, February 20 | 8 | 139,647 | 2,715 | 2.0% |
| 2016 | Tue, January 19 | 8 | 126,723 | (12,924) | (9.3%) |
| 2017 | Mon, January 09 | 8 | 124,210 | (2,513) | (2.0%) |
| 2018 | Fri, January 05 | 19 | 133,851 | 9,641 | 7.8% |

Figure 3-16 shows the peak loads for the first three months of 2006 through 2018.

Figure 3-16 PJM footprint calendar year peak loads: January through March, 2006 to 2018

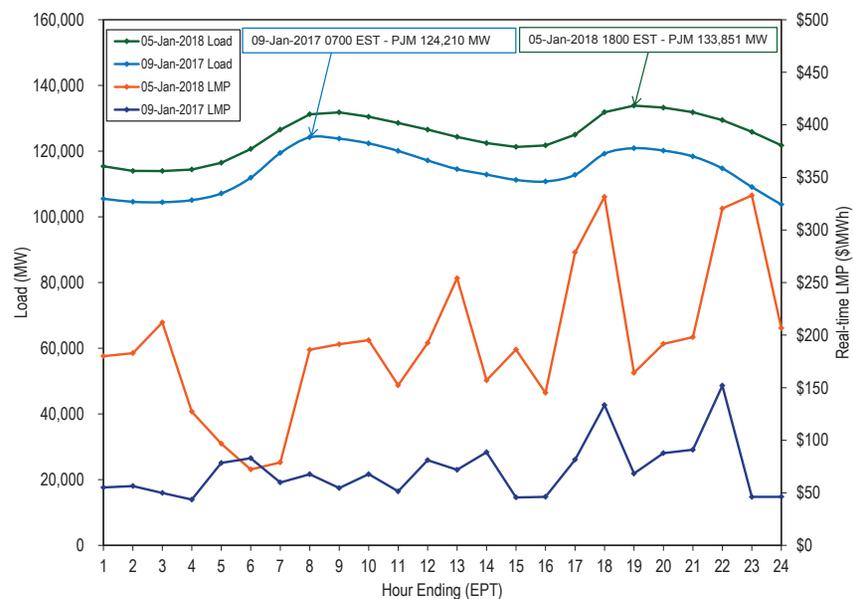


³⁴ Peak loads shown are Power accounting load. See the *MMU Technical Reference for the PJM Markets*, at "Load Definitions" for detailed definitions of load. <http://www.monitoringanalytics.com/reports/Technical_References/references.shtml>.

³⁵ Peak loads shown have been corrected to reflect the accounting load value excluding PJM loss adjustment. The values presented in this table do not include settlement adjustments made prior to January 1, 2017.

Figure 3-17 compares the peak load days during the first three months of 2017 and 2018. The average real-time LMP for the January 05, 2018 peak load hour was \$164.15 and for the January 09, 2017 peak load hour was \$67.72.

Figure 3-17 PJM peak-load comparison Monday, January 09, 2017 and Friday, January 05, 2018



Real-Time Demand

PJM average real-time demand in the first three months of 2018 increased by 5.9 percent from the first three months of 2017, from 87,598 MW to 92,761 MW.³⁶

PJM average real-time demand including exports in the first three months of 2018 increased by 19.4 percent from the first three months of 2017, from 92,791 MW to 96,190 MW.

³⁶ Load data are the net MWh injections and withdrawals MWh at every load bus in PJM.

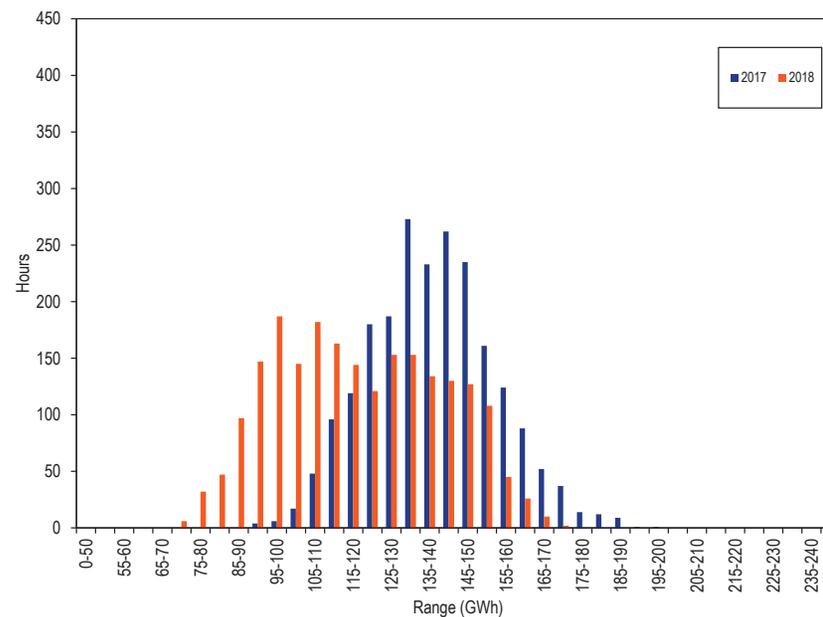
In the PJM Real-Time Energy Market, there are two types of demand:

- **Load.** The actual MWh level of energy used by load within PJM.
- **Export.** An export is an external energy transaction scheduled from PJM to another balancing authority. A real-time export must have a valid OASIS reservation when offered, must have available ramp room to support the export, must be accompanied by a NERC Tag, and must pass the neighboring balancing authority's checkout process.

PJM Real-Time Demand Duration

Figure 3-18 shows the hourly distribution of PJM real-time load plus exports for the first three months of 2017 and 2018.³⁷

Figure 3-18 Distribution of PJM real-time accounting load plus exports: January through March, 2017 and 2018³⁸



³⁷ All real-time load data in Section 3, "Energy Market," "Market Performance: Load and LMP," are based on PJM accounting load. See the *Technical Reference for PJM Markets*, "Load Definitions," for detailed definitions of accounting load. <http://www.monitoringanalytics.com/reports/Technical_References/references.shtml>.

³⁸ Each range on the horizontal axis excludes the start value and includes the end value.

PJM Real-Time, Average Load

Table 3-18 presents summary real-time demand statistics for the first three months of 2001 to 2018. Before June 1, 2007, transmission losses were included in accounting load. After June 1, 2007, transmission losses were excluded from accounting load and losses were addressed through marginal loss pricing.³⁹

Table 3-18 PJM real-time average hourly load and real-time average hourly load plus average hourly exports: January 1 through March 31, 2001 through 2018

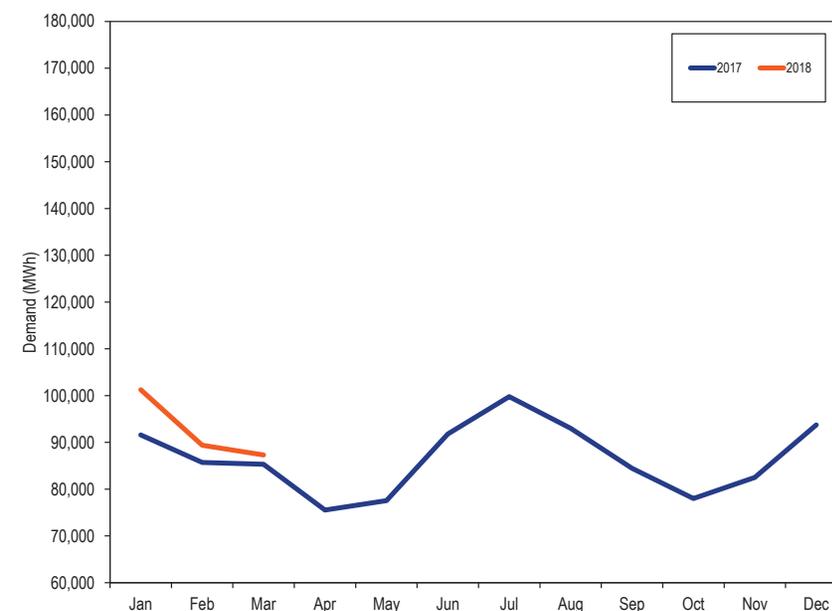
| Jan-Mar | PJM Real-Time Demand (MW) | | | | Year-to-Year Change | | | |
|---------|---------------------------|--------------------|-------------------|--------------------|---------------------|--------------------|-------------------|--------------------|
| | Load | | Load Plus Exports | | Load | | Load Plus Exports | |
| | Standard Load | Standard Deviation | Standard Demand | Standard Deviation | Standard Load | Standard Deviation | Standard Demand | Standard Deviation |
| 2001 | 31,254 | 3,846 | 33,452 | 3,704 | NA | NA | NA | NA |
| 2002 | 29,968 | 4,083 | 30,988 | 3,932 | (4.1%) | 6.1% | (7.4%) | 6.1% |
| 2003 | 39,249 | 5,546 | 41,600 | 5,701 | 31.0% | 35.8% | 34.2% | 45.0% |
| 2004 | 39,549 | 5,761 | 41,198 | 5,394 | 0.8% | 3.9% | (1.0%) | (5.4%) |
| 2005 | 71,388 | 8,966 | 79,319 | 9,587 | 80.5% | 55.6% | 92.5% | 77.8% |
| 2006 | 80,179 | 8,977 | 86,567 | 9,378 | 12.3% | 0.1% | 9.1% | (2.2%) |
| 2007 | 84,586 | 12,040 | 90,304 | 12,012 | 5.5% | 34.1% | 4.3% | 28.1% |
| 2008 | 82,235 | 10,184 | 89,092 | 10,621 | (2.8%) | (15.4%) | (1.3%) | (11.6%) |
| 2009 | 81,170 | 11,718 | 86,110 | 11,948 | (1.3%) | 15.1% | (3.3%) | 12.5% |
| 2010 | 81,121 | 10,694 | 86,843 | 11,262 | (0.1%) | (8.7%) | 0.9% | (5.7%) |
| 2011 | 81,018 | 10,273 | 86,635 | 10,613 | (0.1%) | (3.9%) | (0.2%) | (5.8%) |
| 2012 | 86,329 | 10,951 | 91,090 | 11,293 | 6.6% | 6.6% | 5.1% | 6.4% |
| 2013 | 91,337 | 10,610 | 95,835 | 10,452 | 5.8% | (3.1%) | 5.2% | (7.4%) |
| 2014 | 98,317 | 13,484 | 104,454 | 12,843 | 7.6% | 27.1% | 9.0% | 22.9% |
| 2015 | 97,936 | 13,445 | 102,821 | 13,855 | (0.4%) | (0.3%) | (1.6%) | 7.9% |
| 2016 | 89,322 | 13,262 | 92,777 | 13,409 | (8.8%) | (1.4%) | (9.8%) | (3.2%) |
| 2017 | 87,598 | 11,208 | 92,791 | 11,295 | (1.9%) | (15.5%) | 0.0% | (15.8%) |
| 2018 | 92,761 | 13,244 | 96,190 | 13,483 | 5.9% | 18.2% | 3.7% | 19.4% |

³⁹ Accounting load is used here because PJM uses accounting load in the settlement process, which determines how much load customers pay for. In addition, the use of accounting load with losses before June 1, and without losses after June 1, 2007, is consistent with PJM's calculation of LMP, which excluded losses prior to June 1 and includes losses after June 1.

PJM Real-Time, Monthly Average Load

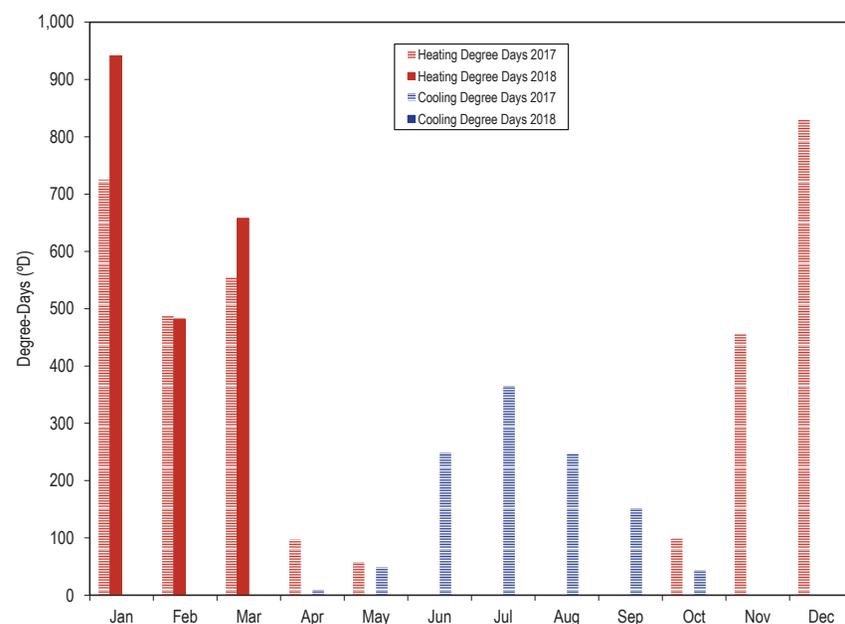
Figure 3-19 compares the real-time, monthly average hourly loads for 2017 and the first three months of 2018.

Figure 3-19 PJM real-time monthly average hourly load: January 2017 through March 2018



PJM real-time load is significantly affected by temperature. Figure 3-20 and Table 3-19 compare the PJM monthly heating and cooling degree days in 2017 and the first three months of 2018.⁴⁰ Heating degree days increased 17.7 percent from the first three months of 2017 to 2018.

Figure 3-20 PJM heating and cooling degree days: January 2017 through March 2018



⁴⁰ A heating degree day is defined as the number of degrees that a day's average temperature is below 65 degrees F (the temperature below which buildings need to be heated). A cooling degree day is the number of degrees that a day's average temperature is above 65 degrees F (the temperature when people will start to use air conditioning to cool buildings). PJM uses 60 degrees F for a heating degree day as stated in Manual 19.

Heating and cooling degree days are calculated by weighting the temperature at each weather station in the individual transmission zones using weights provided by PJM in Manual 19. Then the temperature is weighted by the real-time zonal accounting load for each transmission zone. After calculating an average hourly temperature across PJM, the heating and cooling degree formulas are used to calculate the daily heating and cooling degree days, which are summed for monthly reporting. The weather stations that provided the basis for the analysis are ABE, ACY, AVP, BWI, CAK, CLE, CMH, CRW, CVG, DAY, DCA, ERI, EWR, FWA, IAD, ILG, IPT, LEX, ORD, ORF, PHL, PIT, RIC, ROA, TOL and WAL.

Table 3-19 PJM heating and cooling degree days: January 2017 through March 2018

| | 2017 | | 2018 | | Percent Change | |
|---------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | Heating Degree Days | Cooling Degree Days | Heating Degree Days | Cooling Degree Days | Heating Degree Days | Cooling Degree Days |
| Jan | 725 | 0 | 941 | 0 | 29.7% | 0.0% |
| Feb | 488 | 0 | 482 | 0 | (1.2%) | 0.0% |
| Mar | 555 | 0 | 658 | 0 | 18.5% | 0.0% |
| Apr | 97 | 11 | | | | |
| May | 58 | 49 | | | | |
| Jun | 0 | 249 | | | | |
| Jul | 0 | 366 | | | | |
| Aug | 0 | 248 | | | | |
| Sep | 1 | 152 | | | | |
| Oct | 99 | 44 | | | | |
| Nov | 456 | 0 | | | | |
| Dec | 830 | 0 | | | | |
| Jan-Mar | 1,768 | 0 | 2,081 | 0 | 17.7% | 0.0% |

Day-Ahead Demand

PJM average day-ahead demand in the first three months of 2018, including DECs and up to congestion transactions, decreased by 14.0 percent from the first three months of 2017, from 135,560 MW to 116,635 MW.

PJM average day-ahead demand in the first three months of 2018, including DECs, up to congestion transactions, and exports, decreased by 14.1 percent from the first three months of 2017, from 138,493 MW to 119,023 MW.

The reduction in up to congestion transactions (UTC) that had followed a FERC order setting September 8, 2014, as the effective date for any uplift charges subsequently assigned to UTCs, was reversed. There was an increase in up to congestion volume as a result of the expiration of the 15 month refund period for the proceeding related to uplift charges for UTC transactions.⁴¹

⁴¹ 148 FERC ¶ 61,144 (2014).

In the PJM Day-Ahead Energy Market, five types of financially binding demand bids are made and cleared:

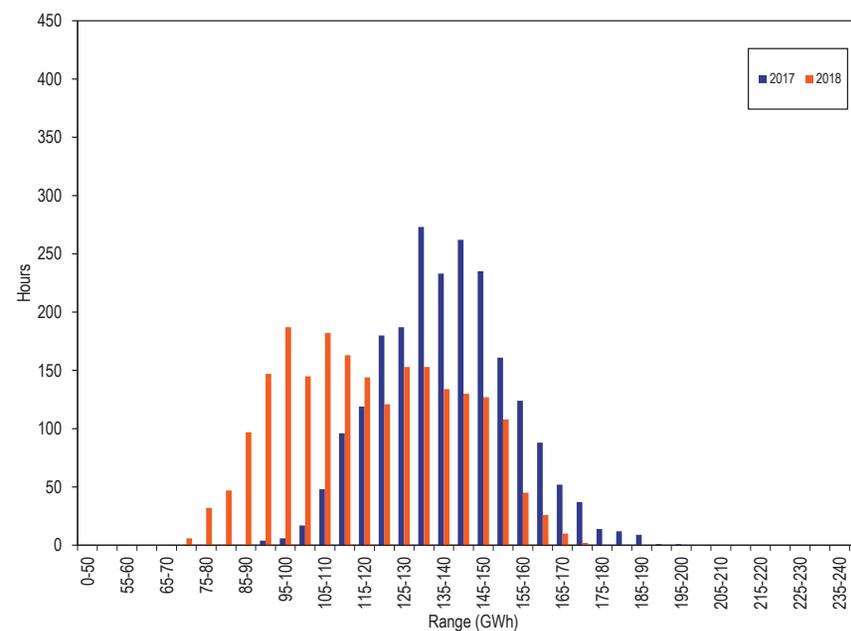
- **Fixed-Demand Bid.** Bid to purchase a defined MWh level of energy, regardless of LMP.
- **Price-Sensitive Bid.** Bid to purchase a defined MWh level of energy only up to a specified LMP, above which the load bid is zero.
- **Decrement Bid (DEC).** Financial bid to purchase a defined MWh level of energy up to a specified LMP, above which the bid is zero. A DEC can be submitted by any market participant.
- **Up to Congestion Transaction (UTC).** A conditional transaction that permits a market participant to specify a maximum price spread between the transaction source and sink. An up to congestion transaction is evaluated as a matched pair of an injection and a withdrawal analogous to a matched pair of an INC offer and a DEC bid.
- **Export.** An external energy transaction scheduled from PJM to another balancing authority. An export must have a valid willing to pay congestion (WPC) OASIS reservation when offered. An export energy transaction that clears the Day-Ahead Energy Market is financially binding. There is no link between transactions submitted in the PJM Day-Ahead Energy Market and the PJM Real-Time Energy Market, so an export energy transaction approved in the Day-Ahead Energy Market will not physically flow in real time unless it is also submitted through the Real-Time Energy Market scheduling process.

PJM day-ahead demand is the hourly total of the five types of cleared demand bids.

PJM Day-Ahead Demand Duration

Figure 3-21 shows the hourly distribution of PJM day-ahead demand, including decrement bids, up to congestion transactions, and exports for the first three months of 2017 and 2018.

Figure 3-21 Distribution of PJM day-ahead demand plus exports: January through March, 2017 and 2018⁴²



⁴² Each range on the horizontal axis excludes the start value and includes the end value.

PJM Day-Ahead, Average Demand

Table 3-20 presents summary day-ahead demand statistics for the first three months of each year from 2001 to 2018.

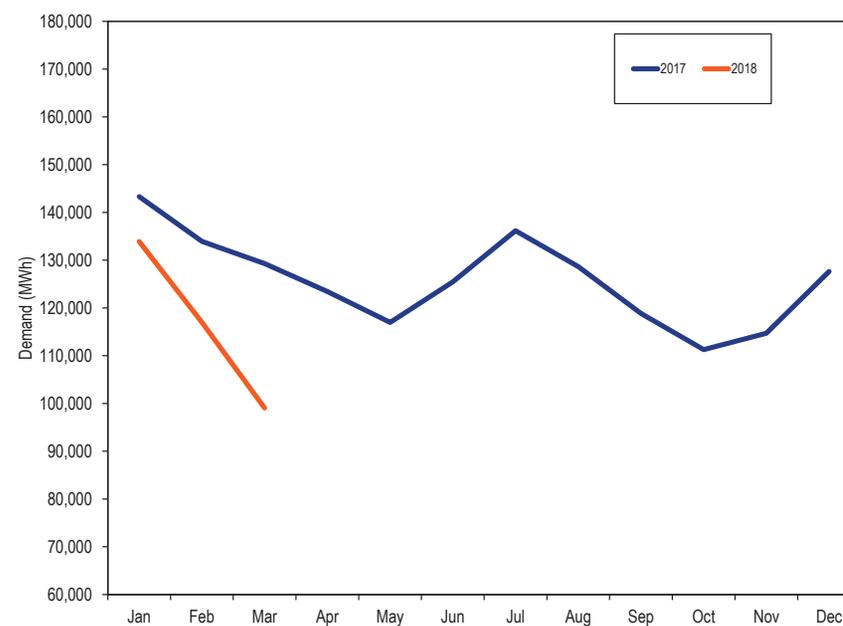
Table 3-20 PJM day-ahead average demand and day-ahead average hourly demand plus average hourly exports: January through March, 2001 through 2018

| Jan-Mar | PJM Day-Ahead Demand (MWh) | | | | Year-to-Year Change | | | |
|---------|----------------------------|--------------------|---------------------|--------------------|---------------------|--------------------|---------------------|--------------------|
| | Demand | | Demand Plus Exports | | Demand | | Demand Plus Exports | |
| | Demand | Standard Deviation | Demand | Standard Deviation | Demand | Standard Deviation | Demand | Standard Deviation |
| 2001 | 33,731 | 4,557 | 34,523 | 4,390 | NA | NA | NA | NA |
| 2002 | 33,976 | 4,960 | 34,004 | 4,964 | 0.7% | 8.8% | (1.5%) | 13.1% |
| 2003 | 47,034 | 6,841 | 47,147 | 6,853 | 38.4% | 37.9% | 38.7% | 38.1% |
| 2004 | 46,885 | 5,591 | 47,123 | 5,537 | (0.3%) | (18.3%) | (0.1%) | (19.2%) |
| 2005 | 87,341 | 9,810 | 90,288 | 9,947 | 86.3% | 75.5% | 91.6% | 79.6% |
| 2006 | 96,244 | 9,453 | 99,342 | 9,777 | 10.2% | (3.6%) | 10.0% | (1.7%) |
| 2007 | 108,699 | 12,601 | 111,831 | 12,746 | 12.9% | 33.3% | 12.6% | 30.4% |
| 2008 | 105,995 | 10,677 | 109,428 | 10,975 | (2.5%) | (15.3%) | (2.1%) | (13.9%) |
| 2009 | 102,366 | 13,619 | 105,023 | 13,758 | (3.4%) | 27.6% | (4.0%) | 25.4% |
| 2010 | 101,012 | 11,937 | 104,866 | 12,103 | (1.3%) | (12.4%) | (0.1%) | (12.0%) |
| 2011 | 107,116 | 11,890 | 110,865 | 12,157 | 6.0% | (0.4%) | 5.7% | 0.4% |
| 2012 | 129,258 | 13,163 | 132,757 | 13,481 | 20.7% | 10.7% | 19.7% | 10.9% |
| 2013 | 143,585 | 13,120 | 146,878 | 13,108 | 11.1% | (0.3%) | 10.6% | (2.8%) |
| 2014 | 163,031 | 11,914 | 167,318 | 11,717 | 13.5% | (9.2%) | 13.9% | (10.6%) |
| 2015 | 119,084 | 14,227 | 123,115 | 14,573 | (27.0%) | 19.4% | (26.4%) | 24.4% |
| 2016 | 130,469 | 18,627 | 133,137 | 18,806 | 9.6% | 30.9% | 8.1% | 29.0% |
| 2017 | 135,574 | 16,264 | 139,299 | 16,454 | 3.9% | (12.7%) | 4.6% | (12.5%) |
| 2018 | 116,635 | 21,378 | 119,023 | 21,606 | (14.0%) | 31.4% | (14.6%) | 31.3% |

PJM Day-Ahead, Monthly Average Demand

Figure 3-22 compares the day-ahead, monthly average hourly demand, including decrement bids and up to congestion transactions in 2017 and the first three months of 2018.

Figure 3-22 PJM day-ahead monthly average hourly demand: January 2017 through March 2018



Real-Time and Day-Ahead Demand

Table 3-21 presents summary statistics for the first three months of 2017 and 2018 day-ahead and real-time demand. All data are cleared MW. The last two columns of Table 3-21 are the day-ahead demand minus the real-time demand. The first such column is the total day-ahead demand less the total real-time demand and the second such column is the total physical day-ahead load (fixed demand plus price-sensitive demand) less the physical real-time load.

Table 3-21 Cleared day-ahead and real-time demand (MWh): January through March, 2017 and 2018

| | Year | Day-Ahead | | | | | | Real-Time | | Day-Ahead Less Real-Time | |
|-----------------------------|------|--------------|-----------------|----------|------------------|---------|--------------|-----------|--------------|--------------------------|------------|
| | | Fixed Demand | Price Sensitive | DEC Bids | Up-to Congestion | Exports | Total Demand | Load | Total Demand | Demand | Total Load |
| Average | 2017 | 85,432 | 2,743 | 4,869 | 42,516 | 2,933 | 138,493 | 87,598 | 91,808 | 46,686 | 40,913 |
| | 2018 | 89,627 | 2,677 | 2,580 | 21,750 | 2,389 | 119,023 | 92,761 | 96,190 | 22,834 | 69,927 |
| Median | 2017 | 85,446 | 2,742 | 4,678 | 42,702 | 2,851 | 138,339 | 87,106 | 91,194 | 47,145 | 39,962 |
| | 2018 | 88,467 | 2,683 | 2,271 | 26,255 | 2,213 | 117,537 | 90,657 | 94,071 | 23,466 | 67,190 |
| Standard Deviation | 2017 | 10,669 | 308 | 1,179 | 7,515 | 896 | 16,443 | 11,208 | 11,272 | 5,170 | 6,038 |
| | 2018 | 12,085 | 308 | 1,247 | 12,209 | 807 | 21,606 | 13,244 | 13,483 | 8,122 | 5,122 |
| Peak Average | 2017 | 91,430 | 2,938 | 5,109 | 45,126 | 3,022 | 147,625 | 93,329 | 97,605 | 50,020 | 43,310 |
| | 2018 | 95,659 | 2,903 | 2,677 | 23,403 | 2,512 | 127,154 | 98,435 | 101,937 | 25,217 | 73,218 |
| Peak Median | 2017 | 90,895 | 2,973 | 4,904 | 44,873 | 2,972 | 146,316 | 92,487 | 96,816 | 49,500 | 42,987 |
| | 2018 | 94,060 | 2,921 | 2,406 | 29,339 | 2,347 | 128,755 | 96,421 | 99,646 | 29,109 | 67,313 |
| Peak Standard Deviation | 2017 | 7,701 | 252 | 1,045 | 6,733 | 858 | 12,714 | 8,562 | 8,709 | 4,005 | 4,557 |
| | 2018 | 9,749 | 198 | 1,170 | 12,687 | 818 | 20,123 | 11,220 | 11,506 | 8,617 | 2,603 |
| Off-Peak Average | 2017 | 79,858 | 2,562 | 4,647 | 40,090 | 2,850 | 130,007 | 82,272 | 86,419 | 43,587 | 38,685 |
| | 2018 | 84,021 | 2,467 | 2,491 | 20,213 | 2,274 | 111,467 | 87,488 | 90,848 | 20,619 | 66,869 |
| Off-Peak Median | 2017 | 79,081 | 2,548 | 4,385 | 40,154 | 2,718 | 128,848 | 81,321 | 85,441 | 43,406 | 37,915 |
| | 2018 | 82,139 | 2,435 | 2,124 | 24,913 | 2,092 | 109,760 | 84,861 | 87,915 | 21,845 | 63,016 |
| Off-Peak Standard Deviation | 2017 | 10,002 | 238 | 1,251 | 7,392 | 923 | 14,899 | 10,743 | 10,698 | 4,201 | 6,542 |
| | 2018 | 11,325 | 233 | 1,310 | 11,544 | 779 | 20,151 | 12,798 | 12,984 | 7,166 | 5,632 |

Figure 3-23 shows the average hourly cleared volumes of day-ahead demand and real-time demand for the first three months of 2018. The day-ahead demand includes day-ahead load, day-ahead exports, decrement bids and up to congestion transactions. The real-time demand includes real-time load and real-time exports.

Figure 3-23 Day-ahead and real-time demand (Average hourly volumes): January through March, 2018

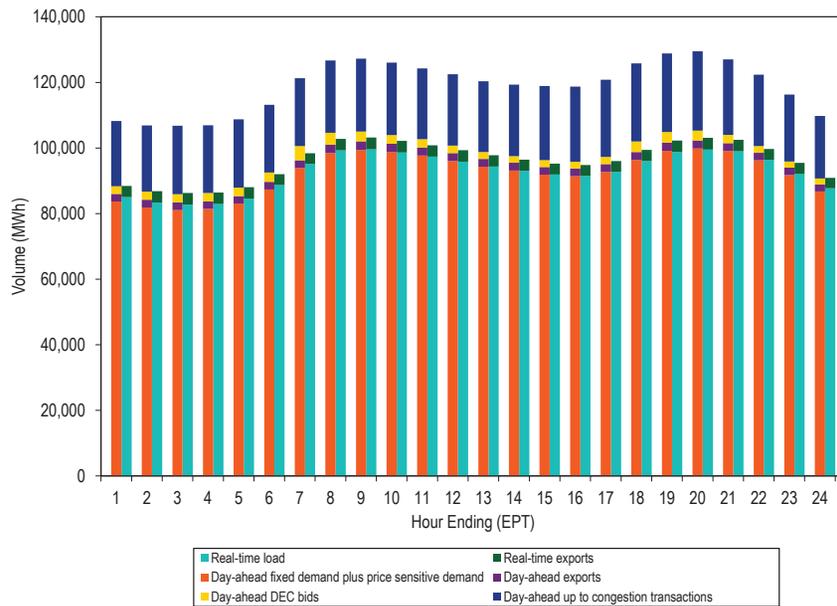
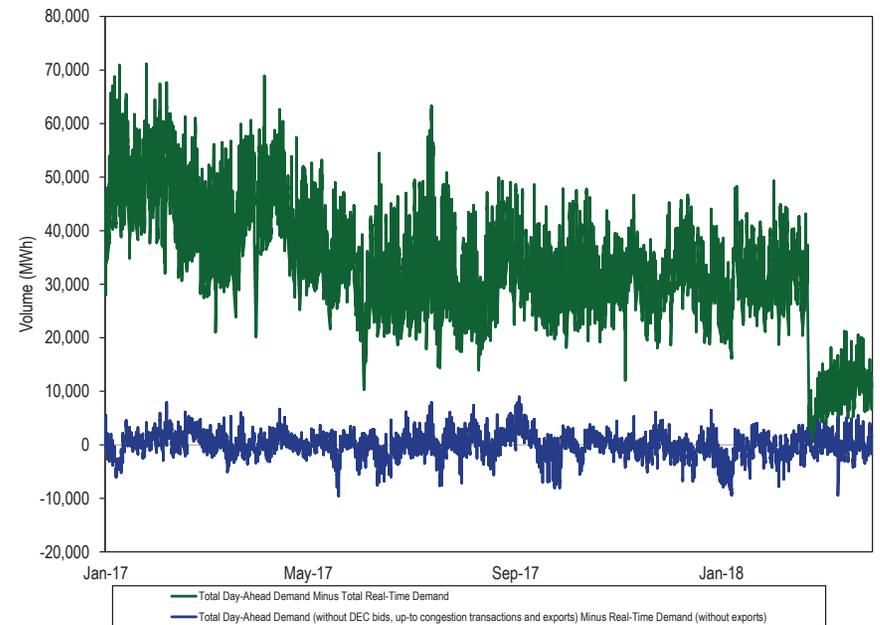


Figure 3-24 shows the difference between the day-ahead and real-time average daily demand for 2017 and the first three months of 2018.

Figure 3-24 Difference between day-ahead and real-time demand (Average daily volumes): January 2017 through March 2018



Supply and Demand: Load and Spot Market

Real-Time Load and Spot Market

Participants in the PJM Real-Time Energy Market can use their own generation to meet load, to sell in the bilateral market or to sell in the spot market in any hour. Participants can both buy and sell via bilateral contracts and buy and sell in the spot market in any hour. If a participant has positive net bilateral transactions in an hour, it is buying energy through bilateral contracts (bilateral purchase). If a participant has negative net bilateral transactions in an hour, it is selling energy through bilateral contracts (bilateral sale). If a participant has positive net spot transactions in an hour, it is buying energy from the spot market (spot purchase). If a participant has negative net spot transactions in an hour, it is selling energy to the spot market (spot sale).

Real-time load is served by a combination of self-supply, bilateral market purchases and spot market purchases. From the perspective of a parent company of a PJM billing organization that serves load, its load could be supplied by any combination of its own generation, net bilateral market purchases and net spot market purchases. In addition to directly serving load, load serving entities can also transfer their responsibility to serve load to other parties through eSchedules transactions referred to as wholesale load responsibility (WLR) or retail load responsibility (RLR) transactions. When the responsibility to serve load is transferred via a bilateral contract, the entity to which the responsibility is transferred becomes the load serving entity. Supply from its own generation (self-supply) means that the parent company is generating power from plants that it owns in order to meet demand. Supply from bilateral purchases means that the parent company is purchasing power under bilateral contracts from a nonaffiliated company at the same time that it is meeting load. Supply from spot market purchases means that the parent company is generating less power from owned plants and/or purchasing less power under bilateral contracts than required to meet load at a defined time and, therefore, is purchasing the required balance from the spot market.

The PJM system's reliance on self-supply, bilateral contracts and spot purchases to meet real-time load is calculated by summing across all the

parent companies of PJM billing organizations that serve load in the Real-Time Energy Market for each hour. Table 3-22 shows the monthly average share of real-time load served by self-supply, bilateral contracts and spot purchase in the first three months of 2017 and 2018 based on parent company. In the first three months of 2018, 11.4 percent of real-time load was supplied by bilateral contracts, 31.1 percent by spot market purchase and 58.4 percent by self-supply. Compared with the first three months of 2017, reliance on bilateral contracts decreased by 3.0 percentage points, reliance on spot supply increased by 3.6 percentage points and reliance on self-supply decreased by 0.4 percentage points.

Table 3-22 Monthly average percent of real-time self-supply load, bilateral-supply load and spot-supply load based on parent companies: January through March, 2017 and 2018⁴³

| | 2017 | | | 2018 | | | Difference in Percentage Points | | |
|---------|--------------------|-------|-------------|--------------------|-------|-------------|---------------------------------|------|-------------|
| | Bilateral Contract | Spot | Self-Supply | Bilateral Contract | Spot | Self-Supply | Bilateral Contract | Spot | Self-Supply |
| Jan | 15.6% | 23.1% | 61.3% | 11.6% | 30.2% | 59.3% | (4.0%) | 7.0% | (2.0%) |
| Feb | 16.8% | 22.9% | 60.3% | 12.3% | 30.2% | 58.5% | (4.5%) | 7.3% | (1.8%) |
| Mar | 14.0% | 25.3% | 60.7% | 10.5% | 33.0% | 57.4% | (3.4%) | 7.7% | (3.3%) |
| Jan-Mar | 14.4% | 27.5% | 58.9% | 11.4% | 31.1% | 58.4% | (3.0%) | 3.6% | (0.4%) |

Day-Ahead Load and Spot Market

In the PJM Day-Ahead Energy Market, participants can not only use their own generation, bilateral contracts and spot market purchases to supply their load serving obligation, but can also use virtual resources to meet their load serving obligations in any hour. Virtual supply is treated as supply in the day-ahead analysis and virtual demand is treated as demand in the day-ahead analysis.

The PJM system's reliance on self-supply, bilateral contracts, and spot purchases to meet day-ahead demand (cleared fixed-demand, price-sensitive load and decrement bids) is calculated by summing across all the parent companies of PJM billing organizations that serve demand in the Day-Ahead Energy Market for each hour. Table 3-23 shows the monthly average share of day-

⁴³ Table 3-23 and Table 3-24 were calculated as of April 17, 2018. The values may change slightly as billing values are updated by PJM.

ahead demand served by self-supply, bilateral contracts and spot purchases in the first three months of 2017 and 2018, based on parent companies. In the first three months of 2018, 8.2 percent of day-ahead demand was supplied by bilateral contracts, 32.7 percent by spot market purchases and 59.1 percent by self-supply. Compared with the first three months of 2017, reliance on bilateral contracts decreased by 2.8 percentage points, reliance on spot supply increased by 7.1 percentage points, and reliance on self-supply decreased by 4.3 percentage points.

Table 3-23 Monthly average share of day-ahead self-supply demand, bilateral supply demand, and spot-supply demand based on parent companies: January through March, 2017 and 2018

| | 2017 | | | 2018 | | | Difference in Percentage Points | | |
|---------|--------------------|-------|-------------|--------------------|-------|-------------|---------------------------------|------|-------------|
| | Bilateral Contract | Spot | Self-Supply | Bilateral Contract | Spot | Self-Supply | Bilateral Contract | Spot | Self-Supply |
| Jan | 11.6% | 24.9% | 63.6% | 8.2% | 32.5% | 59.4% | (3.4%) | 7.6% | (4.2%) |
| Feb | 12.1% | 25.0% | 62.9% | 9.1% | 31.8% | 59.1% | (3.0%) | 6.8% | (3.9%) |
| Mar | 9.6% | 26.9% | 63.6% | 7.5% | 33.7% | 58.8% | (2.1%) | 6.9% | (4.8%) |
| Jan-Mar | 11.1% | 25.6% | 63.4% | 8.2% | 32.7% | 59.1% | (2.8%) | 7.1% | (4.3%) |

Market Behavior

Offer Capping for Local Market Power

In the PJM energy market, offer capping occurs as a result of structurally noncompetitive local markets and noncompetitive offers in the Day-Ahead and Real-Time Energy Markets. PJM also uses offer capping for units that are committed for reliability reasons, specifically for providing black start and reactive service as well as for conservative operations. There are no explicit rules governing market structure or the exercise of market power in the aggregate energy market. PJM's market power mitigation goals have focused on market designs that promote competition and that limit local market power mitigation to situations where the local market structure is not competitive and thus where market design alone cannot mitigate market power.

The analysis of the application of the three pivotal supplier test demonstrates that it is working for most hours to exempt owners when the local market structure is competitive and to offer cap owners when the local market structure

is noncompetitive. However, there are some issues with the application of mitigation in the Day-Ahead Energy Market and the Real-Time Energy Market when market sellers fail the TPS test. There is no tariff or manual language that defines in detail the application of the TPS test and offer capping in the Day-Ahead Energy Market and the Real-Time Energy Market.

In both the Day-Ahead and Real-Time Energy Markets, generators have the ability to avoid mitigation by using varying markups in their price-based offers, offering different operating parameters in their price-based and cost-based offers, and using different fuels in their price-based and cost-based offers. These issues can be resolved by simple rule changes.

When an owner fails the TPS test, the units offered by the owner that are committed to provide relief are committed on the cheaper of cost or price-based offers. In the Day-Ahead Energy Market, PJM commits a unit on the schedule that results in the lower overall system production cost. This is consistent with the Day-Ahead Energy Market objective of clearing resources (including physical and virtual resources) to meet the total demand (including physical and virtual demand) at the lowest bid production cost for the system over the 24 hour period. In the Real-Time Energy Market, PJM uses a dispatch cost formula to compare price-based offers and cost-based offers to select the cheaper offer.⁴⁴ Prior to the implementation of hourly offers, dispatch cost was calculated as:

$$\{(\text{Incremental Energy Offer@EcoMin} \times \text{EcoMin MW}) + \text{No Load Cost}\} \times \text{Min Run Time} + \text{Start Cost}$$

Beginning November 1, 2017, with hourly differentiated offers, the cheaper of cost and price based offers are determined using total dispatch cost, where:

$$\text{Total Dispatch Cost} = \text{Startup Cost} + \sum_{\text{Min Run}} \text{Hourly Dispatch Cost}$$

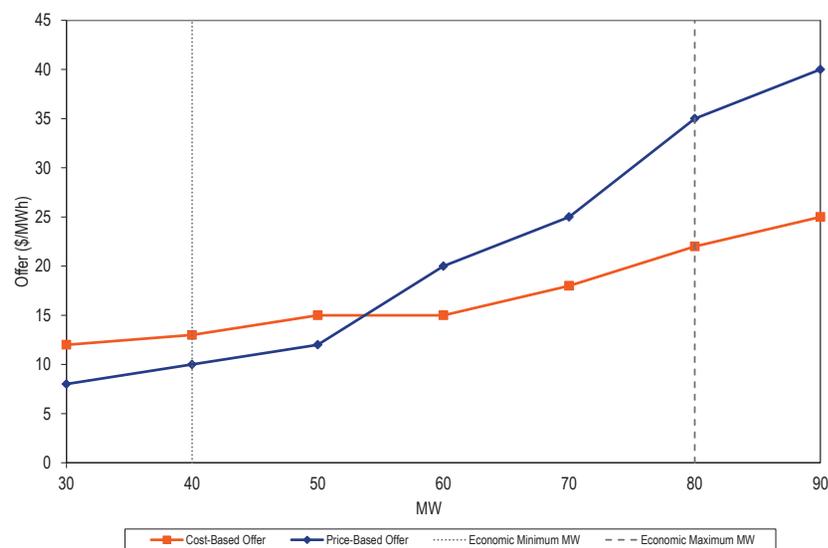
where the hourly dispatch cost is calculated for each hour using the offers applicable for that hour as:

$$\text{Hourly Dispatch Cost} = (\text{Incremental Energy Offer@EcoMin} \times \text{EcoMin MW}) + \text{NoLoad Cost}$$

⁴⁴ See PJM OA Schedule 1 § 6.4.1(g).

With the ability to submit offer curves with varying markups at different output levels in the price-based offer, units can avoid mitigation by using a low markup at low output levels and a high markup at higher output levels. Figure 3-25 shows an example of offers from a unit that has a negative markup at the economic minimum MW level and a positive markup at the economic maximum MW level. The result would be that a unit that failed the TPS test would be committed on its price-based offer that has a lower dispatch cost, even though the price-based offer is higher than cost-based offer at higher output levels and includes positive markups, inconsistent with the explicit goal of local market power mitigation.

Figure 3-25 Offers with varying markups at different MW output levels

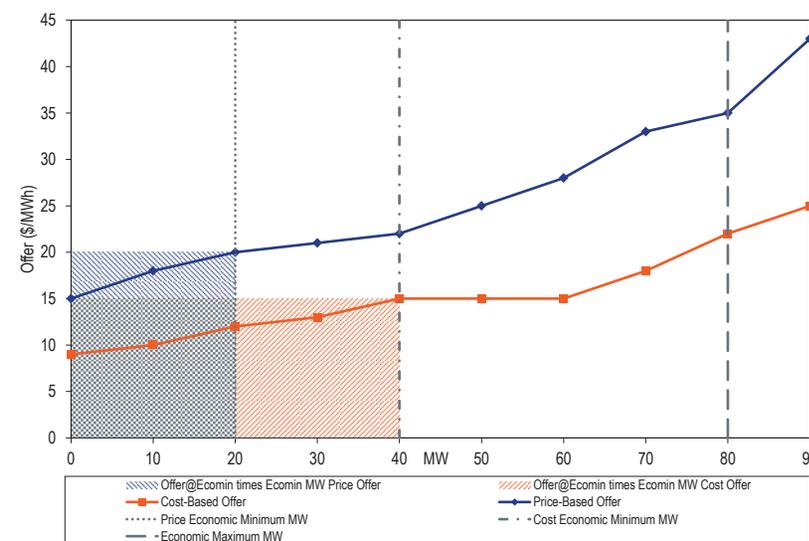


Offering a different economic minimum MW level, different minimum run times, or different start up and notification times in the cost-based and price-based offers can also be used to avoid mitigation. For example, a unit may offer its price-based offer with a positive markup, but have a shorter minimum run time (MRT) in the price-based offer resulting in a lower dispatch cost for

the price-based offer but setting prices at a level that includes a positive markup.

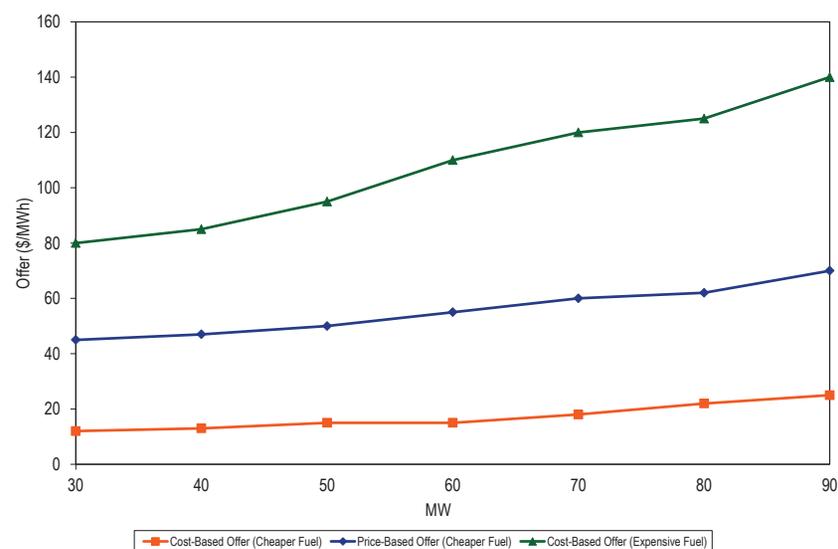
A unit may offer a lower economic minimum MW level on the price-based offer than the cost-based offer. Such a unit may appear to be cheaper to commit on the price-based offer even with a positive markup. A unit with a positive markup can have lower dispatch cost with the price-based offer with a lower economic minimum level compared to cost-based offer. Figure 3-26 shows an example of offers from a unit that has a positive markup and a price-based offer with a lower economic minimum MW than the cost-based offer. Keeping the startup cost, Minimum Run Time and no load cost constant between the price-based offer and cost-based offer, the dispatch cost for this unit is lower on the price-based offer than on the cost-based offer. However, the price-based offer includes a positive markup and could result in setting the market price at a noncompetitive level even after the resource owner fails the TPS test.

Figure 3-26 Offers with a positive markup but different economic minimum MW



In case of dual fuel units, if the price-based offer uses a cheaper fuel and the cost-based offer uses a more expensive fuel, the price-based offer will appear to be lower cost even when it includes a markup. Figure 3-27 shows an example of offers by a dual fuel unit, where the active cost-based offer uses a more expensive fuel and the price-based offer uses a cheaper fuel and includes a markup.

Figure 3-27 Dual fuel unit offers



These issues can be solved by simple rule changes.⁴⁵ The MMU recommends that markup of price based offers over cost-based offers be constant across the offer curve, that there be at least one cost-based offer using the same fuel as the available price-based offer, and that operating parameters on parameter limited schedules (PLS) be at least as flexible as price-based non-PLS offers.

⁴⁵ The MMU proposed these offer rule changes as part of a broader reform to address generator offer flexibility and associated impact on market power mitigation rules in the Generator Offer Flexibility Senior Task Force (GOFSTF) and subsequently in the MMU's protest in the hourly offers proceeding in Docket No. ER16-372-000, filed December 14, 2015.

Levels of offer capping have historically been low in PJM, as shown in Table 3-24. The offer capping percentages shown in Table 3-24 include units that are committed to provide constraint relief whose owners failed the TPS test in the energy market as well as units committed as part of conservative operations, excluding units that were committed for providing black start and reactive service.

Table 3-24 Offer capping statistics – energy only: January through March, 2014 to 2018

| (Jan-Mar) | Real-Time | | Day-Ahead | |
|-----------|-------------------|-----------|-------------------|-----------|
| | Unit Hours Capped | MW Capped | Unit Hours Capped | MW Capped |
| 2014 | 1.1% | 0.4% | 0.3% | 0.2% |
| 2015 | 0.6% | 0.2% | 0.3% | 0.1% |
| 2016 | 0.4% | 0.2% | 0.1% | 0.1% |
| 2017 | 0.2% | 0.1% | 0.0% | 0.0% |
| 2018 | 0.9% | 0.4% | 0.1% | 0.0% |

Table 3-25 shows the offer capping percentages including units committed to provide constraint relief and units committed to provide black start service and reactive support. The units that are committed and offer capped for black start service and reactive support reasons increased from 2012 through 2013. Before 2011, the units that ran to provide black start service and reactive support were generally economic in the energy market. From 2011 through 2013, the percentage of hours when these units were not economic (and were therefore committed on their cost schedule for reliability reasons) increased. This trend reversed in 2014 because higher LMPs resulted in the increased economic dispatch of black start and reactive service resources. As of April 2015, the Automatic Load Rejection (ALR) units that were committed for black start previously no longer provide black start service, and are not included in the offer capping statistics for black start. PJM also created closed loop interfaces to, in some cases, model reactive constraints. The result was higher LMPs in the closed loops, which increased economic dispatch, which contributed to the reduction in units offer capped for reactive support. In instances where units are now committed for the modeled closed loop interface constraints, they are

considered offer capped for providing constraint relief. They are included in the offer capping percentages in Table 3-24.

Table 3-25 Offer capping statistics for energy and reliability: January through March, 2014 to 2018

| (Jan-Mar) | Real-Time | | Day-Ahead | |
|-----------|------------|-----------|------------|-----------|
| | Unit Hours | | Unit Hours | |
| | Capped | MW Capped | Capped | MW Capped |
| 2014 | 1.5% | 0.9% | 0.8% | 0.6% |
| 2015 | 0.8% | 0.4% | 0.5% | 0.3% |
| 2016 | 0.5% | 0.3% | 0.2% | 0.1% |
| 2017 | 0.4% | 0.7% | 0.3% | 0.6% |
| 2018 | 0.9% | 0.4% | 0.1% | 0.0% |

Table 3-26 shows the offer capping percentages for units committed to provide black start service and reactive support. The data in Table 3-26 is the difference between the offer cap percentages shown in Table 3-25 and Table 3-24.

Table 3-26 Offer capping statistics for reliability: January through March, 2014 to 2018

| (Jan-Mar) | Real-Time | | Day-Ahead | |
|-----------|------------|-----------|------------|-----------|
| | Unit Hours | | Unit Hours | |
| | Capped | MW Capped | Capped | MW Capped |
| 2014 | 0.4% | 0.5% | 0.5% | 0.4% |
| 2015 | 0.3% | 0.2% | 0.3% | 0.2% |
| 2016 | 0.1% | 0.1% | 0.1% | 0.1% |
| 2017 | 0.2% | 0.6% | 0.2% | 0.5% |
| 2018 | 0.0% | 0.0% | 0.0% | 0.0% |

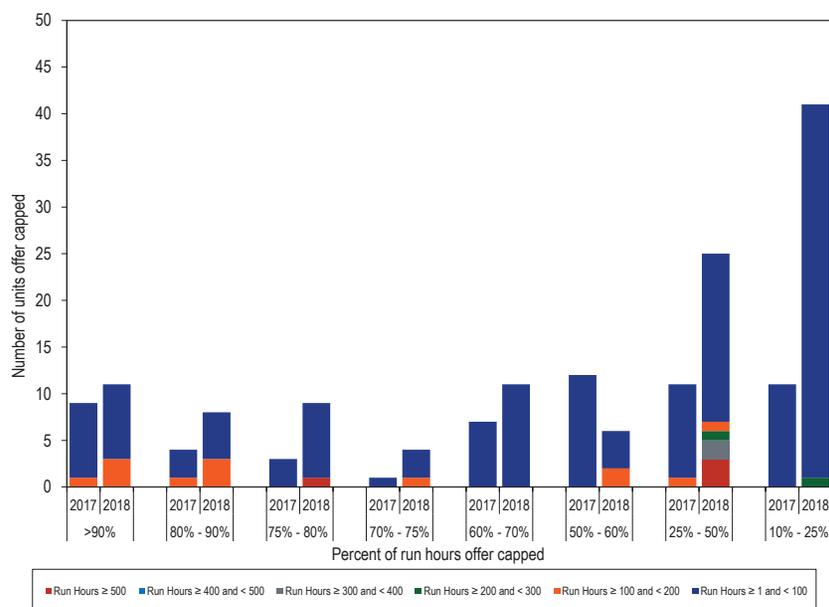
Table 3-27 presents data on the frequency with which units were offer capped in the first three months of 2017 and 2018 for failing the TPS test to provide energy for constraint relief in the Real-Time Energy Market. Table 3-27 shows that 11 units were offer capped for 90 percent or more of their run hours in the first three months of 2018 compared to nine in the first three months of 2017.

Table 3-27 Real-time offer capped unit statistics: January through March, 2017 and 2018

| Run Hours Offer-Capped, Percent Greater Than Or Equal To: | Jan - Mar | Offer-Capped Hours | | | | | |
|---|-----------|--------------------|-----------------------|-----------------------|-----------------------|-----------------------|---------------------|
| | | Hours ≥ 500 | Hours ≥ 400 and < 500 | Hours ≥ 300 and < 400 | Hours ≥ 200 and < 300 | Hours ≥ 100 and < 200 | Hours ≥ 1 and < 100 |
| 90% | 2017 | 0 | 0 | 0 | 0 | 1 | 8 |
| | 2018 | 0 | 0 | 0 | 0 | 3 | 8 |
| 80% and < 90% | 2017 | 0 | 0 | 0 | 0 | 1 | 3 |
| | 2018 | 0 | 0 | 0 | 0 | 3 | 5 |
| 75% and < 80% | 2017 | 0 | 0 | 0 | 0 | 0 | 3 |
| | 2018 | 1 | 0 | 0 | 0 | 0 | 8 |
| 70% and < 75% | 2017 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2018 | 0 | 0 | 0 | 0 | 1 | 3 |
| 60% and < 70% | 2017 | 0 | 0 | 0 | 0 | 0 | 7 |
| | 2018 | 0 | 0 | 0 | 0 | 0 | 11 |
| 50% and < 60% | 2017 | 0 | 0 | 0 | 0 | 0 | 12 |
| | 2018 | 0 | 0 | 0 | 0 | 2 | 4 |
| 25% and < 50% | 2017 | 0 | 0 | 0 | 0 | 1 | 10 |
| | 2018 | 3 | 0 | 2 | 1 | 1 | 18 |
| 10% and < 25% | 2017 | 0 | 0 | 0 | 0 | 0 | 11 |
| | 2018 | 0 | 0 | 0 | 1 | 0 | 40 |

Figure 3-28 shows the frequency with which units were offer capped in the first three months of 2017 and 2018 for failing the TPS test to provide energy for constraint relief in the Real-Time Energy Market.

Figure 3-28 Real-time offer capped unit statistics: January through March, 2017 and 2018



TPS Test Statistics

In the first three months of 2018, the AEP, ATSI, BGE, ComEd, DEOK, DLCO, Dominion, DPL, EKPC, Met-Ed, PECO, PENELEC, and PSEG control zones experienced congestion resulting from one or more constraints binding for 25 or more hours or resulting from an interface constraint (Table 3-28). The AECO, APS, DAY, JCPL, Pepco, PPL and RECO control zones did not have constraints binding for 25 or more hours in the first three months of 2018. Table 3-28 shows that AEP and ComEd were the control zones that experienced congestion resulting from one or more constraints binding for 25

or more hours or resulting from an interface constraint that was binding for one or more hours in every year from the first three months of 2009 through 2018. The constrained hours in the AEP Zone increased from 54 hours in the first three months of 2017 to 517 hours in the first three months of 2018 as a result of increased constraint hours for Tanners Creek - Miami Fort, Capitol Hill - Chemical, and Cloverdale due to cold weather related demand in January 2018. The constrained hours in the PECO Zone decreased from 537 hours in the first three months of 2017 to 32 hours in the first three months of 2018 due to completion of outages at the Emilie substation.

Table 3-28 Numbers of hours when control zones experienced congestion resulting from one or more constraints binding for 25 or more hours or from an interface constraint: January through March, 2009 through 2018

| | (Jan - Mar) | | | | | | | | | |
|----------|-------------|------|------|------|-------|-------|-------|-------|------|------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| AECO | 149 | 0 | 70 | 40 | 32 | 0 | 41 | 252 | 0 | 0 |
| AEP | 890 | 157 | 556 | 100 | 447 | 840 | 1,405 | 283 | 54 | 517 |
| APS | 125 | 165 | 89 | 56 | 38 | 309 | 417 | 72 | 0 | 0 |
| ATSI | 101 | 37 | 0 | 1 | 46 | 428 | 391 | 30 | 349 | 637 |
| BGE | 0 | 25 | 0 | 650 | 150 | 29 | 232 | 1,418 | 551 | 875 |
| ComEd | 325 | 816 | 123 | 525 | 973 | 1,233 | 651 | 1,426 | 766 | 409 |
| DEOK | 0 | 0 | 0 | 33 | 0 | 68 | 0 | 0 | 0 | 25 |
| DLCO | 0 | 141 | 0 | 146 | 0 | 211 | 674 | 0 | 0 | 57 |
| Dominion | 130 | 114 | 73 | 0 | 0 | 124 | 423 | 500 | 52 | 91 |
| DPL | 43 | 0 | 28 | 133 | 0 | 297 | 388 | 694 | 389 | 141 |
| EKPC | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 45 |
| JCPL | 0 | 0 | 0 | 0 | 0 | 44 | 79 | 0 | 0 | 0 |
| Met-Ed | 0 | 0 | 0 | 0 | 70 | 34 | 144 | 0 | 0 | 666 |
| PECO | 30 | 0 | 158 | 0 | 77 | 327 | 242 | 287 | 537 | 32 |
| PENELEC | 0 | 0 | 58 | 32 | 29 | 179 | 517 | 237 | 578 | 883 |
| Pepco | 0 | 0 | 44 | 66 | 71 | 39 | 0 | 0 | 0 | 0 |
| PPL | 0 | 0 | 52 | 0 | 97 | 41 | 0 | 0 | 166 | 0 |
| PSEG | 336 | 344 | 281 | 199 | 1,408 | 1,445 | 2,550 | 55 | 0 | 151 |

The local market structure in the Real-Time Energy Market associated with each of the frequently binding constraints was analyzed using the three pivotal supplier results in the first three months of 2018.⁴⁶ The three pivotal supplier (TPS) test is applied every time the system solution indicates that out of merit resources are needed to relieve a transmission constraint. Until November

⁴⁶ See the *MMU Technical Reference for PJM Markets*, at "Three Pivotal Supplier Test" for a more detailed explanation of the three pivotal supplier test. <http://www.monitoringanalytics.com/reports/Technical_References/references.shtml>.

1, 2017, only uncommitted resources, started to relieve the transmission constraint, were subject to offer capping. Beginning November 1, 2017, under certain circumstances, online resources that are committed beyond their original commitment (day-ahead or real-time) can be offer capped if the owner fails the TPS test, and the latest available cost-based offer is determined to be cheaper than the price-based offer.⁴⁷ Units running in real time as part of their original commitment on the price-based offer on economics, that can provide incremental relief to a constraint, cannot be switched to their cost-based offer. The results of the TPS test are shown for tests that could have resulted in offer capping and tests that resulted in offer capping.

Overall, the results confirm that the three pivotal supplier test results in offer capping when the local market is structurally noncompetitive and does not result in offer capping when that is not the case. Local markets are noncompetitive when the number of suppliers is relatively small.

Table 3-29 shows the average constraint relief required on the constraint, the average effective supply available to relieve the constraint, the average number of owners with available relief in the defined market and the average number of owners passing and failing for the transfer interface constraints.

Table 3-29 Three pivotal supplier test details for interface constraints: January through March, 2018

| Constraint | Period | Average Constraint Relief (MW) | Average Effective Supply (MW) | Average Number Owners | Average Number Owners Passing | Average Number Owners Failing |
|-----------------------|----------|--------------------------------|-------------------------------|-----------------------|-------------------------------|-------------------------------|
| 5004/5005 Interface | Peak | 396 | 339 | 11 | 0 | 10 |
| | Off Peak | 640 | 473 | 11 | 0 | 11 |
| AEP - DOM | Peak | 461 | 345 | 9 | 0 | 9 |
| | Off Peak | 627 | 537 | 12 | 0 | 12 |
| AP South | Peak | 317 | 476 | 13 | 1 | 13 |
| | Off Peak | 184 | 389 | 15 | 7 | 8 |
| Bedington - Black Oak | Peak | 176 | 122 | 9 | 0 | 9 |
| | Off Peak | 204 | 133 | 11 | 0 | 11 |
| CPL - DOM | Peak | 273 | 365 | 8 | 0 | 8 |
| | Off Peak | 153 | 266 | 7 | 0 | 7 |
| East | Peak | NA | NA | NA | NA | NA |
| | Off Peak | 309 | 262 | 7 | 0 | 7 |
| West | Peak | 268 | 178 | 9 | 0 | 9 |
| | Off Peak | 315 | 369 | 12 | 0 | 12 |

The three pivotal supplier test is applied every time the PJM market system solution indicates that incremental relief is needed to relieve a transmission constraint. While every system solution that requires incremental relief to transmission constraints will result in a test, not all tested providers of effective supply are eligible for capping. Steam units that are offer capped in the Day-Ahead Energy Market continue to be offer capped in the Real-Time Energy Market regardless of their inclusion in the TPS test in real time and the outcome of the TPS test in real time. Offline units that are committed to provide relief for a transmission constraint, whose owners fail the TPS test, are committed on the cheaper of their cost or price-based offers. Beginning November 1, 2017, with the introduction of hourly offers and intraday offer updates, certain online units whose commitment is extended beyond the day-ahead or real-time commitment, whose owners fail the TPS test, are also switched to the cost-based offer if it is cheaper than the price-based offer. Table 3-30 provides, for the identified interface constraints, information on total tests applied, the subset of three pivotal supplier tests that could have resulted in offer capping and the portion of those tests that did result in offer capping. The three pivotal supplier tests that resulted in offer capping do not explain all the offer capped units in the Real-Time Energy Market.

⁴⁷ See PJM, OATT Attachment K Appendix S 6.4.1 (Offer Price Caps - Applicability) (January 3, 2018).

PJM operators also manually commit units for reliability reasons that are not specifically for providing relief to a binding constraint.

Table 3-30 Summary of three pivotal supplier tests applied for interface constraints: January through March, 2018

| Constraint | Period | Total Tests Applied | Total Tests that Could Have Resulted in Offer Capping | Percent Total Tests that Could Have Resulted in Offer Capping | Total Tests Resulted in Offer Capping | Percent Total Tests Resulted in Offer Capping | Tests Resulted in Offer Capping as Percent of Tests that Could Have Resulted in Offer Capping |
|-----------------------|----------|---------------------|---|---|---------------------------------------|---|---|
| 5004/5005 Interface | Peak | 285 | 285 | 100% | 11 | 4% | 4% |
| | Off Peak | 280 | 277 | 99% | 17 | 6% | 6% |
| AEP - DOM | Peak | 744 | 742 | 100% | 31 | 4% | 4% |
| | Off Peak | 1,133 | 1,132 | 100% | 88 | 8% | 8% |
| AP South | Peak | 15 | 15 | 100% | 0 | 0% | 0% |
| | Off Peak | 14 | 14 | 100% | 0 | 0% | 0% |
| Bedington - Black Oak | Peak | 198 | 194 | 98% | 2 | 1% | 1% |
| | Off Peak | 252 | 250 | 99% | 8 | 3% | 3% |
| CPL - DOM | Peak | 343 | 340 | NA | 8 | NA | NA |
| | Off Peak | 348 | 347 | 100% | 2 | 1% | 1% |
| East | Peak | 0 | 0 | NA | 0 | NA | NA |
| | Off Peak | 11 | 9 | 82% | 0 | 0% | 0% |
| West | Peak | 13 | 13 | 100% | 0 | 0% | 0% |
| | Off Peak | 63 | 60 | 95% | 0 | 0% | 0% |

Parameter Limited Schedules

Cost-Based Offers

All capacity resources in PJM are required to submit at least one cost-based offer. During the 2016/2017 and 2017/2018 Delivery Years, all cost-based offers, submitted by resources that are not capacity performance resources, are parameter limited in accordance with the Parameter Limited Schedule (PLS) matrix or with the level of an approved exception.⁴⁸ During the 2016/2017 and 2017/2018 Delivery Years, all cost-based offers, submitted by capacity performance resources, are parameter limited in accordance with predetermined unit specific parameter limits. During the 2016/2017 and 2017/2018 Delivery Years, there was no base capacity procured.

For the 2018/2019 and 2019/2020 Delivery Years, PJM procured two types of capacity resources, capacity performance resources and base capacity resources. Beginning June 1, 2018, there will no longer be any resources

⁴⁸ See PJM OA, Schedule 1 § 6.6 (Minimum Generator Operating Parameters—Parameter-Limited Schedules).

committed as the current annual capacity product. All cost-based offers, submitted by capacity performance resources and base capacity resources, are parameter limited in accordance with predetermined unit specific parameter limits.

Price-Based Offers

All capacity resources that choose to offer price-based offers are required to make available at least one price-based parameter limited offer (referred to as price-based PLS). For resources that are not capacity performance resources or not base capacity resources, the price-based parameter limited schedule is to be used by PJM for committing generation resources when a maximum emergency generation alert is declared. For capacity performance resources,

the price-based parameter limited schedule is to be used by PJM for committing generation resources when hot weather alerts and cold weather alerts are declared. For base capacity resources (during the 2018/2019 and 2019/2020 Delivery Years only), the price-based parameter limited schedule is to be used by PJM for committing generation resources when hot weather alerts are declared.

Parameter Limits

During the extreme cold weather conditions in 2018, 2017, 2016, 2015, and 2014, a number of gas fired generators requested temporary exceptions to parameter limits for their parameter limited schedules due to restrictions imposed by natural gas pipelines. The parameters that were affected include minimum run time (MRT) and turn down ratio (TDR, the ratio of economic maximum MW to economic minimum MW). When pipelines issue critical

notices and enforce ratable take requirements, generators may, depending on the nature of the transportation service purchased, be forced to nominate an equal amount of gas for each hour in a 24 hour period, with penalties for deviating from the nominated quantity. This led to requests for 24 hour minimum run times and turn down ratios close to 1.0, to avoid deviations from the hourly nominated quantity.

Key parameters like startup and notification time were not included in the PLS matrix in 2017 and prior periods, even though other parameters were subject to parameter limits. Some resource owners notified PJM that they needed extended notification times based on the claimed necessity for generation owners to nominate gas prior to gas nomination cycle deadlines. Startup and notification times are limited for capacity performance resources beginning June 1, 2016, in accordance with predetermined unit specific parameter limits. The unit specific parameter limits for capacity performance resources were based on default minimum operating parameter limits posted by PJM by technology type. These default parameters were based on analysis by the MMU. Market participants could request an adjustment to the default values by submitting supporting documentation, which was reviewed by PJM and the MMU. The default minimum operating parameter limits or approved adjusted values are used by capacity performance resources for their parameter limited schedules.

PJM has the authority to approve adjusted parameters with input from the MMU. PJM has inappropriately applied different review standards to coal units than to CTs and CCs despite the objections of the MMU. PJM has approved parameter limits for steam units based on historical performance and existing equipment while holding CTs and CCs to higher standards based on OEM documentation and up to date equipment configuration.

Currently, there are no rules in the PJM tariff or manuals that limit the nonparameter attributes of price-based PLS offers. The intent of the price-based PLS offer is to prevent the exercise of market power during high demand conditions by preventing units from offering inflexible operating parameters in order to extract higher market revenues or higher uplift payments. However,

a generator can include a higher markup in the price-based PLS offer than in the price-based non-PLS schedule. The result is that the offer is higher and market prices are higher as a result of the exercise of market power using the PLS offer. This defeats the purpose of requiring price-based PLS offers.

The MMU recommends that in order to ensure effective market power mitigation when the TPS test is failed, the operating parameters in the cost-based offer and the price-based parameter limited schedule (PLS) offer be at least as flexible as the operating parameters in the available non-PLS price-based offer, and that the price-MW pairs in the price-based PLS offer be exactly equal to the price-based non-PLS offer.

Parameter Limited Schedules under Capacity Performance

Beginning in the 2016/2017 Delivery Year, resources that have capacity performance (CP) commitments are required to submit, in their parameter limited schedules (cost-based offers and price-based PLS offers), unit specific parameters that reflect the physical capability of the technology type of the resource. For the 2018/2019 and 2019/2020 Delivery Years, resources that have base capacity commitments are also required to submit, in their parameter limited schedules, unit specific parameters that reflect the physical capability of the technology type of the resource. In its order on capacity performance, the Commission determined that capacity performance resources should be able to reflect actual constraints based on not just the resource physical constraints, but also other constraints, such as contractual limits that are not based on the physical characteristics of the generator.⁴⁹ The Commission directed that capacity performance resources with parameters based on nonphysical constraints should receive uplift payments.⁵⁰ The Commission directed PJM to submit tariff language to establish a process through which capacity performance resources that operate outside the defined unit-specific parameter limits can justify such operation and therefore remain eligible for make whole payments.⁵¹

⁴⁹ 151 FERC ¶ 61,208 at P 437 (June 9th Order).

⁵⁰ *Id.* at P 439.

⁵¹ *Id.* at P 440.

A primary goal of the capacity performance market design is to assign performance risk to generation owners and to ensure that capacity prices reflect underlying supply and demand conditions, including the cost of taking on performance risk. The June 9th Order's determination on parameters is not consistent with that goal. By permitting generation owners to establish unit parameters based on nonphysical limits, the June 9th Order has weakened the incentives for units to be flexible and has weakened the assignment of performance risk to generation owners. Contractual limits, unlike generating unit operational limits, are a function of the interests and incentives of the parties to the contracts. If a generation owner expects to be compensated through uplift payments for running for 24 hours regardless of whether the energy is economic or needed, that generation owner has no incentive to pay more to purchase the flexible gas service that would permit the unit to be flexible in response to dispatch.

The fact that a contract may be just and reasonable because it was an arm's length contract entered into by two willing parties does not mean that is the only possible arrangement between the two parties or that it is consistent with an efficient market outcome or that such a contract can reasonably impose costs on customers who were not party to the contract. The actual contractual terms are a function of the incentives and interests of the parties. The fact that a just and reasonable contract exists between a generation owner and a gas supplier does not mean that it is appropriate or efficient to impose the resultant costs on electric customers or that it incorporates an efficient allocation of performance risk between the generation owner and other market participants.

The approach to parameters defined in the June 9th Order will increase energy market uplift payments substantially. Uplift costs are unpredictable, opaque and unhedgeable. While some uplift is necessary and efficient in an LMP market, this uplift is not. Electric customers are not in a position to determine the terms of the contracts that resources enter into. Customers rely on the market rules to create incentives that protect them by assigning operational risk to generators, who are in the best position to efficiently manage those risks.

The MMU recommends that the revised rules recognize the difference between operational parameters that indicate to PJM dispatchers what a unit is capable of during the operating day and the parameters that are reflected in uplift payments. The parameters provided to PJM dispatchers each day should reflect what units are physically capable of. That is an operational necessity. However, the parameters which determine the amount of uplift payments to those generators should reflect the flexibility goals of the capacity performance construct and the assignment of performance risk to generation owners.

The MMU recommends that capacity performance resources and base capacity resources (during the June through September period) be held to the OEM operating parameters of the capacity market reference resource used for the Cost of New Entry (CONE) calculation for performance assessment and energy uplift payments and that this standard be applied to all technologies on a uniform basis. This solution creates the incentives for flexibility and preserves, to the extent possible, the incentives to follow PJM's dispatch instructions during high demand conditions. The proposed operating parameters should be based on the physical capability of the Reference Resource used in the Cost of New Entry, currently two GE Frame 7FA turbines with dual fuel capability. All resources that are less flexible than the reference resource are expected to be scheduled and running during high demand conditions anyway, while the flexible CTs that are used as peaking plants would still have the incentive to follow LMP and dispatch instructions. CCs would also have the capability to be as flexible as the reference resource. These units will be exempt from nonperformance charges and made whole as long as they perform in accordance with their parameters. This ensures that all the peaking units that are needed by PJM for flexible operation do not self schedule at their maximum output, and follow PJM dispatch instructions during high demand conditions. If any of the less flexible resources need to be dispatched down by PJM for reliability reasons, they would be exempt from nonperformance charges.

Such an approach is consistent with the Commission's no excuses policy for nonperformance because the flexibility target is set based on the optimal OEM-defined capability for the marginal resource that is expected to meet peak demand, which is consistent with the level of performance that customers

are paying for in the capacity market. Any resource that is less flexible is not excused for nonperformance and any resource that meets the flexibility target is performing according to the commitments made in the capacity market.

The June 9th Order pointed out that the way to ensure that a resource's parameters are exposed to market consequences is to not allow any parameter limitations as an excuse for nonperformance. The same logic should apply to energy market uplift rules. A resource's parameters should be exposed to market consequences and the resource should not be made whole if it is operating less flexibly than the reference resource. Paying energy market uplift on the basis of parameters consistent with the flexibility goals of the capacity performance construct would ensure that performance incentives are consistent across the capacity and energy markets and ensure that performance risk is appropriately assigned to generation owners.

Markup Index

Markup is a summary measure of participant offer behavior or conduct for individual units. When a seller responds competitively to a market price, markup is zero. When a seller exercises market power in its pricing, markup is positive. The degree of markup increases with the degree of market power. The markup index for each marginal unit is calculated as $(\text{Price} - \text{Cost})/\text{Price}$.⁵² The markup index is normalized and can vary from -1.00 when the offer price is less than short run marginal cost, to 1.00 when the offer price is higher than short run marginal cost. The markup index does not measure the impact of unit markup on total LMP. The dollar markup for a unit is the difference between price and cost.

Real-Time Markup Index

Table 3-31 shows the average markup index of marginal units in the Real-Time Energy Market, by offer price category using unadjusted cost-based offers. Table 3-32 shows the average markup index of marginal units in the Real-Time Energy Market, by offer price category using adjusted cost-based offers. The unadjusted markup is the difference between the price-based offer

⁵² In order to normalize the index results (i.e., bound the results between +1.00 and -1.00) for comparison across both low and high cost units, the index is calculated as $(\text{Price} - \text{Cost})/\text{Price}$ when price is greater than cost, and $(\text{Price} - \text{Cost})/\text{Cost}$ when price is less than cost.

and the cost-based offer including the 10 percent adder in the cost-based offer. The adjusted markup is the difference between the price-based offer and the cost-based offer excluding the 10 percent adder from the cost-based offer. The adjusted markup is calculated for coal, gas and oil units because these units have consistently had price-based offers less than cost-based offers.⁵³ The markup is negative if the cost-based offer of the marginal unit exceeds its price-based offer at its operating point.

All generating units are allowed to add an additional 10 percent to their cost-based offer. The 10 percent adder was included prior to the implementation of PJM markets in 1999, based on the uncertainty of calculating the hourly operating costs of CTs under changing ambient conditions. The owners of coal units, facing competition, typically exclude the additional 10 percent from their actual offers. The owners of many gas fired and oil fired units have also begun to exclude the 10 percent adder. The unadjusted markup is calculated as the difference between the price-based offer and the cost-based offer including the additional 10 percent in the cost-based offer for coal, gas and oil fired units. The adjusted markup is calculated as the difference between the price-based offer and the cost-based offer excluding the additional 10 percent from the cost-based offers of coal, gas and oil fired units. Even the adjusted markup overestimates the negative markup because units facing increased competitive pressure have excluded both the 10 percent and the components of operating and maintenance cost that are not short run marginal cost. While the 10 percent adder is permitted under the definition of cost-based offers in the PJM Market Rules and some have interpreted the rules to permit maintenance costs that are not short run marginal costs, neither are part of a competitive offer because they are not actually short run marginal costs, and actual market behavior reflects that fact.⁵⁴

In the first three months of 2018, 85.5 percent of marginal units had offer prices less than \$50 per MWh. The average dollar markups of units with offer prices less than \$25 was negative when using unadjusted cost-based offers. The average dollar markups of units with offer prices between \$25 and

⁵³ The MMU will calculate adjusted markup for gas units also in future reports because gas units also more consistently have price-based offers less than cost-based offers.

⁵⁴ See PJM. "Manual 15: Cost Development Guidelines," Rev. 29 (May 15, 2017).

\$50 was positive (\$1.76 per MWh) when using unadjusted cost-based offers. Negative markup means the unit is offering to run at a price less than its cost-based offer, revealing a short run marginal cost that is less than the maximum allowable cost-based offer under the PJM Market Rules.

Some marginal units did have substantial markups. Among the units that were marginal in the first three months of 2018, less than 0.23 percent had offer prices above \$400 per MWh. Among the units that were marginal in the first three months of 2017, 0.1 percent had offer prices greater than \$400 per MWh. Using the unadjusted cost-based offers, the highest markup for any marginal unit in the first three months of 2018 was more than \$500 while the highest markup in the first three months of 2017 was more than \$200.

Table 3-31 Average, real-time marginal unit markup index (By offer price category unadjusted): January through March, 2017 and 2018

| Offer Price Category | 2017 (Jan - Mar) | | | 2018 (Jan - Mar) | | |
|----------------------|----------------------|-----------------------|-----------|----------------------|-----------------------|-----------|
| | Average Markup Index | Average Dollar Markup | Frequency | Average Markup Index | Average Dollar Markup | Frequency |
| < \$25 | 0.33 | (\$0.36) | 63.9% | 0.06 | (\$0.28) | 54.9% |
| \$25 to \$50 | 0.05 | \$0.95 | 27.5% | 0.06 | \$1.76 | 30.6% |
| \$50 to \$75 | 0.28 | \$16.10 | 1.3% | 0.22 | \$11.55 | 3.9% |
| \$75 to \$100 | 0.07 | \$5.72 | 1.1% | 0.15 | \$11.06 | 1.7% |
| \$100 to \$125 | 0.25 | \$27.11 | 0.2% | 0.10 | \$10.98 | 1.1% |
| \$125 to \$150 | 0.43 | \$56.87 | 0.2% | 0.08 | \$10.45 | 1.9% |
| >= \$150 | 0.01 | \$1.46 | 5.8% | 0.10 | \$26.03 | 5.8% |

Table 3-32 Average, real-time marginal unit markup index (By offer price category adjusted): January through March, 2017 and 2018

| Offer Price Category | 2017 (Jan - Mar) | | | 2018 (Jan - Mar) | | |
|----------------------|----------------------|-----------------------|-----------|----------------------|-----------------------|-----------|
| | Average Markup Index | Average Dollar Markup | Frequency | Average Markup Index | Average Dollar Markup | Frequency |
| < \$25 | 0.41 | \$1.32 | 63.9% | 0.14 | \$1.39 | 54.9% |
| \$25 to \$50 | 0.14 | \$3.71 | 27.5% | 0.14 | \$4.47 | 30.6% |
| \$50 to \$75 | 0.34 | \$19.86 | 1.3% | 0.28 | \$15.79 | 3.9% |
| \$75 to \$100 | 0.16 | \$13.57 | 1.1% | 0.22 | \$17.81 | 1.7% |
| \$100 to \$125 | 0.32 | \$34.62 | 0.2% | 0.19 | \$20.06 | 1.1% |
| \$125 to \$150 | 0.48 | \$63.79 | 0.2% | 0.17 | \$21.97 | 1.9% |
| >= \$150 | 0.11 | \$16.04 | 5.8% | 0.18 | \$44.46 | 5.8% |

Table 3-33 shows the percentage of marginal units that had markups, calculated using unadjusted cost-based offers, below, above and equal to zero for coal, gas and oil fuel types.⁵⁵ Table 3-34 shows the percentage of marginal units that had markups, calculated using adjusted cost-based offers, below, above and equal to zero for coal, gas and oil fuel types. In the first three months of 2018, using unadjusted cost-based offers for coal units, 54.40 percent of coal units had negative markups. In the first three months of 2018, using adjusted cost-based offers for coal units, 19.73 percent of coal units had negative markups.

Table 3-33 Percent of marginal units with markup below, above and equal to zero (By fuel type unadjusted): January through March, 2017 and 2018

| Type/Fuel | 2017 (Jan - Mar) | | | 2018 (Jan - Mar) | | |
|-----------|------------------|--------|----------|------------------|--------|----------|
| | Negative | Zero | Positive | Negative | Zero | Positive |
| Coal | 43.66% | 26.81% | 29.53% | 54.40% | 21.10% | 24.50% |
| Gas | 39.41% | 10.67% | 49.92% | 42.18% | 11.01% | 46.81% |
| Oil | 3.34% | 96.09% | 0.56% | 16.24% | 68.20% | 15.56% |

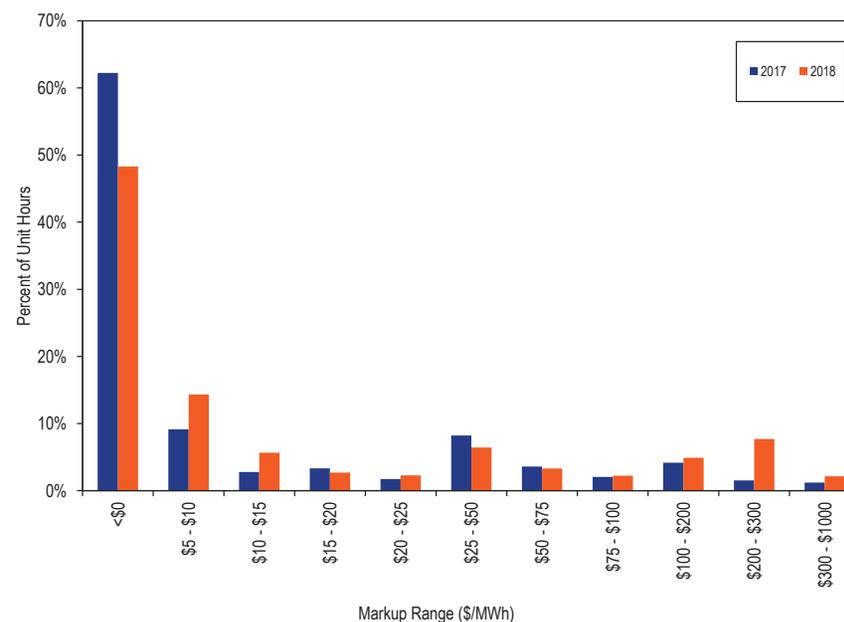
⁵⁵ Other fuel types were excluded based on data confidentiality rules.

Table 3-34 Percent of marginal units with markup below, above and equal to zero (By fuel type adjusted): January through March, 2017 and 2018

| Type/Fuel | 2017 (Jan - Mar) | | | 2018 (Jan - Mar) | | |
|-----------|------------------|-------|----------|------------------|-------|----------|
| | Negative | Zero | Positive | Negative | Zero | Positive |
| Coal | 22.82% | 8.36% | 68.82% | 19.73% | 0.07% | 80.20% |
| Gas | 6.07% | 3.16% | 90.77% | 8.29% | 0.13% | 91.58% |
| Oil | 0.00% | 0.00% | 100.00% | 1.02% | 0.00% | 98.98% |

Figure 3-29 shows the frequency distribution of hourly markups for all gas units offered in the first three months of 2017 and the first three months of 2018 using unadjusted cost-based offers. The highest markup within the economic operating range of the unit’s offer curve was used for creating the frequency distributions.⁵⁶ Of the gas units offered in the PJM market in the first three months of 2018, nearly 48 percent of gas unit-hours had a maximum markup that was negative. More than 15 percent of gas fired unit-hours had a maximum markup above \$100 per MWh.

Figure 3-29 Frequency distribution of highest markup of gas units offered using unadjusted cost offers: January through March, 2017 and 2018



⁵⁶ The categories in the frequency distribution were chosen so as to maintain data confidentiality.

Figure 3-30 shows the frequency distribution of hourly markups for all coal units offered in the first three months of 2017 and 2018 using unadjusted cost-based offers. Of the coal units offered in the PJM market in the first three months of 2018, nearly 43 percent of coal unit-hours had a maximum markup that was negative.

Figure 3-30 Frequency distribution of highest markup of coal units offered using unadjusted cost offers: January through March, 2017 and 2018

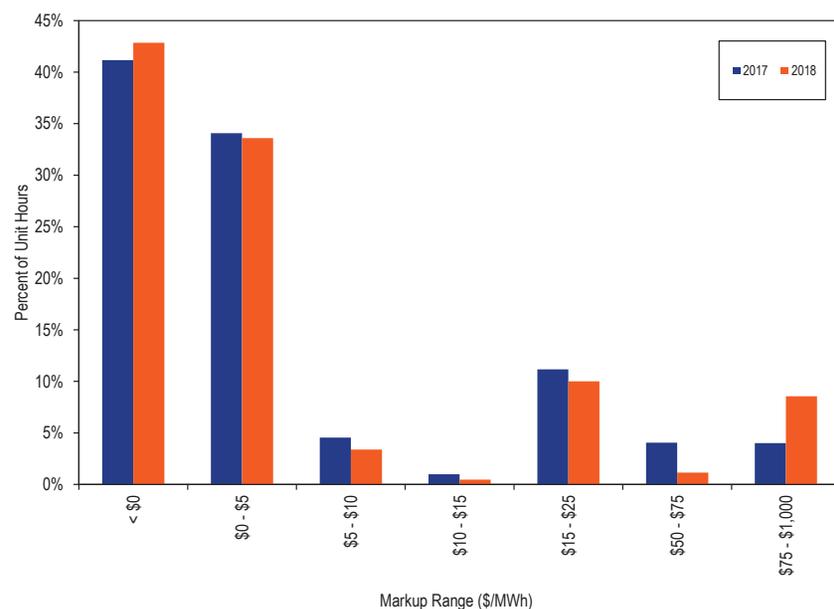
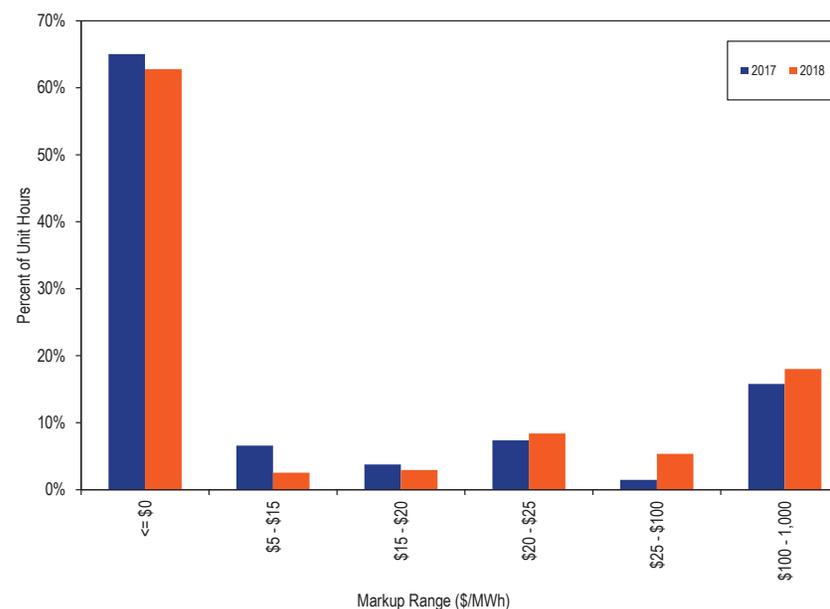


Figure 3-31 shows the frequency distribution of hourly markups for all offered oil units in the first three months of 2017 and 2018 using unadjusted cost-based offers. Of the oil units offered in the PJM market in the first three months of 2018, nearly 63 percent of oil unit-hours had a maximum markup that was negative. More than 18 percent of oil fired unit-hours had a maximum markup above \$100 per MWh.

Figure 3-31 Frequency distribution of highest markup of oil units offered using unadjusted cost offers: January through March, 2017 and 2018



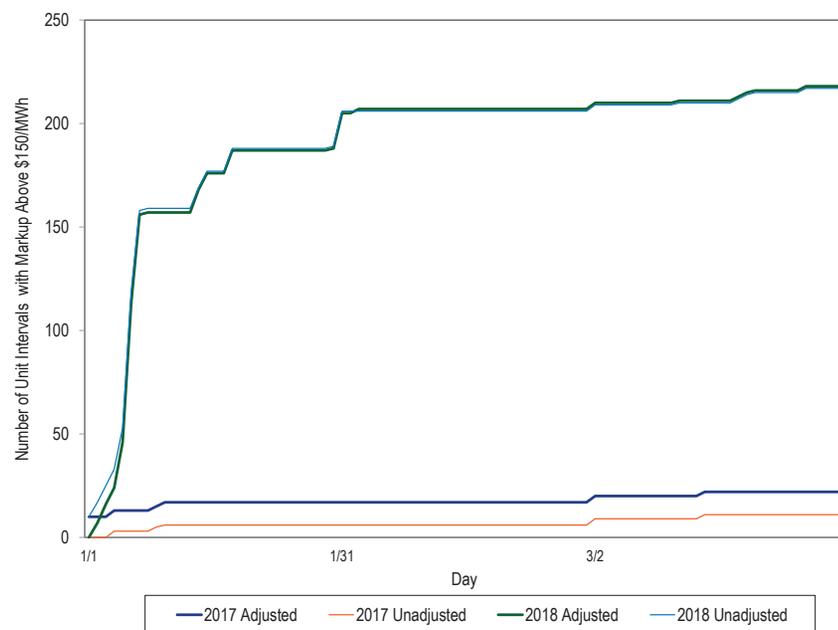
The markup frequency distributions show that a significant proportion of units make price-based offers less than the cost-based offers permitted under the PJM market rules. This behavior means that competitive price-based offers reveal actual unit marginal costs and that PJM market rules permit the inclusion of costs in cost-based offers that are not short run marginal costs.

The markup behavior shown in the markup frequency distributions also shows that a substantial number of units were offered with high markups, consistent with the exercise of market power.

Figure 3-32 shows the number of marginal unit intervals in the first three months of 2018 and 2017 with markup above \$150 per MWh. The number of

intervals with markups above \$150 per MWh increased during the first eight days of January 2018, when the PJM region experienced low temperatures.

Figure 3-32 Cumulative number of unit intervals with markups above \$150 per MWh: January through March, 2017 and 2018



Day-Ahead Markup Index

Table 3-35 shows the average markup index of marginal generating units in the Day-Ahead Energy Market, by offer price category using unadjusted cost-based offers. The majority of marginal units are virtual transactions, which do not have markup. In the first three months of 2018, 90.6 percent of marginal generating units had offer prices less than \$50 per MWh. The average dollar markups of units with offer prices less than \$25 was positive (\$0.38 per MWh) when using unadjusted cost-based offers. The average dollar markups of units with offer prices between \$25 and \$50 was positive (\$2.68 per MWh) when using unadjusted cost-based offers.

Some marginal units did have substantial markups. Among the units that were marginal in the first three months of 2017 and 2018, none had offer prices above \$400 per MWh. Using the unadjusted cost-based offers, the highest markup for any marginal unit in the first three months of 2018 was about \$200 per MWh while the highest markup in the first three months of 2017 was about \$40 per MWh.

Table 3-35 Average day-ahead marginal unit markup index (By offer price category, unadjusted): January through March, 2017 and 2018

| Offer Price Category | 2017 (Jan - Mar) | | | 2018 (Jan - Mar) | | |
|----------------------|----------------------|-----------------------|-----------|----------------------|-----------------------|-----------|
| | Average Markup Index | Average Dollar Markup | Frequency | Average Markup Index | Average Dollar Markup | Frequency |
| < \$25 | 0.24 | \$0.59 | 55.6% | 0.07 | \$0.38 | 52.1% |
| \$25 to \$50 | 0.08 | \$2.23 | 33.7% | 0.08 | \$2.68 | 38.5% |
| \$50 to \$75 | 0.05 | \$2.60 | 1.2% | 0.20 | \$10.94 | 3.4% |
| \$75 to \$100 | 0.00 | \$0.25 | 1.1% | 0.14 | \$7.84 | 1.3% |
| \$100 to \$125 | 0.00 | \$0.00 | 0.0% | (0.00) | (\$1.72) | 1.1% |
| \$125 to \$150 | 0.00 | \$0.00 | 0.0% | 0.06 | \$6.98 | 1.6% |
| >= \$150 | (0.00) | (\$0.06) | 8.4% | 0.10 | \$19.85 | 2.1% |

Table 3-36 shows the average markup index of marginal generating units in the Day-Ahead Energy Market, by offer price category using adjusted cost-based offers. In the first three months of 2018, 1.3 percent of marginal generating units had offers between \$75 and \$100 per MWh and the average dollar markup and the average markup index were both positive. The average markup index decreased from 0.32 in the first three months of 2017, to 0.16 in the first three months of 2018 in the offer price category less than \$25.

Table 3-36 Average day-ahead marginal unit markup index (By offer price category, adjusted): January through March, 2017 and 2018

| Offer Price Category | 2017 (Jan – Mar) | | | 2018 (Jan – Mar) | | |
|----------------------|----------------------|-----------------------|-----------|----------------------|-----------------------|-----------|
| | Average Markup Index | Average Dollar Markup | Frequency | Average Markup Index | Average Dollar Markup | Frequency |
| < \$25 | 0.32 | \$2.39 | 55.6% | 0.16 | \$2.11 | 52.1% |
| \$25 to \$50 | 0.15 | \$4.77 | 33.7% | 0.16 | \$5.27 | 38.5% |
| \$50 to \$75 | 0.13 | \$7.16 | 1.2% | 0.27 | \$15.19 | 3.4% |
| \$75 to \$100 | 0.09 | \$8.78 | 1.1% | 0.21 | \$14.67 | 1.3% |
| \$100 to \$125 | 0.00 | \$0.00 | 0.0% | 0.08 | \$8.80 | 1.1% |
| \$125 to \$150 | 0.09 | \$11.86 | 0.0% | 0.14 | \$18.13 | 1.6% |
| >= \$150 | 0.09 | \$14.51 | 8.4% | 0.18 | \$36.67 | 2.1% |

Energy Market Cost-Based Offers

The application of market power mitigation rules in the Day-Ahead Energy Market and the Real-Time Energy Market helps ensure competitive market outcomes even in the presence of structural market power. But the efficacy of market power mitigation rules depends on the definition of a competitive offer. A competitive offer is equal to short run marginal costs. The enforcement of market power mitigation rules is undermined if the definition of a competitive offer is not correct. The significance of competition metrics like markup is also undermined if the definition of a competitive offer is not correct. The definition of a competitive offer, as interpreted by PJM, is not currently correct. Some unit owners include costs that are not short run marginal costs in offers, including maintenance costs. This issue can be resolved by simple changes to the PJM market rules to incorporate a clear and accurate definition of short run marginal costs.

Short Run Marginal Costs

There are three types of costs identified under PJM rules:

- Short run marginal costs. Cost of inputs consumed or converted to produce energy, and the costs associated with byproducts that result from consuming or converting materials to produce energy, net of any revenues from the sale of those byproducts. The categories of short run marginal costs are:

- Fuel costs: Includes commodity costs, delivery costs (such as variable transportation costs), fuel supplier fees and taxes;
- Emission allowance costs: Includes costs of emission allowances and any variable regulatory fees;
- Operating costs: Includes water purchases, water or waste water treatment control reagents, emission control reagents, equipment lubricants, electricity byproducts disposal;
- Energy market opportunity costs;⁵⁷
- Avoidable costs. Annual costs that would be avoided if energy were not produced over an annual period;
- Fixed costs. Costs associated with an investment in a facility including the return on and of capital.

Marginal costs are the only costs relevant to the energy market. Specifically, the competitive energy offer level is the short run marginal cost of production.

The MMU recommends that PJM require that the level of incremental costs includable in cost-based offers not exceed the unit's short run marginal cost.

Fuel Cost Policies

Fuel cost policies document the process by which Market Sellers calculate the fuel cost component of their cost-based offers. Short run marginal fuel costs include commodity costs, transportation costs, fees, and taxes for the purchase of fuel.

Fuel Cost Policy Review

The standards for the MMU's market power evaluation are that FCPs be algorithmic, verifiable and systematic, accurately reflecting the short run marginal cost of producing energy. In its filings with FERC, PJM agreed with the MMU that FCPs should be verifiable and systematic.⁵⁸

⁵⁷ See PJM Operating Agreement Schedule 2 (a)

⁵⁸ Answer of PJM Interconnection, L.L.C. to Protests and Comments, Docket No. ER16-372-002 (October 7, 2016) ("October 7th Filing") at P 11.

- **Verifiable:** Must provide a fuel price that can be calculated by the MMU after the fact with the same data available to the Market Seller at the time the decision was made and documentation for that data from a public or a private source.
- **Systematic:** Document a standardized method or methods for calculating fuel costs including objective triggers for each method.⁵⁹

PJM and FERC did not agree that Fuel Cost Policies should be algorithmic:⁶⁰

- **Algorithmic:** Must use a set of defined, logical steps. These steps may be as simple as a single number from a contract, a simple average of broker quotes, a simple average of bilateral offers, or the weighted average index price posted on the Intercontinental Exchange trading platform ('ICE').⁶¹

The MMU recommends that PJM require that all fuel cost policies be algorithmic, verifiable, and systematic.

The MMU recommends that the tariff be changed to allow units to have Fuel Cost Policies that do not include fuel procurement practices, including fuel contracts. Fuel procurement practices, including fuel contracts, may be used as the basis for Fuel Cost Policies but should not be required. In a large number of approved Fuel Cost Policies, the actual fuel procurement process plays no role in calculating the Market Seller's accurate estimate of the daily replacement value of their fuel.

The MMU recommends that PJM change the Fuel Cost Policy requirement to apply only to units that will be offered with non zero cost-based offers. PJM should set to zero the cost-based offers of units without an approved Fuel Cost Policy.

Hourly Offers and Intraday Offer Updates

On November 1, 2017, PJM implemented hourly offers and intraday offer updates. Hourly offers means the ability to offer hourly differentiated offers (up to one offer per hour instead of one offer per day). Intraday offer updates

means the ability to make changes to an offer after the rebid period. All participants are eligible to make hourly offers. Participants must opt in on a monthly basis to make intraday offer updates. Table 3-37 shows the average number of units that opted in to intraday offer updates and as a reference the average number of units that make positive offers. In March 2018, on average, 308 natural gas fired units had opted in for intraday offer updates out of an average of 444 natural gas fired units. This is an increase of 16 percent from the average number of natural gas fired units that opted in to intraday offer updates in December 2017.

Table 3-37 Average number of units opted in for intraday offers by month: January 2017 through March 2018

| | 2017 | | | | | | 2018 | | | | | |
|-----|------------------------|-------------|-------|--------------------------------------|-------------|-------|------------------------|-------------|-------|--------------------------------------|-------------|-------|
| | Number of units opt in | | | Number of units with positive offers | | | Number of units opt in | | | Number of units with positive offers | | |
| | Natural Gas | Other Fuels | Total | Natural Gas | Other Fuels | Total | Natural Gas | Other Fuels | Total | Natural Gas | Other Fuels | Total |
| Jan | 0 | 0 | 0 | 444 | 420 | 864 | 295 | 34 | 329 | 444 | 395 | 839 |
| Feb | 0 | 0 | 0 | 445 | 419 | 864 | 306 | 33 | 339 | 444 | 396 | 840 |
| Mar | 0 | 0 | 0 | 448 | 418 | 866 | 308 | 33 | 341 | 444 | 395 | 839 |
| Apr | 0 | 0 | 0 | 448 | 420 | 868 | | | | | | |
| May | 0 | 0 | 0 | 450 | 417 | 867 | | | | | | |
| Jun | 0 | 0 | 0 | 452 | 418 | 869 | | | | | | |
| Jul | 0 | 0 | 0 | 449 | 410 | 859 | | | | | | |
| Aug | 0 | 0 | 0 | 449 | 402 | 851 | | | | | | |
| Sep | 0 | 0 | 0 | 449 | 401 | 850 | | | | | | |
| Oct | 0 | 0 | 0 | 451 | 399 | 850 | | | | | | |
| Nov | 244 | 31 | 275 | 442 | 397 | 839 | | | | | | |
| Dec | 266 | 31 | 297 | 444 | 395 | 839 | | | | | | |

Table 3-38 shows the average number of units that made hourly differentiated offers in the day-ahead market or rebid period. In March 2018, an average of 180 units made hourly differentiated offers. This is an increase of seven percent from the average number of units that made hourly differentiated offers in December 2017.

⁵⁹ Protest of the Independent Market Monitor for PJM, Docket No. ER16-372-002 (September 16, 2016) ("September 16th Filing") at P8.
⁶⁰ October 7th Filing at P12. PJM Interconnection, LLC, 158 FERC ¶ 61,133 (2017) ("February 3rd Order") P57.
⁶¹ September 16th Filing at P8.

Table 3-38 Average number of units with hourly differentiated offers by month: January 2017 through March 2018

| | 2017 | | | 2018 | | |
|-----|-------------|-------------|-------|-------------|-------------|-------|
| | Natural Gas | Other Fuels | Total | Natural Gas | Other Fuels | Total |
| Jan | 0 | 0 | 0 | 177 | 6 | 183 |
| Feb | 0 | 0 | 0 | 174 | 4 | 179 |
| Mar | 0 | 0 | 0 | 180 | 6 | 186 |
| Apr | 0 | 0 | 0 | | | |
| May | 0 | 0 | 0 | | | |
| Jun | 0 | 0 | 0 | | | |
| Jul | 0 | 0 | 0 | | | |
| Aug | 0 | 0 | 0 | | | |
| Sep | 0 | 0 | 0 | | | |
| Oct | 0 | 0 | 0 | | | |
| Nov | 176 | 5 | 181 | | | |
| Dec | 165 | 9 | 173 | | | |

Table 3-39 shows the average number of units that made rebid offer updates and intraday offer updates. In March 2018, an average of 120 units made intraday offer updates. This is an increase of 17 percent from the average number of units that made intraday offer updates in December 2017. Prior to November 2017, real-time offer updates refers to offer updates made during the rebid period.

Table 3-39 Average number of units making rebid or intraday offer updates by month: January 2017 through March 2018

| | 2017 | | | 2018 | | |
|-----|---|-------------|-------|---|-------------|-------|
| | Average number of units that made real-time offer updates | | | Average number of units that made real-time offer updates | | |
| | Natural Gas | Other Fuels | Total | Natural Gas | Other Fuels | Total |
| Jan | 30 | 4 | 35 | 114 | 4 | 118 |
| Feb | 33 | 5 | 38 | 117 | 5 | 122 |
| Mar | 29 | 5 | 33 | 114 | 6 | 120 |
| Apr | 28 | 5 | 33 | | | |
| May | 32 | 5 | 36 | | | |
| Jun | 28 | 5 | 33 | | | |
| Jul | 22 | 4 | 26 | | | |
| Aug | 31 | 2 | 33 | | | |
| Sep | 31 | 1 | 33 | | | |
| Oct | 31 | 1 | 33 | | | |
| Nov | 100 | 5 | 105 | | | |
| Dec | 99 | 4 | 103 | | | |

Cost-Based Offer Penalties

In addition to implementing the Fuel Cost Policy approval process, the February 3, 2017, FERC Order, created a process for penalizing generators identified by PJM or the MMU with cost-based offers that do not comply with Schedule 2 of the PJM Operating Agreement and PJM Manual 15.⁶²

In the first three months of 2018, 104 penalty cases were identified, 55 resulted in assessed cost-based offer penalties, and 49 remain pending PJM's determination. These cases were from 67 units owned by 10 different companies. Table 3-41 shows the penalties by the year in which participants were notified.

Table 3-40 Cost-based offer penalty cases by year notified: January 2017 through March 2018

| Year notified | Cases | Assessed penalties | Pending cases | Number of units impacted | Number of companies impacted |
|---------------|-------|--------------------|---------------|--------------------------|------------------------------|
| 2017 | 57 | 48 | 9 | 55 | 16 |
| 2018 | 104 | 55 | 49 | 67 | 10 |
| Total | 161 | 103 | 58 | 121 | 23 |

Since 2017, 161 penalty cases have been identified, 103 resulted in assessed cost-based offer penalties, and 58 remain pending PJM's determination. The 103 cases were from 101 units owned by 15 different companies. The total penalties were \$547,250, charged to units that totaled 15,486 available MW. The average penalty was \$1.83 per available MW.⁶³ Table 3-41 shows the total cost-based offer penalties since 2017 by year.

Table 3-41 Cost-based offer penalties by year: January 2017 through March 2018

| Year | Number of units | Number of companies | Penalties | Average Available Capacity Charged (MW) | Average Penalty (\$/MW) |
|-------|-----------------|---------------------|-----------|---|-------------------------|
| 2017 | 69 | 14 | \$367,584 | 9,996 | \$1.53 |
| 2018 | 32 | 2 | \$179,666 | 5,490 | \$3.02 |
| Total | 101 | 15 | \$547,250 | 15,486 | \$1.83 |

⁶² PJM Interconnection, LLC, 158 FERC ¶ 61,133 (2017) ("February 3rd Order").

⁶³ Cost-based offer penalties are assessed by hour. Therefore, a \$1 per available MW penalty results in a total of \$24 for a 1 MW unit if the violation is for the entire day.

The incorrect cost-based offers resulted from incorrect application of Fuel Cost Policies, lack of approved Fuel Cost Policies, Fuel Cost Policy violations, miscalculation of no load costs, inclusion of prohibited maintenance costs, use of incorrect incremental heat rates, use of incorrect start cost, and use of incorrect emission costs.

Cost Development Guidelines

The Cost Development Guidelines contained in PJM Manual 15 do not clearly or accurately describe the short run marginal cost of generation. The MMU recommends that PJM Manual 15 be replaced with a straightforward description of the components of cost-based offers based on short run marginal costs and the correct calculation of cost-based offers.

VOM Costs

PJM Manual 15 and the PJM Operating Agreement Schedule 2 include rules related to VOM costs. These rules are unclear. PJM Manual 15 provides for the inclusion of Variable Operating and Maintenance (VOM) costs in energy market cost-based offers. PJM Manual 15 is unclear regarding the inclusion of variable operating costs. PJM Manual 15 includes provisions for incremental maintenance costs mainly based on FERC's accounting system. A competitive offer, at short run marginal costs, includes only operating costs. Effective market power mitigation requires excluding maintenance costs from cost-based offers.

High VOM levels allow generators to economically withhold energy and to exercise market power even when offers are set to cost to mitigate market power. The MMU recommendation to limit cost-based offers to short run marginal costs would prevent such withholding. When units are not committed due to high VOM costs and instead a unit with higher short run marginal costs is committed, the market outcome is inefficient. When units that fail the TPS test are committed on their price-based offer when their short run marginal cost is lower, the market outcome is inefficient.

FERC System of Accounts

PJM Manual 15 relies on the FERC System of Accounts, which predates markets and does not define costs consistently with market economics.

The MMU recommends removal of all use of the FERC System of Accounts in PJM Manual 15.

Cyclic Starting and Peaking Factors

The use of cyclic starting and peaking factors for calculating VOM costs for combined cycles and combustion turbines is designed to allocate a greater proportion of long term maintenance costs to starts and the tail block of the incremental offer curve. The use of such factors is not appropriate given that long term maintenance costs are not short run marginal costs and should not be included in cost offers. PJM Manual 15 allows for a peaking cyclic factor of three, which means that a unit with a \$300 per hour (EOH) VOM cost can add \$180 per MWh to a 5 MW peak segment.⁶⁴

The MMU recommends the removal of all cyclic starting and peaking factors from PJM Manual 15.

Labor Costs

PJM Manual 15 allows for the inclusion of plant staffing costs in energy market cost offers. This is inappropriate given that labor costs are not short run marginal costs.

The MMU recommends the removal of all labor costs from the PJM Manual 15.

Combined Cycle Start Heat Input Definition

PJM Manual 15 defines the start heat input of combined cycles as the amount of fuel used from the firing of the first combustion turbine to the close of the steam turbine breaker plus any fuel used by other combustion turbines in the combined cycle from firing to the point at which the HRSG steam pressure matches the steam turbine steam pressure. This definition is inappropriate

⁶⁴ The peak adder is equal to \$300 times three divided by 5 MW.

given that after each combustion turbine is synchronized, some of the fuel is used to produce energy for which the resource is compensated in the energy market. To account for this, PJM Manual 15 requires reducing the station service MWh used during the start sequence by the output in MWh produced by each combustion turbine after synchronization and before the HRSG steam pressure matches the steam turbine steam pressure. The formula and the language in this definition are not appropriate and are unclear.

The MMU recommends changing the definition of the start heat input for combined cycles to include only the amount of fuel used from firing each combustion turbine in the combined cycle to the breaker close of each combustion turbine. This change will make the treatment of combined cycles consistent with steam turbines. Exceptions to this definition should be granted when the amount of fuel used from synchronization to when the unit becomes dispatchable is greater than the no load heat plus the output during this period times the incremental heat rate.

Nuclear Costs

The fuel costs for nuclear plants are fixed in the short run and amortized over the period between refueling outages. The short run marginal cost of fuel for nuclear plants is zero. Operations and maintenance costs for nuclear power plants consist primarily of labor and maintenance costs incurred during outages, which are also fixed in the short run.

The MMU recommends the removal of nuclear fuel and nonfuel operations and maintenance costs that are not short run marginal costs from the PJM Manual 15.

Pumped Hydro Costs

The calculation of pumped hydro costs for energy storage in Section 7.3 of PJM Manual 15 is inaccurate. The mathematical formulation contains an error in the calculation of the weighted average pumping cost, and it does not take into account the purchase of power for pumping in the day-ahead market.

The MMU recommends revising the pumped hydro fuel cost calculation to include day-ahead and real-time power purchases.

Energy Market Opportunity Costs

The calculation of energy market opportunity costs for energy limited units in Section 12 of PJM Manual 15 fails to account for a number of physical unit characteristics and environmental restrictions that influence opportunity costs. These include start up time, notification time, minimum down time, multiple fuel capability, multiple emissions limitations, and fuel usage limitations.

The MMU recommends revisions to the calculation of energy market opportunity costs to incorporate all time based offer parameters and all limitations that affect the opportunity cost of generating unit output.

The use of Catastrophic Force Majeure as the criterion for the use of opportunity costs for fuel supply limitations in Schedule 2 of the Operating Agreement is overly restrictive. This criterion would not allow the use of opportunity costs to allocate limited fuel in the case of regional fuel transportation disruptions or extreme weather events.

The MMU recommends removing the catastrophic designation for force majeure fuel supply limitations in Schedule 2.

Frequently Mitigated Units (FMU) and Associated Units (AU)

An FMU is a frequently mitigated unit. The results reported here include units that were mitigated for any reason, including both structural market power in the energy market and units called on for reliability reasons, including reactive and black start service.

The FMU adder was filed with FERC in 2005, and approved effective February 2006.⁶⁵ The goal, in 2005, was to ensure that units that were offer capped for most of their run hours could cover their going forward or avoidable costs (also known as ACR in the PJM Capacity Market). That function became

⁶⁵ 110 FERC ¶ 61,053 (2005).

unnecessary with the introduction of the RPM capacity market design in 2007. Units have the opportunity to recover ACR in the capacity market.

For those reasons, the MMU recommended the elimination of FMU and AU adders.⁶⁶ FMU and AU adders no longer serve the purpose for which they were created and interfere with the efficient operation of PJM markets.

The FMU and AU adders were effectively eliminated on November 1, 2014.⁶⁷

The definition of FMUs provides for a set of graduated adders associated with increasing levels of offer capping. Units capped for 60 percent or more of their run hours and less than 70 percent are eligible for an adder of either 10 percent of their cost-based offer or \$20 per MWh. Units capped for 70 percent or more of their run hours and less than 80 percent are eligible for an adder of either 10 percent of their cost-based offer or \$30 per MWh. Units capped for 80 percent or more of their run hours are eligible for an adder of either 10 percent of their cost-based offer or \$40 per MWh. These categories are designated Tier 1, Tier 2 and Tier 3.

In addition to being offer capped for the designated percent of run hours, in order to qualify for an FMU adder, a generating unit's Projected PJM Market Revenues plus the unit's PJM capacity market revenues on a rolling 12-month basis, divided by the unit's MW of installed capacity (in \$/MW-year) must be less than its accepted unit specific Avoidable Cost Rate (in \$/MW-year) (excluding APIR and ARPIR), or its default Avoidable Cost Rate (in \$/MW-year) if no unit-specific Avoidable Cost Rate is accepted for the BRAs for the delivery years included in the rolling 12-month period, determined pursuant to Sections 6.7 and 6.8 of Attachment DD of the Tariff. (The relevant Avoidable Cost Rate is the weighted average of the Avoidable Cost Rates for each Delivery Year included in the rolling 12-month period, weighted by month.) No portion of the unit may be included in an FRR capacity plan or be

⁶⁶ See the "FMU Problem Statement and Issue Charge," MIC <http://www.monitoringanalytics.com/reports/Presentations/2013/IMM_MIC_FM_U_Problem_Statement_and_Issue_Charge_20130306.pdf>.

⁶⁷ The MMU and PJM proposed a compromise on the elimination of FMU adders that maintains the ability of generating units to qualify for FMU adders when units have net revenues less than unit going forward costs or ACR. PJM submitted the joint MMU/PJM proposal to the Commission pursuant to section 206 of the Federal Power Act. On October 31, 2014, the Commission conditionally approved the filing and the new rule became effective November 1, 2014.

receiving compensation under Part V of the PJM Tariff and the unit must be internal to the PJM Region and subject only to PJM dispatch.⁶⁸

An AU, or associated unit, is a unit that is physically, electrically and economically identical to an FMU, but does not qualify for the same FMU adder based on the number of run-hours the unit is offer capped.⁶⁹ For example, if a generating station had two identical units with identical electrical impacts on the system, one of which was offer capped for more than 80 percent of its run hours, that unit would be designated a Tier 3 FMU. If the second unit were capped for 30 percent of its run hours, that unit would be an AU and receive the same Tier 3 adder as the FMU at the site. The AU designation was implemented to ensure that the associated unit is not dispatched in place of the FMU, resulting in no effective adder for the FMU. In the absence of the AU designation, the associated unit would be an FMU after its dispatch and the FMU would be dispatched in its place after losing its FMU designation.

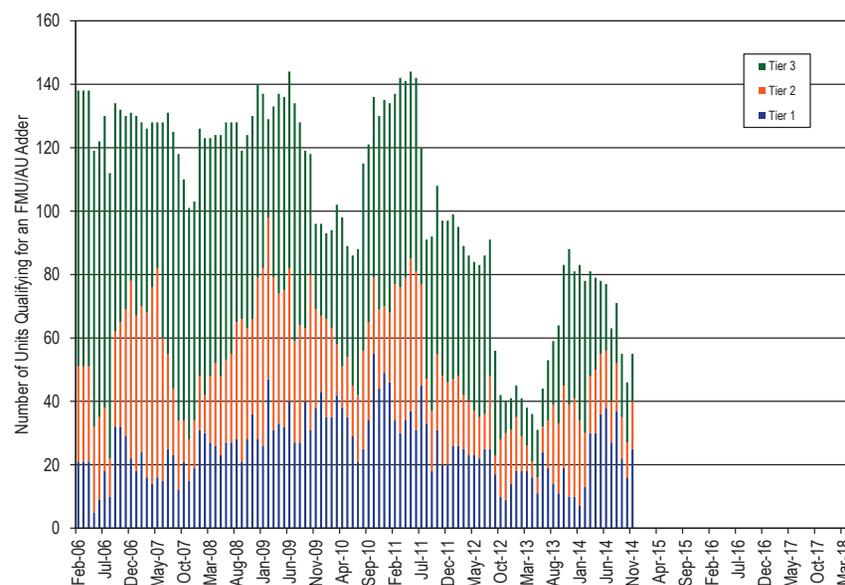
Figure 3-33 shows the total number of FMUs and AUs that qualified for an adder since the inception of the business rule in February 2006. The new rules for determining the qualification of a unit as an FMU or AU became effective November 1, 2014. FMUs and AUs are designated monthly, and a unit's capping percentage is based on a rolling 12 month average, effective with a one-month lag.⁷⁰ The number of units that were eligible for an FMU or AU adder declined from an average of 70 units during the first 11 months of 2014, to zero since December 2014.

⁶⁸ OA, Schedule 1 § 6.4.2.

⁶⁹ An associated unit (AU) must belong to the same design class (where a design class includes generation that is the same size and uses the same technology, without regard to manufacturer) and uses the identical primary fuel as the FMU.

⁷⁰ OA, Schedule 1 § 6.4.2. In 2007, the FERC approved OA revisions to clarify the AU criteria.

Figure 3-33 Frequently mitigated units and associated units (By month): February 2006 through March 2018



Virtual Offers and Bids

There is a substantial volume of virtual offers and bids in the PJM Day-Ahead Energy Market and such offers and bids may be marginal, based on the way in which the PJM market clearing algorithm works.

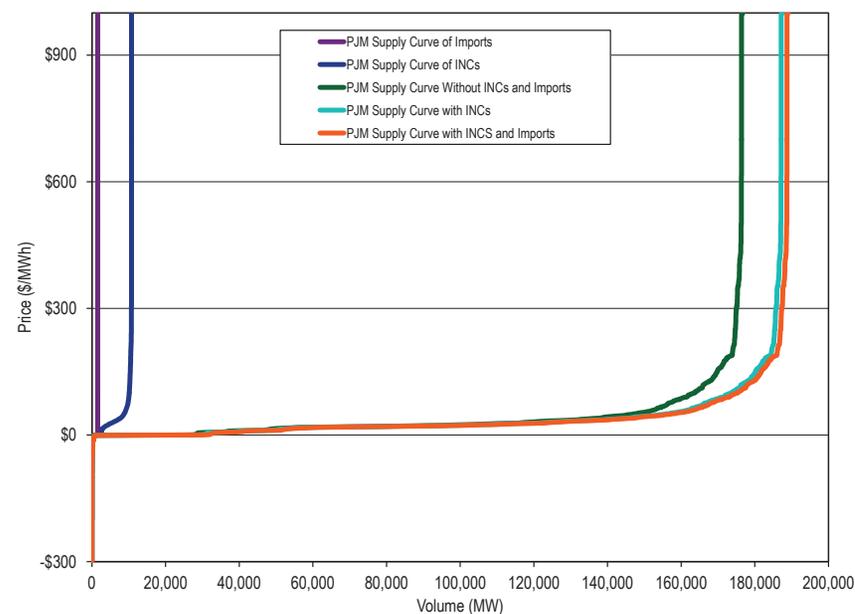
Any market participant in the PJM Day-Ahead Energy Market can use increment offers, decrement bids, up to congestion transactions, import transactions and export transactions as financial instruments that do not require physical generation or load. Increment offers and decrement bids may be submitted at any hub, transmission zone, aggregate, or single bus for which LMP is calculated. On February 20, 2018, FERC issued an Order limiting the eligible bidding points for up to congestion transactions to hubs, residual metered load and interfaces.⁷¹ Up to congestion transactions may be submitted

⁷¹ 162 FERC ¶ 61,139 (2018).

between any two buses on a list of 49 buses, eligible for up to congestion transaction bidding.⁷² Import and export transactions may be submitted at any interface pricing point, where an import is equivalent to a virtual offer that is injected into PJM and an export is equivalent to a virtual bid that is withdrawn from PJM.

Figure 3-34 shows the PJM day-ahead daily aggregate supply curve of increment offers, the system aggregate supply curve of imports, the system aggregate supply curve without increment offers and imports, the system aggregate supply curve with increment offers, and the system aggregate supply curve with increment offers and imports for an example day in 2017.

Figure 3-34 PJM day-ahead aggregate supply curves: 2017 example day



⁷² Market participants were required to specify an interface pricing point as the source for imports, an interface pricing point as the sink for exports or an interface pricing point as both the source and sink for transactions wheeling through PJM. On November 1, 2012, PJM eliminated this requirement. For the list of eligible sources and sinks for up to congestion transactions, see www.pjm.com/~media/etools/oasis/references/oasis-source-sink-link.xlsx.

Figure 3-35 shows example PJM day-ahead aggregate supply curves for the typical dispatch price range.

Figure 3-35 Typical dispatch price range for PJM day-ahead aggregate supply curves: 2017 example day

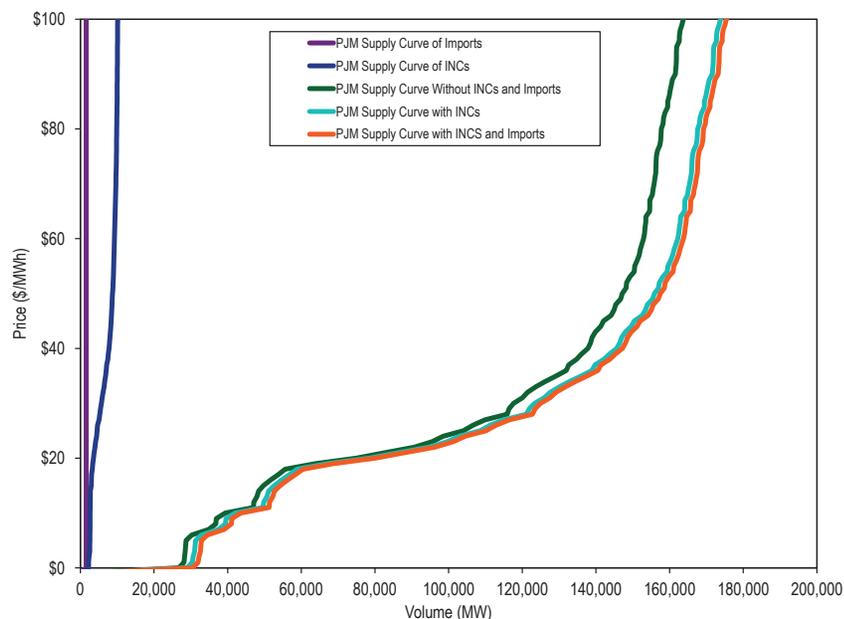


Table 3-42 shows the hourly average number of cleared and submitted increment offers and decrement bids by month in January 2017 through March 2018. The hourly average submitted and cleared increment MW decreased by 40.8 percent and 54.6 percent, from 10,304 MW and 6,048 MW in the first three months of 2017 to 6,100 MW and 2,745 MW in the first three months of 2018. The hourly average submitted and cleared decrement MW decreased by 24.1 percent and 46.4 percent, from 9,570 MW and 4,815 MW in the first three months of 2017 to 7,265 MW and 2,581 MW in the first three months of 2018.

Table 3-42 Average hourly number of cleared and submitted INCs and DECs by month: January 2017 through March 2018

| Year | | Increment Offers | | | | Decrement Bids | | | |
|------|--------|--------------------|----------------------|------------------------|--------------------------|--------------------|----------------------|------------------------|--------------------------|
| | | Average Cleared MW | Average Submitted MW | Average Cleared Volume | Average Submitted Volume | Average Cleared MW | Average Submitted MW | Average Cleared Volume | Average Submitted Volume |
| 2017 | Jan | 5,855 | 10,169 | 205 | 1,288 | 4,811 | 9,753 | 136 | 821 |
| 2017 | Feb | 6,058 | 10,590 | 266 | 1,430 | 4,599 | 9,326 | 149 | 784 |
| 2017 | Mar | 6,427 | 10,516 | 312 | 1,669 | 5,170 | 9,915 | 170 | 1,019 |
| 2017 | Apr | 5,115 | 8,860 | 280 | 1,401 | 5,139 | 8,986 | 178 | 776 |
| 2017 | May | 5,643 | 9,724 | 278 | 1,286 | 5,030 | 9,188 | 164 | 768 |
| 2017 | Jun | 3,961 | 7,705 | 193 | 1,153 | 4,314 | 8,257 | 173 | 831 |
| 2017 | Jul | 3,921 | 7,087 | 233 | 1,014 | 3,807 | 7,828 | 167 | 779 |
| 2017 | Aug | 3,418 | 5,951 | 279 | 1,022 | 3,209 | 5,845 | 169 | 593 |
| 2017 | Sep | 3,537 | 6,201 | 190 | 919 | 3,502 | 6,076 | 139 | 603 |
| 2017 | Oct | 3,927 | 6,498 | 309 | 1,128 | 3,111 | 6,008 | 168 | 586 |
| 2017 | Nov | 3,558 | 6,454 | 290 | 1,240 | 2,632 | 5,970 | 179 | 683 |
| 2017 | Dec | 3,404 | 6,029 | 234 | 1,102 | 3,138 | 7,400 | 177 | 793 |
| 2017 | Annual | 4,562 | 7,968 | 256 | 1,220 | 4,035 | 7,874 | 164 | 753 |
| 2018 | Jan | 2,903 | 6,834 | 293 | 1,387 | 2,728 | 8,782 | 196 | 1,188 |
| 2018 | Feb | 2,519 | 5,415 | 280 | 1,160 | 2,418 | 5,857 | 136 | 634 |
| 2018 | Mar | 2,790 | 5,985 | 521 | 1,266 | 2,580 | 7,020 | 330 | 978 |
| 2018 | Annual | 2,745 | 6,100 | 367 | 1,275 | 2,581 | 7,265 | 224 | 943 |

Table 3-43 shows the average hourly number of up to congestion transactions and the average hourly MW in January 2017 through March 2018. In the first three months of 2018, the average hourly up to congestion submitted and cleared MW decreased by 56.7 percent and 40.8 percent, compared to the first three months of 2017.

Table 3-43 Average hourly cleared and submitted up to congestion bids by month: January 2017 through March 2018

| | | Up to Congestion | | | |
|------|--------|--------------------|----------------------|------------------------|--------------------------|
| Year | | Average Cleared MW | Average Submitted MW | Average Cleared Volume | Average Submitted Volume |
| 2017 | Jan | 39,639 | 196,472 | 2,466 | 10,246 |
| 2017 | Feb | 38,814 | 207,994 | 2,091 | 8,309 |
| 2017 | Mar | 31,817 | 164,063 | 1,703 | 6,252 |
| 2017 | Apr | 29,212 | 152,868 | 2,689 | 6,022 |
| 2017 | May | 32,883 | 116,688 | 2,977 | 4,957 |
| 2017 | Jun | 35,469 | 112,071 | 2,528 | 4,839 |
| 2017 | Jul | 37,668 | 118,609 | 2,413 | 5,108 |
| 2017 | Aug | 32,986 | 122,677 | 2,294 | 5,062 |
| 2017 | Sep | 29,368 | 120,956 | 2,309 | 4,423 |
| 2017 | Oct | 28,250 | 117,486 | 2,612 | 4,745 |
| 2017 | Nov | 36,506 | 110,325 | 2,927 | 4,679 |
| 2017 | Dec | 40,090 | 113,992 | 3,552 | 4,749 |
| 2017 | Annual | 34,387 | 137,419 | 2,549 | 5,770 |
| 2018 | Jan | 31,066 | 124,101 | 2,174 | 6,511 |
| 2018 | Feb | 25,543 | 94,687 | 1,857 | 4,703 |
| 2018 | Mar | 8,990 | 28,008 | 733 | 1,969 |
| 2018 | Annual | 21,750 | 81,876 | 1,580 | 4,385 |

Table 3-44 shows the average hourly number of import and export transactions and the average hourly MW in January 2017 through March 2018. In the first three months of 2018, the average hourly submitted and cleared import transaction MW decreased by 49.8 and 57.8 percent, and the average hourly submitted and cleared export transaction MW decreased by 35.2 and 35.9 percent, compared to the first three months of 2017. The large difference in net interchange volumes from the first three months of 2017 to 2018 was primarily a result of the requirement for external capacity resources to be pseudo tied into PJM with the result that import MWh became internal MWh.⁷³

⁷³ 2018 Quarterly State of the Market Report for PJM: January through March, Section 9: Interchange Transactions, Figure 9-1.

Table 3-44 Hourly average day-ahead number of cleared and submitted import and export transactions by month: January 2017 through March 2018

| | | Imports | | | | Exports | | | |
|------|--------|--------------------|----------------------|------------------------|--------------------------|--------------------|----------------------|------------------------|--------------------------|
| Year | Month | Average Cleared MW | Average Submitted MW | Average Cleared Volume | Average Submitted Volume | Average Cleared MW | Average Submitted MW | Average Cleared Volume | Average Submitted Volume |
| 2017 | Jan | 1,465 | 1,505 | 8 | 9 | 3,842 | 3,855 | 20 | 20 |
| 2017 | Feb | 1,379 | 1,418 | 7 | 8 | 3,546 | 3,558 | 19 | 19 |
| 2017 | Mar | 1,125 | 1,157 | 6 | 7 | 3,791 | 3,813 | 18 | 18 |
| 2017 | Apr | 614 | 621 | 5 | 5 | 3,050 | 3,070 | 16 | 16 |
| 2017 | May | 188 | 201 | 4 | 4 | 2,805 | 2,817 | 18 | 18 |
| 2017 | Jun | 248 | 255 | 3 | 4 | 2,705 | 2,730 | 16 | 16 |
| 2017 | Jul | 240 | 247 | 3 | 3 | 3,092 | 3,113 | 16 | 16 |
| 2017 | Aug | 158 | 168 | 2 | 3 | 2,401 | 2,410 | 12 | 13 |
| 2017 | Sep | 233 | 237 | 3 | 4 | 2,884 | 2,903 | 14 | 15 |
| 2017 | Oct | 211 | 218 | 3 | 3 | 2,293 | 2,301 | 12 | 12 |
| 2017 | Nov | 337 | 362 | 3 | 4 | 1,998 | 2,010 | 10 | 10 |
| 2017 | Dec | 324 | 386 | 3 | 5 | 3,193 | 3,245 | 15 | 15 |
| 2017 | Annual | 539 | 560 | 4 | 5 | 2,965 | 2,984 | 15 | 16 |
| 2018 | Jan | 541 | 640 | 8 | 10 | 2,531 | 2,567 | 13 | 13 |
| 2018 | Feb | 556 | 809 | 7 | 11 | 2,778 | 2,853 | 14 | 14 |
| 2018 | Mar | 578 | 612 | 7 | 8 | 1,895 | 1,892 | 10 | 11 |
| 2018 | Annual | 558 | 683 | 7 | 10 | 2,389 | 2,423 | 12 | 13 |

Table 3-45 shows the frequency with which generation offers, import or export transactions, up to congestion transactions, decrement bids, increment offers and price-sensitive demand were marginal from January 1, 2017, through March 31, 2018.

Table 3-45 Type of day-ahead marginal resources: January 2017 through March 2018

| | 2017 | | | | | 2018 | | | | | Price Sensitive Demand |
|--------|------------|--------------------------|------------------------------|---------------|-----------------|------------|--------------------------|------------------------------|---------------|-----------------|------------------------|
| | Generation | Dispatchable Transaction | Up to Congestion Transaction | Decrement Bid | Increment Offer | Generation | Dispatchable Transaction | Up to Congestion Transaction | Decrement Bid | Increment Offer | |
| Jan | 3.2% | 0.0% | 85.3% | 7.7% | 3.7% | 5.3% | 0.1% | 82.5% | 7.4% | 4.6% | 0.0% |
| Feb | 4.9% | 0.0% | 83.9% | 6.5% | 4.6% | 5.9% | 0.1% | 80.8% | 9.1% | 4.0% | 0.0% |
| Mar | 4.3% | 0.1% | 81.5% | 8.5% | 5.6% | 17.2% | 0.2% | 47.0% | 20.4% | 15.2% | 0.0% |
| Apr | 2.8% | 0.0% | 83.4% | 8.9% | 4.9% | | | | | | |
| May | 3.5% | 0.0% | 77.4% | 11.8% | 7.2% | | | | | | |
| Jun | 4.3% | 0.0% | 73.5% | 15.4% | 6.7% | | | | | | |
| Jul | 2.9% | 0.0% | 77.1% | 13.6% | 6.4% | | | | | | |
| Aug | 3.8% | 0.0% | 81.8% | 9.0% | 5.4% | | | | | | |
| Sep | 6.6% | 0.0% | 77.8% | 9.8% | 5.8% | | | | | | |
| Oct | 6.3% | 0.0% | 77.7% | 10.3% | 5.7% | | | | | | |
| Nov | 5.1% | 0.1% | 78.7% | 10.6% | 5.6% | | | | | | |
| Dec | 4.9% | 0.1% | 78.9% | 10.8% | 5.3% | | | | | | |
| Annual | 4.3% | 0.0% | 79.9% | 10.2% | 5.5% | 7.5% | 0.1% | 76.1% | 10.1% | 6.2% | 0.0% |

Figure 3-36 shows the monthly volume of bid and cleared INC, DEC and up to congestion bids by month from January 1, 2005, through March 31, 2018.

Figure 3-36 Monthly bid and cleared INCs, DEC and UTCs (MW): January 2005 through March 2018

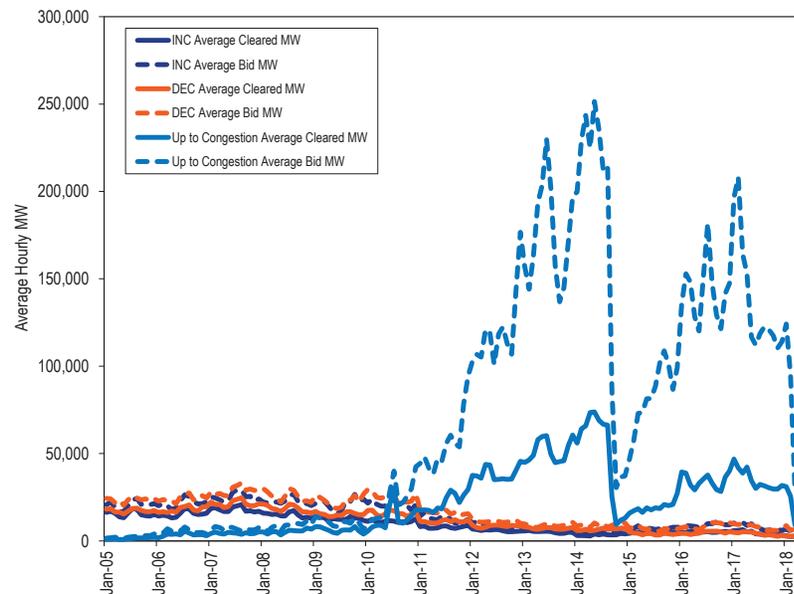
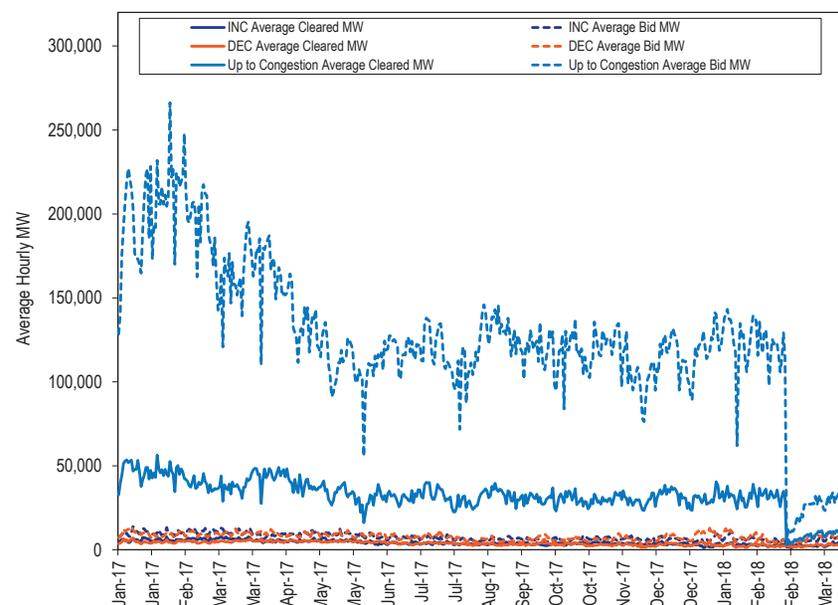


Figure 3-37 shows the daily volume of bid and cleared INC, DEC and up to congestion bids from January 1, 2017 through March 31, 2018.

Figure 3-37 Daily bid and cleared INCs, DECs, and UTCs (MW): January 2017 through March 2018



In order to evaluate the ownership of virtual bids, the MMU categorizes all participants making virtual bids in PJM as either physical or financial. Physical entities include utilities and customers which primarily take physical positions in PJM markets. Financial entities include banks and hedge funds which primarily take financial positions in PJM markets. International market participants that primarily take financial positions in PJM markets are generally considered to be financial entities even if they are utilities in their own countries.

Table 3-46 shows, in the first three months of 2017 and 2018, the total increment offers and decrement bids and cleared MW by type of parent organization.

Table 3-46 PJM INC and DEC bids and cleared MWh by type of parent organization (MWh): January through March, 2017 and 2018

| Category | Jan-Mar 2017 | | | | Jan-Mar 2018 | | | |
|-----------|-----------------------|---------|---------------------------|---------|-----------------------|---------|---------------------------|---------|
| | Total Virtual Bid MWh | Percent | Total Virtual Cleared MWh | Percent | Total Virtual Bid MWh | Percent | Total Virtual Cleared MWh | Percent |
| Financial | 24,827,459 | 57.2% | 9,688,435 | 40.9% | 21,331,273 | 73.9% | 5,964,316 | 51.9% |
| Physical | 18,560,931 | 42.8% | 14,026,693 | 59.1% | 7,525,158 | 26.1% | 5,533,481 | 48.1% |
| Total | 43,388,390 | 100.0% | 23,715,128 | 100.0% | 28,856,431 | 100.0% | 11,497,797 | 100.0% |

Table 3-47 shows, in the first three months of 2017 and 2018, the total up to congestion bids and cleared MWh by whether the parent organization was financial or physical.

Table 3-47 PJM up to congestion transactions by type of parent organization (MWh): January through March, 2017 and 2018

| Category | Jan-Mar 2017 | | | | Jan-Mar 2018 | | | |
|-----------|--------------------------------|---------|------------------------------------|---------|--------------------------------|---------|------------------------------------|---------|
| | Total Up to Congestion Bid MWh | Percent | Total Up to Congestion Cleared MWh | Percent | Total Up to Congestion Bid MWh | Percent | Total Up to Congestion Cleared MWh | Percent |
| Financial | 399,968,746 | 98.1% | 88,389,799 | 96.3% | 172,562,934 | 97.6% | 44,790,958 | 95.4% |
| Physical | 7,876,908 | 1.9% | 3,401,829 | 3.7% | 4,207,557 | 2.4% | 2,166,612 | 4.6% |
| Total | 407,845,654 | 100.0% | 91,791,629 | 100.0% | 176,770,491 | 100.0% | 46,957,569 | 100.0% |

Table 3-48 shows, in the first three months of 2017 and 2018, the total import and export transactions by whether the parent organization was financial or physical.

Table 3-48 PJM import and export transactions by type of parent organization (MW): January through March, 2017 and 2018

| | | Jan-Mar 2017 | | Jan-Mar 2018 | |
|-----------|-----------|----------------------------|---------|----------------------------|---------|
| Category | | Total Import and Export MW | Percent | Total Import and Export MW | Percent |
| Day-Ahead | Financial | 5,109,129 | 46.9% | 1,326,055 | 20.8% |
| | Physical | 5,790,217 | 53.1% | 5,037,108 | 79.2% |
| | Total | 10,899,346 | 100.0% | 6,363,162 | 100.0% |
| Real-Time | Financial | 6,928,946 | 38.4% | 2,157,089 | 16.2% |
| | Physical | 11,095,123 | 61.6% | 11,149,450 | 83.8% |
| | Total | 18,024,069 | 100.0% | 13,306,539 | 100.0% |

Table 3-49 shows increment offers and decrement bids by top 10 locations in the first three months of 2017 and 2018.

Table 3-49 PJM virtual offers and bids by top 10 locations (MW): January through March, 2017 and 2018

| | | Jan-Mar 2017 | | | Jan-Mar 2018 | | | | |
|---------------------------------------|------------------------|--------------|------------|------------|--------------------|----------------------|------------|------------|------------|
| Aggregate/Bus Name | Aggregate/ Bus Type | INC MW | DEC MW | Total MW | Aggregate/Bus Name | Aggregate/Bus Type | INC MW | DEC MW | Total MW |
| WESTERN HUB | HUB | 6,169,328 | 4,965,019 | 11,134,347 | WESTERN HUB | HUB | 1,125,347 | 755,026 | 1,880,373 |
| SOUTHIMP | INTERFACE | 1,504,206 | 0 | 1,504,206 | SOUTHIMP | INTERFACE | 622,304 | 0 | 622,304 |
| MISO | INTERFACE | 83,285 | 1,136,449 | 1,219,734 | NYIS | INTERFACE | 364,485 | 253,172 | 617,657 |
| AEP-DAYTON HUB | HUB | 943,957 | 185,449 | 1,129,406 | DOMINION HUB | HUB | 95,142 | 370,387 | 465,529 |
| NYIS | INTERFACE | 388,256 | 441,364 | 829,620 | MISO | INTERFACE | 112,689 | 300,083 | 412,772 |
| N ILLINOIS HUB | HUB | 120,502 | 590,226 | 710,728 | AEP-DAYTON HUB | HUB | 220,442 | 157,532 | 377,975 |
| BGE | ZONE | 169,858 | 455,246 | 625,103 | N ILLINOIS HUB | HUB | 79,543 | 268,872 | 348,415 |
| FOWLER 34.5 KV FWL2-1WF | GEN | 170,451 | 356,677 | 527,127 | BGE_RESID_AGG | RESIDUAL_METERED_EDC | 45,073 | 294,734 | 339,807 |
| DCKCRKCE345 KV UN1 DYN | GEN | 333,180 | 193,444 | 526,624 | LINDENVFT | INTERFACE | 18,734 | 313,450 | 332,184 |
| FOWLER 34.5 KV FWLR1AWF | GEN | 76,342 | 405,828 | 482,171 | IMO | INTERFACE | 280,274 | 21,973 | 302,247 |
| Top ten total | | 9,959,365 | 8,729,701 | 18,689,067 | | | 2,964,032 | 2,735,230 | 5,699,262 |
| PJM total | | 22,495,581 | 20,892,809 | 43,388,390 | | | 13,171,017 | 15,685,413 | 28,856,431 |
| Top ten total as percent of PJM total | | 44.3% | 41.8% | 43.1% | | | 22.5% | 17.4% | 19.8% |

Table 3-50 shows up to congestion transactions by import bids for the top 10 locations and associated profits at each path in the first three months of 2017 and 2018.⁷⁴

⁷⁴ The source and sink aggregates in these tables refer to the name and location of a bus and do not include information about the behavior of any individual market participant.

Table 3-50 PJM cleared up to congestion import bids by top 10 source and sink pairs (MW): January through March, 2017 and 2018

| Jan-Mar 2017 | | | | | | | |
|---------------------------------------|-------------|----------------------|-----------|-----------|---------------|---------------|-------------|
| Imports | | | | | | | |
| Source | Source Type | Sink | Sink Type | MW | Source Profit | Sink Profit | UTC Profit |
| MISO | INTERFACE | COOK | EHVAGG | 361,736 | \$166,034 | (\$276,119) | (\$110,085) |
| HUDSONTP | INTERFACE | LEONIA 230 T-2 | AGGREGATE | 314,191 | (\$13,069) | \$15,272 | \$2,203 |
| OVEC | INTERFACE | BUCKEYE - AEP | AGGREGATE | 179,081 | \$82,546 | (\$83,839) | (\$1,293) |
| SOUTHEAST | INTERFACE | WILLIAMSPORT - AP | AGGREGATE | 173,267 | \$91,472 | (\$74,636) | \$16,836 |
| SOUTHIMP | INTERFACE | COOK | EHVAGG | 157,299 | (\$121,473) | (\$180,807) | (\$302,281) |
| MISO | INTERFACE | AELC | AGGREGATE | 132,837 | (\$10,816) | \$17,199 | \$6,383 |
| OVEC | INTERFACE | DEOK | ZONE | 128,389 | (\$18,719) | \$24,950 | \$6,231 |
| SOUTHEAST | INTERFACE | SCOTTSVI 138 KV T1T2 | AGGREGATE | 126,678 | \$193,979 | (\$183,452) | \$10,527 |
| NYIS | INTERFACE | HUDSON BC | AGGREGATE | 118,598 | \$185,364 | (\$165,910) | \$19,454 |
| NYIS | INTERFACE | PSEG | ZONE | 116,500 | (\$34,404) | \$38,065 | \$3,661 |
| Top ten total | | | | 1,808,574 | \$520,913 | (\$869,276) | (\$348,364) |
| PJM total | | | | 7,606,307 | \$4,613,702 | (\$4,592,928) | \$20,774 |
| Top ten total as percent of PJM total | | | | 23.8% | 11.3% | 18.9% | (1676.9%) |
| Jan-Mar 2018 | | | | | | | |
| Imports | | | | | | | |
| Source | Source Type | Sink | Sink Type | MW | Source Profit | Sink Profit | UTC Profit |
| NORTHWEST | INTERFACE | N ILLINOIS HUB | HUB | 348,237 | (\$645,022) | \$809,544 | \$164,522 |
| NORTHWEST | INTERFACE | CHICAGO GEN HUB | HUB | 315,961 | (\$211,359) | \$360,413 | \$149,054 |
| MISO | INTERFACE | CHICAGO GEN HUB | HUB | 219,730 | \$468,251 | \$142,865 | \$611,116 |
| NORTHWEST | INTERFACE | COMED_RESID_AGG | AGGREGATE | 170,379 | (\$147,404) | \$161,859 | \$14,455 |
| MISO | INTERFACE | CHICAGO HUB | HUB | 156,484 | \$308,331 | \$152,244 | \$460,575 |
| NORTHWEST | INTERFACE | CHICAGO HUB | HUB | 109,340 | (\$103,440) | \$107,134 | \$3,694 |
| SOUTHEAST | INTERFACE | VP KERR DAM 1-7 | AGGREGATE | 104,069 | (\$54,229) | \$30,699 | (\$23,530) |
| OVEC | INTERFACE | DEOK_RESID_AGG | AGGREGATE | 99,478 | (\$147,845) | \$148,247 | \$402 |
| OVEC | INTERFACE | DUMONT | EHVAGG | 90,898 | (\$93,949) | \$11,241 | (\$82,708) |
| NYIS | INTERFACE | PSEG | ZONE | 86,720 | \$212,796 | (\$245,369) | (\$32,573) |
| Top ten total | | | | 1,701,295 | (\$413,869) | \$1,678,876 | \$1,265,007 |
| PJM total | | | | 5,009,188 | \$827,829 | \$2,640,432 | \$3,468,261 |
| Top ten total as percent of PJM total | | | | 34.0% | (50.0%) | 63.6% | 36.5% |

Table 3-51 shows up to congestion transactions by export bids for the top 10 locations and associated profits at each path in the first three months of 2017 and 2018.

Table 3-51 PJM cleared up to congestion export bids by top 10 source and sink pairs (MW): January through March, 2017 and 2018

| Jan-Mar 2017 | | | | | | | |
|---------------------------------------|-------------|-----------|-----------|-----------|---------------|---------------|-------------|
| Exports | | | | | | | |
| Source | Source Type | Sink | Sink Type | MW | Source Profit | Sink Profit | UTC Profit |
| 21 KINCA ATR24304 | AGGREGATE | SOUTHWEST | INTERFACE | 311,465 | \$285,782 | (\$241,403) | \$44,380 |
| COMED | ZONE | NIPSCO | INTERFACE | 224,622 | \$314,886 | (\$170,316) | \$144,570 |
| QUAD CITIES 2 | AGGREGATE | MISO | INTERFACE | 216,386 | \$122,618 | (\$73,908) | \$48,710 |
| ROCKPORT | EHVAGG | SOUTHWEST | INTERFACE | 199,820 | \$69,343 | (\$88,012) | (\$18,669) |
| GENEVA | AGGREGATE | NIPSCO | INTERFACE | 174,512 | \$219,375 | (\$144,847) | \$74,528 |
| WAUKEGAN TR412 | AGGREGATE | NIPSCO | INTERFACE | 126,589 | \$147,085 | (\$84,125) | \$62,959 |
| JEFFERSON | EHVAGG | NIPSCO | INTERFACE | 124,869 | \$155,137 | (\$76,213) | \$78,924 |
| QUAD CITIES 2 | AGGREGATE | NORTHWEST | INTERFACE | 120,095 | \$72,763 | \$5,803 | \$78,566 |
| QUAD CITIES 1 | AGGREGATE | NORTHWEST | INTERFACE | 111,835 | \$24,173 | (\$2,710) | \$21,463 |
| 21 KINCA ATR24304 | AGGREGATE | NIPSCO | INTERFACE | 105,652 | \$87,414 | (\$8,118) | \$79,295 |
| Top ten total | | | | 1,715,844 | \$1,498,576 | (\$883,850) | \$614,725 |
| PJM total | | | | 6,043,159 | \$3,958,509 | (\$2,504,066) | \$1,454,443 |
| Top ten total as percent of PJM total | | | | 28.4% | 37.9% | 35.3% | 42.3% |
| Jan-Mar 2018 | | | | | | | |
| Exports | | | | | | | |
| Source | Source Type | Sink | Sink Type | MW | Source Profit | Sink Profit | UTC Profit |
| SULLIVAN-AEP | EHVAGG | OVEC | INTERFACE | 116,654 | \$445,574 | (\$132,307) | \$313,267 |
| 112 WILTON | EHVAGG | NIPSCO | INTERFACE | 108,254 | (\$107,221) | \$146,103 | \$38,882 |
| JEFFERSON | EHVAGG | NIPSCO | INTERFACE | 106,570 | (\$171,872) | \$412,287 | \$240,415 |
| SULLIVAN-AEP | EHVAGG | SOUTHWEST | INTERFACE | 92,774 | \$131,255 | (\$120,593) | \$10,662 |
| COMED | ZONE | NIPSCO | INTERFACE | 91,385 | (\$634,489) | \$700,177 | \$65,688 |
| ATSI GEN HUB | HUB | IMO | INTERFACE | 84,016 | (\$337,088) | (\$74,047) | (\$411,134) |
| STMARYSGEN | AGGREGATE | NIPSCO | INTERFACE | 80,904 | (\$250,634) | \$383,001 | \$132,367 |
| AMOS | EHVAGG | OVEC | INTERFACE | 70,979 | \$539,437 | (\$429,918) | \$109,520 |
| 21 KINCA ATR24304 | AGGREGATE | SOUTHWEST | INTERFACE | 70,215 | (\$49,056) | (\$6,304) | (\$55,360) |
| COMED_RESID_AGG | AGGREGATE | NIPSCO | INTERFACE | 66,287 | \$80,499 | \$273,969 | \$354,468 |
| Top ten total | | | | 888,038 | (\$353,594) | \$1,152,369 | \$798,775 |
| PJM total | | | | 3,974,908 | (\$2,873,335) | \$4,848,323 | \$1,974,988 |
| Top ten total as percent of PJM total | | | | 22.3% | 12.3% | 23.8% | 40.4% |

Table 3-52 shows up to congestion transactions by wheel bids and associated profits at each path for the top 10 locations in the first three months of 2017 and 2018.

Table 3-52 PJM cleared up to congestion wheel bids by top 10 source and sink pairs (MW): January through March, 2017 and 2018

| Jan-Mar 2017 | | | | | | | |
|---------------------------------------|-------------|-----------|-----------|---------|---------------|-------------|-------------|
| Wheels | | | | | | | |
| Source | Source Type | Sink | Sink Type | MW | Source Profit | Sink Profit | UTC Profit |
| MISO | INTERFACE | NIPSCO | INTERFACE | 121,431 | \$191,057 | (\$93,183) | \$97,874 |
| NORTHWEST | INTERFACE | MISO | INTERFACE | 74,099 | \$132,188 | (\$42,843) | \$89,344 |
| SOUTHWEST | INTERFACE | SOUTHEXP | INTERFACE | 58,499 | \$7,560 | (\$15,442) | (\$7,882) |
| MISO | INTERFACE | NORTHWEST | INTERFACE | 58,162 | \$9,107 | (\$35,970) | (\$26,862) |
| SOUTHWEST | INTERFACE | NIPSCO | INTERFACE | 32,795 | \$62,414 | (\$66,816) | (\$4,401) |
| OVEC | INTERFACE | SOUTHWEST | INTERFACE | 15,251 | (\$14,424) | \$16,256 | \$1,832 |
| SOUTHEAST | INTERFACE | SOUTHEXP | INTERFACE | 11,446 | \$20,552 | (\$255) | \$20,297 |
| NORTHWEST | INTERFACE | NIPSCO | INTERFACE | 10,843 | \$6,122 | (\$2,751) | \$3,371 |
| NYIS | INTERFACE | HUDSONTP | INTERFACE | 9,055 | \$12,885 | (\$13,316) | (\$431) |
| SOUTHIMP | INTERFACE | MISO | INTERFACE | 7,565 | \$24,233 | (\$15,705) | \$8,529 |
| Top ten total | | | | 399,146 | \$451,695 | (\$270,024) | \$181,671 |
| PJM total | | | | 471,556 | \$449,391 | (\$247,475) | \$201,916 |
| Top ten total as percent of PJM total | | | | 84.6% | 100.5% | 109.1% | 90.0% |
| Jan-Mar 2018 | | | | | | | |
| Wheels | | | | | | | |
| Source | Source Type | Sink | Sink Type | MW | Source Profit | Sink Profit | UTC Profit |
| MISO | INTERFACE | NIPSCO | INTERFACE | 183,353 | \$296,487 | \$567,139 | \$863,626 |
| SOUTHWEST | INTERFACE | SOUTHEXP | INTERFACE | 143,660 | \$558,551 | \$31,300 | \$589,850 |
| MISO | INTERFACE | NORTHWEST | INTERFACE | 120,558 | \$231,392 | (\$12,946) | \$218,446 |
| NORTHWEST | INTERFACE | MISO | INTERFACE | 59,065 | (\$142,794) | \$239,941 | \$97,147 |
| LINDENVFT | INTERFACE | HUDSONTP | INTERFACE | 42,874 | \$8,978 | (\$20,938) | (\$11,960) |
| NYIS | INTERFACE | HUDSONTP | INTERFACE | 41,527 | \$91,974 | (\$92,555) | (\$581) |
| NORTHWEST | INTERFACE | NIPSCO | INTERFACE | 30,165 | (\$6,224) | \$47,088 | \$40,864 |
| OVEC | INTERFACE | IMO | INTERFACE | 26,314 | \$9,531 | (\$19,768) | (\$10,237) |
| SOUTHWEST | INTERFACE | NIPSCO | INTERFACE | 19,162 | \$11,193 | \$16,039 | \$27,231 |
| SOUTHIMP | INTERFACE | OVEC | INTERFACE | 17,530 | (\$38,863) | \$44,756 | \$5,893 |
| Top ten total | | | | 684,207 | \$1,020,223 | \$800,056 | \$1,820,279 |
| PJM total | | | | 882,036 | \$1,135,993 | \$858,151 | \$1,994,143 |
| Top ten total as percent of PJM total | | | | 77.6% | 89.8% | 93.2% | 91.3% |

On November 1, 2012, PJM eliminated the requirement for market participants to specify an interface pricing point as either the source or sink of an up to congestion transaction. The top 10 internal up to congestion transaction locations were 7.7 percent of the PJM total internal up to congestion transactions MW in the first three months of 2018.

Table 3-53 shows up to congestion transactions by internal bids for the top 10 locations and associated profits at each path in the first three months of 2017 and 2018. The total UTC profit by top 10 locations increased by \$0.7 million, from \$0.7 million in the first three months of 2017 to \$1.5 million in the first three months of 2018. The total internal cleared MW decreased by 40.6 million MW, or 52.2 percent, from 77.7 million MW in the first three months of 2017 to 37.1 million MW in the first three months of 2018.

Table 3-53 PJM cleared up to congestion internal bids by top 10 source and sink pairs (MW): January through March, 2017 and 2018

| Jan-Mar 2017 | | | | | | | |
|---------------------------------------|-------------|----------------|-----------|------------|----------------|----------------|-------------|
| Internal | | | | | | | |
| Source | Source Type | Sink | Sink Type | MW | Source Profit | Sink Profit | UTC Profit |
| DUMONT | EHVAGG | COOK | EHVAGG | 1,298,185 | \$937,776 | (\$705,680) | \$232,096 |
| 21 KINCA ATR24304 | AGGREGATE | SULLIVAN-AEP | EHVAGG | 443,188 | \$457,131 | (\$151,381) | \$305,749 |
| BERGEN 2CC | AGGREGATE | LEONIA 230 T-1 | AGGREGATE | 410,312 | \$59,210 | (\$57,514) | \$1,695 |
| QUAD CITIES 1 | AGGREGATE | CORDOVA | AGGREGATE | 407,563 | \$308,209 | (\$331,363) | (\$23,154) |
| FE GEN | AGGREGATE | ATSI | ZONE | 400,736 | (\$117,126) | \$165,617 | \$48,491 |
| QUAD CITIES 2 | AGGREGATE | CORDOVA | AGGREGATE | 392,311 | \$518,419 | (\$526,891) | (\$8,472) |
| HOMERCIT | AGGREGATE | AEC - PN | AGGREGATE | 371,258 | \$208,356 | (\$196,756) | \$11,600 |
| AEP-DAYTON HUB | HUB | N ILLINOIS HUB | HUB | 369,685 | \$125,216 | (\$225,655) | (\$100,439) |
| BAKER | EHVAGG | AMP-OHIO | AGGREGATE | 367,064 | \$138,765 | (\$17,670) | \$121,095 |
| CAYUGA RIDGE S WF | AGGREGATE | AELC | AGGREGATE | 367,017 | \$438,857 | (\$284,238) | \$154,619 |
| Top ten total | | | | 4,827,318 | \$3,074,811 | (\$2,331,530) | \$743,281 |
| PJM total | | | | 77,670,606 | \$34,862,469 | (\$27,757,537) | \$7,104,931 |
| Top ten total as percent of PJM total | | | | 6.2% | 8.8% | 8.4% | 10.5% |
| Jan-Mar 2018 | | | | | | | |
| Internal | | | | | | | |
| Source | Source Type | Sink | Sink Type | MW | Source Profit | Sink Profit | UTC Profit |
| DUMONT | EHVAGG | COOK | EHVAGG | 367,071 | \$608,188 | (\$299,703) | \$308,484 |
| STUART 3 | AGGREGATE | MICHFE | AGGREGATE | 332,557 | \$286,697 | (\$180,870) | \$105,827 |
| MARION | AGGREGATE | HUDSON BC | AGGREGATE | 312,289 | \$243,365 | \$267,591 | \$510,956 |
| JEFFERSON | EHVAGG | OHIO HUB | HUB | 301,231 | \$264,543 | (\$203,926) | \$60,617 |
| WINNETKA | AGGREGATE | JOLIET 8 | AGGREGATE | 297,778 | \$261,224 | (\$222,524) | \$38,701 |
| WAUKEGAN TR412 | AGGREGATE | KENDALL 1-2 | AGGREGATE | 275,765 | (\$72,907) | \$150,796 | \$77,890 |
| WESCOSVL | EHVAGG | SMITHBURG | EHVAGG | 264,098 | \$1,296,530 | (\$1,117,529) | \$179,001 |
| DAY | ZONE | BUCKEYE - DPL | AGGREGATE | 238,789 | \$339,675 | (\$290,828) | \$48,847 |
| WINNETKA | AGGREGATE | AELC | AGGREGATE | 237,417 | \$183,234 | (\$48,115) | \$135,120 |
| WINNETKA | AGGREGATE | CHICAGO HUB | HUB | 216,717 | (\$402,697) | \$417,867 | \$15,169 |
| Top ten total | | | | 2,843,710 | \$3,007,852 | (\$1,527,241) | \$1,480,612 |
| PJM total | | | | 37,091,438 | (\$16,215,731) | \$25,879,770 | \$9,664,039 |
| Top ten total as percent of PJM total | | | | 7.7% | (18.5%) | (5.9%) | 15.3% |

Table 3-54 shows the number of source-sink pairs that were offered and cleared monthly for January 1, 2017 through March 31, 2018.

Table 3-54 Number of PJM offered and cleared source and sink pairs: January 2017 through March 2018

| | | Daily Number of Source-Sink Pairs | | | |
|------|---------|-----------------------------------|-------------|-----------------|-------------|
| Year | Month | Average Offered | Max Offered | Average Cleared | Max Cleared |
| 2017 | Jan | 11,893 | 13,258 | 7,785 | 8,839 |
| 2017 | Feb | 9,337 | 11,902 | 6,756 | 7,758 |
| 2017 | Mar | 7,795 | 8,776 | 6,051 | 7,001 |
| 2017 | Apr | 8,168 | 8,805 | 6,494 | 7,172 |
| 2017 | May | 7,936 | 9,117 | 6,477 | 7,294 |
| 2017 | Jun | 9,776 | 13,012 | 5,822 | 6,228 |
| 2017 | Jul | 12,726 | 13,334 | 5,960 | 6,481 |
| 2017 | Aug | 12,966 | 15,729 | 6,578 | 7,201 |
| 2017 | Sep | 7,758 | 9,229 | 6,030 | 7,162 |
| 2017 | Oct | 8,540 | 9,432 | 6,507 | 7,189 |
| 2017 | Nov | 8,027 | 9,665 | 6,273 | 7,444 |
| 2017 | Dec | 7,782 | 8,872 | 5,892 | 6,771 |
| 2017 | Annual | 9,392 | 10,928 | 6,385 | 7,212 |
| 2018 | Jan | 7,983 | 8,492 | 5,658 | 6,481 |
| 2018 | Feb | 5,909 | 8,299 | 4,559 | 6,398 |
| 2018 | Mar | 1,399 | 1,736 | 1,088 | 1,461 |
| 2017 | Jan-Mar | 5,097 | 6,176 | 3,768 | 4,780 |

Table 3-55 and Figure 3-38 show total cleared up to congestion transactions by type in the first three months of 2017 and 2018. Total up to congestion transactions in 2017 decreased by 48.8 percent from 91.8 million MW in the first three months of 2017 to 47.0 million MW in the first three months of 2018. Internal up to congestion transactions in the first three months of 2018 were 79.0 percent of all up to congestion transactions compared to 84.6 percent in the first three months of 2017.

Table 3-55 PJM cleared up to congestion transactions by type (MW): January through March, 2017 and 2018

| | | Jan-Mar 2017 | | | | |
|---|--|-------------------------------|-----------|---------|------------|------------|
| | | Cleared Up to Congestion Bids | | | | |
| | | Import | Export | Wheel | Internal | Total |
| Top ten total (MW) | | 1,808,574 | 1,715,844 | 399,146 | 4,827,318 | 8,750,882 |
| PJM total (MW) | | 7,606,307 | 6,043,159 | 471,556 | 77,670,606 | 91,791,628 |
| Top ten total as percent of PJM total | | 23.8% | 28.4% | 84.6% | 6.2% | 9.5% |
| PJM total as percent of all up to congestion transactions | | 8.3% | 6.6% | 0.5% | 84.6% | 100.0% |
| | | Jan-Mar 2018 | | | | |
| | | Cleared Up to Congestion Bids | | | | |
| | | Import | Export | Wheel | Internal | Total |
| Top ten total (MW) | | 1,701,295 | 888,038 | 684,207 | 2,843,710 | 6,117,250 |
| PJM total (MW) | | 5,009,188 | 3,974,908 | 882,036 | 37,091,438 | 46,957,570 |
| Top ten total as percent of PJM total | | 34.0% | 22.3% | 77.6% | 7.7% | 13.0% |
| PJM total as percent of all up to congestion transactions | | 10.7% | 8.5% | 1.9% | 79.0% | 100.0% |

Figure 3-38 shows the initial increase and continued increase in internal up to congestion transactions by month following the November 1, 2012 rule change permitting such transactions, until September 8, 2014. The reduction in up to congestion transactions (UTC) that followed a FERC order setting September 8, 2014, as the effective date for any uplift charges subsequently assigned to UTCs, was reversed. There was an increase in up to congestion volume as a result of the expiration of the 15 month refund period for the proceeding related to uplift charges for UTC transactions.⁷⁵

⁷⁵ *Id.*

Figure 3-38 PJM monthly cleared up to congestion transactions by type (MW): January 2005 through March 2018

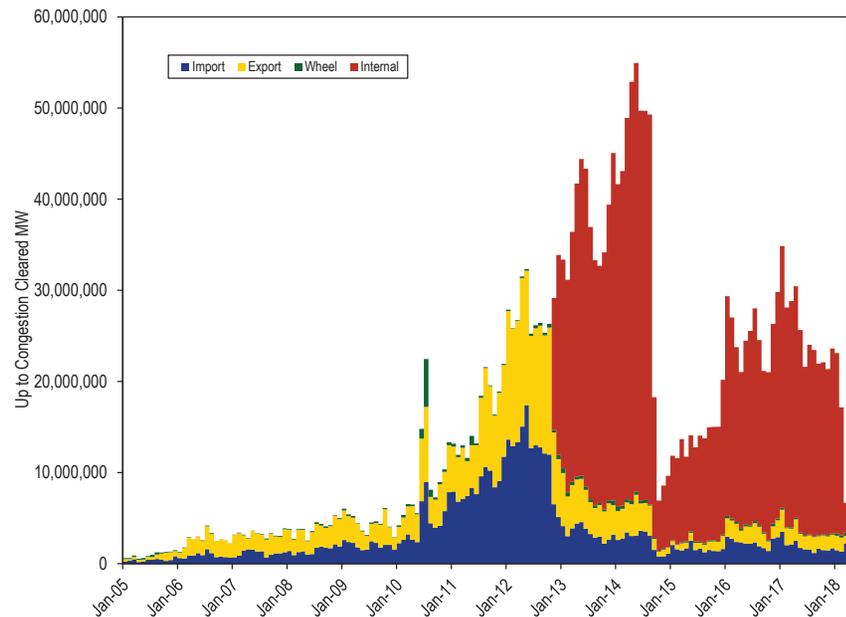
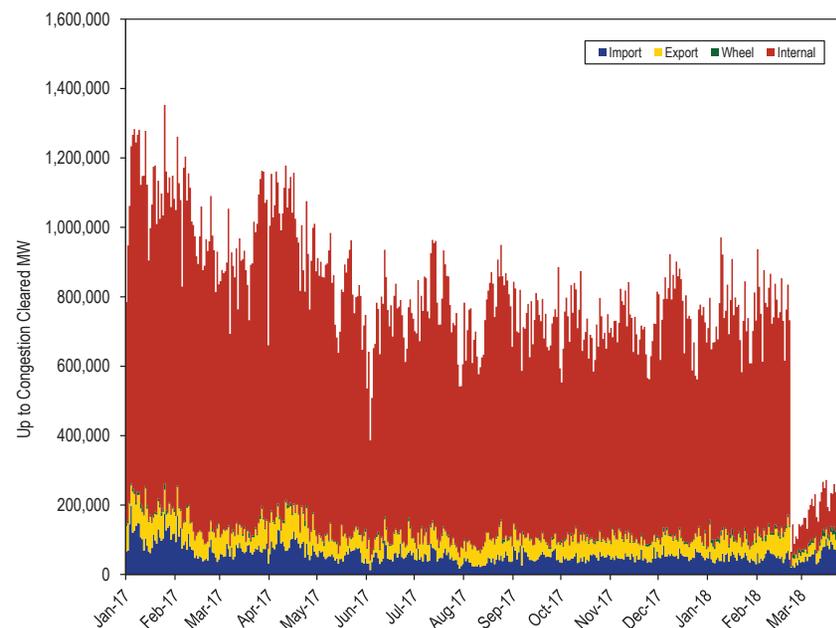


Figure 3-39 shows the daily cleared up to congestion MW by transaction type from January 1, 2017 through March 31, 2018.

Figure 3-39 PJM daily cleared up to congestion transaction by type (MW): January 2017 through March 2018



Market Performance

PJM locational marginal prices (LMPs) are a direct measure of market performance. The market performs optimally when the market structure provides incentives for market participants to behave competitively. With price formation in a competitive market, prices equal the value of the marginal unit of output and reflect the most efficient and least cost allocation of resources to meet demand.

Markup

The markup index is a measure of the competitiveness of participant behavior for individual units. The markup in dollars is a measure of the impact of

participant behavior on the generator bus market price when a unit is marginal. As an example, if unit A has a \$90 cost and a \$100 price, while unit B has a \$9 cost and a \$10 price, both would show a markup index of 10 percent, but the price impact of unit A's markup at the generator bus would be \$10 while the price impact of unit B's markup at the generator bus would be \$1. Depending on each unit's location on the transmission system, those bus level impacts could also have different impacts on total system price. Markup can also affect prices when units with high markups are not marginal by altering the economic dispatch order of supply.

The MMU calculates an explicit measure of the impact of marginal unit markups on LMP using the mathematical relationships among LMPs in the market solution.⁷⁶ The markup impact calculation sums, over all marginal units, the product of the dollar markup of the unit and the marginal impact of the unit's offer on the system load-weighted LMP. The markup impact includes the impact of the identified markup behavior of all marginal units. Positive and negative markup impacts may offset one another. The markup analysis is a direct measure of market performance. It does not take into account whether or not marginal units have either locational or aggregate structural market power.

The markup calculation is not based on a counterfactual redispatch of the system to determine the marginal units and their marginal costs that would have occurred if all units had made all offers at short run marginal cost. A full redispatch analysis is practically impossible and a limited redispatch analysis would not be dispositive. Nonetheless, such a hypothetical counterfactual analysis would reveal the extent to which the actual system dispatch is less than competitive if it showed a difference between dispatch based on short run marginal cost and actual dispatch. It is possible that the unit-specific markup, based on a redispatch analysis, would be lower than the markup component of price if the reference point were an inframarginal unit with a lower price and a higher cost than the actual marginal unit. If the actual marginal unit

has short run marginal costs that would cause it to be inframarginal, a new unit would be marginal. If the offer of that new unit were greater than the cost of the original marginal unit, the markup impact would be lower than the MMU measure. If the newly marginal unit is on a price-based schedule, the analysis would have to capture the markup impact of that unit as well.

Real-Time Markup

Markup Component of Real-Time Price by Fuel, Unit Type

The markup component of price is the difference between the system price, when the system price is determined by the active offers of the marginal units, whether price or cost-based, and the system price, based on the cost-based offers of those marginal units.

Table 3-56 shows the impact (markup component of LMP) of the markup behavior by fuel type and unit type on the real-time load-weighted average system LMP, using unadjusted and adjusted offers. The adjusted markup component of LMP increased from \$3.90 per MWh in the first three months of 2017 to \$9.14 per MWh in the first three months of 2018. The adjusted markup contribution of coal units in the first three months of 2018 was \$1.97 per MWh. The adjusted markup component of gas fired units in the first three months of 2018 was \$5.12 per MWh, an increase of \$2.79 per MWh from the first three months of 2017. The markup component of wind units was \$0.04 per MWh. If a price-based offer is negative, but less negative than a cost-based offer, the markup is positive. In the first three months of 2018, among the wind units that were marginal, 3.0 percent had positive offer prices.

⁷⁶ The MMU calculates the impact on system prices of marginal unit price-cost markup, based on analysis using sensitivity factors. The calculation shows the markup component of LMP based on a comparison between the price-based offer and the cost-based offer of each actual marginal unit on the system. This is the same method used to calculate the fuel cost adjusted LMP and the components of LMP. See Calculation and Use of Generator Sensitivity/Unit Participation Factors, 2010 State of the Market Report for PJM: Technical Reference for PJM Markets.

Table 3-56 Markup component of the overall PJM real-time, load-weighted, average LMP by primary fuel type and unit type: January through March, 2017 and 2018⁷⁷

| Fuel Type | Unit Type | 2017 (Jan - Mar) | | 2018 (Jan - Mar) | |
|-----------------|-----------|--------------------------------------|------------------------------------|--------------------------------------|------------------------------------|
| | | Markup Component of LMP (Unadjusted) | Markup Component of LMP (Adjusted) | Markup Component of LMP (Unadjusted) | Markup Component of LMP (Adjusted) |
| Coal | Steam | \$0.11 | \$1.23 | \$1.07 | \$1.97 |
| Gas | CC | \$0.91 | \$2.05 | \$3.10 | \$4.71 |
| Gas | CT | \$0.13 | \$0.25 | \$0.02 | \$0.37 |
| Gas | Diesel | (\$0.00) | \$0.00 | \$0.00 | \$0.01 |
| Gas | Steam | (\$0.01) | \$0.03 | (\$0.03) | \$0.02 |
| Municipal Waste | Diesel | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Oil | CC | \$0.00 | \$0.00 | \$0.60 | \$0.67 |
| Oil | CT | \$0.01 | \$0.04 | \$0.23 | \$0.67 |
| Oil | Diesel | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Oil | Steam | \$0.00 | \$0.00 | \$0.38 | \$0.52 |
| Other | Steam | \$0.02 | \$0.02 | \$0.15 | \$0.15 |
| Wind | Wind | \$0.28 | \$0.28 | \$0.04 | \$0.04 |
| Total | | \$1.45 | \$3.90 | \$5.56 | \$9.14 |

Markup Component of Real-Time Price

Table 3-57 shows the markup component, calculated using unadjusted offers, of average prices and of average monthly on peak and off peak prices. Table 3-58 shows the markup component, calculated using adjusted offers, of average prices and of average monthly on peak and off peak prices. In the first three months of 2018, when using unadjusted cost-based offers, \$5.56 per MWh of the PJM real-time load-weighted average LMP was attributable to markup. Using adjusted cost-based offers, \$9.14 per MWh of the PJM real-time load-weighted, average LMP was attributable to markup. In the first three months of 2018, the off peak markup component was highest in January, \$11.70 per MWh using unadjusted cost-based offers and \$17.70 per MWh using adjusted cost-based offers. This corresponds to 13.34 percent and 20.19 percent of the real-time off peak load-weighted average LMP in January.

⁷⁷ The Unit Type Diesel refers to power generation using reciprocating internal combustion engines. Such Diesel units can use a variety of fuel types including diesel, natural gas, oil and gas from municipal waste.

Table 3-57 Monthly markup components of real-time load-weighted LMP (Unadjusted): January through March, 2017 and 2018

| | 2017 | | | 2018 | | |
|-------|------------------------------|---------------------------|-----------------------|------------------------------|---------------------------|-----------------------|
| | Markup Component (All Hours) | Off Peak Markup Component | Peak Markup Component | Markup Component (All Hours) | Off Peak Markup Component | Peak Markup Component |
| Jan | \$1.75 | \$0.47 | \$3.11 | \$9.32 | \$11.70 | \$6.91 |
| Feb | \$1.47 | \$0.53 | \$2.36 | \$1.47 | \$0.95 | \$1.97 |
| Mar | \$1.10 | \$1.70 | \$0.55 | \$4.98 | \$2.56 | \$7.35 |
| Total | \$1.45 | \$0.89 | \$1.99 | \$5.56 | \$5.56 | \$5.56 |

Table 3-58 Monthly markup components of real-time load-weighted LMP (Adjusted): January through March, 2017 and 2018

| | 2017 | | | 2018 | | |
|-------|------------------------------|---------------------------|-----------------------|------------------------------|---------------------------|-----------------------|
| | Markup Component (All Hours) | Off Peak Markup Component | Peak Markup Component | Markup Component (All Hours) | Off Peak Markup Component | Peak Markup Component |
| Jan | \$4.43 | \$3.07 | \$5.88 | \$15.05 | \$17.70 | \$12.35 |
| Feb | \$3.66 | \$2.60 | \$4.67 | \$3.65 | \$2.96 | \$4.32 |
| Mar | \$3.56 | \$3.82 | \$3.33 | \$7.35 | \$4.81 | \$9.84 |
| Total | \$3.90 | \$3.17 | \$4.62 | \$9.14 | \$9.17 | \$9.11 |

Hourly Markup Component of Real-Time Prices

Figure 3-40 shows the markup contribution to the hourly load-weighted LMP using unadjusted cost offers in the first three months of 2018 and 2017. Figure 3-41 shows the markup contribution to the hourly load-weighted LMP using adjusted cost-based offers in the first three months of 2018 and 2017. The hourly markup component of real-time prices was higher during the last first eight days of January 2018, when the PJM region experienced particularly low temperatures.

Figure 3-40 Markup contribution to real-time hourly load-weighted LMP (Unadjusted): January through March, 2017 and 2018

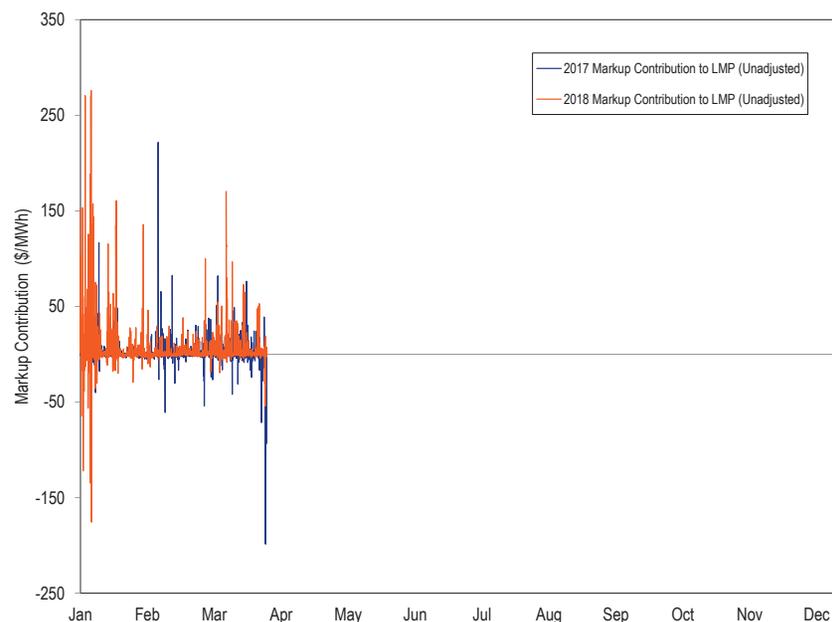
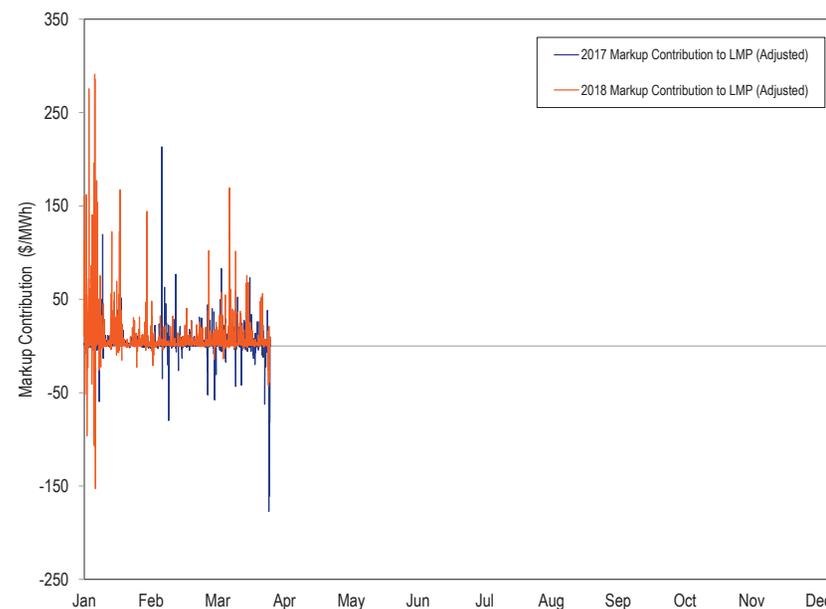


Figure 3-41 Markup contribution to real-time hourly load-weighted LMP (Adjusted): January through March, 2017 and 2018



Markup Component of Real-Time Zonal Prices

The unit markup component of average real-time price using unadjusted offers is shown for each zone in the first three months of 2017 and 2018 in Table 3-59 and for adjusted offers in Table 3-60. The smallest zonal all hours average markup component using unadjusted offers in the first three months of 2018 was in the ComEd Control Zone, $-\$2.48$ per MWh, while the highest was in the Dominion Control Zone, $\$8.04$ per MWh. The smallest zonal on peak average markup component using unadjusted offers in the first three months of 2018 was in the ComEd Control Zone, $-\$3.34$ per MWh, while the highest was in the BGE Control Zone, $\$9.12$ per MWh.

Table 3-59 Average real-time zonal markup component (Unadjusted): January through March, 2017 and 2018

| | 2017 (Jan - Mar) | | | 2018 (Jan - Mar) | | |
|----------|------------------------------|---------------------------|-----------------------|------------------------------|---------------------------|-----------------------|
| | Markup Component (All Hours) | Off Peak Markup Component | Peak Markup Component | Markup Component (All Hours) | Off Peak Markup Component | Peak Markup Component |
| AECO | \$1.04 | \$0.65 | \$1.42 | \$5.88 | \$6.07 | \$5.68 |
| AEP | \$1.35 | \$0.83 | \$1.86 | \$4.49 | \$4.60 | \$4.38 |
| APS | \$1.53 | \$0.97 | \$2.10 | \$6.04 | \$6.13 | \$5.95 |
| ATSI | \$1.58 | \$0.80 | \$2.31 | \$5.43 | \$4.54 | \$6.29 |
| BGE | \$2.63 | \$1.47 | \$3.79 | \$8.21 | \$7.33 | \$9.12 |
| ComEd | \$1.15 | \$0.77 | \$1.51 | \$2.48 | \$1.56 | \$3.35 |
| DAY | \$1.52 | \$0.88 | \$2.13 | \$4.49 | \$4.17 | \$4.79 |
| DEOK | \$1.25 | \$0.83 | \$1.66 | \$5.23 | \$5.70 | \$4.76 |
| DLCO | \$1.40 | \$0.77 | \$2.00 | \$5.31 | \$4.55 | \$6.06 |
| DPL | \$1.53 | \$1.24 | \$1.82 | \$6.58 | \$7.31 | \$5.83 |
| Dominion | \$1.85 | \$1.11 | \$2.61 | \$8.30 | \$9.06 | \$7.50 |
| EKPC | \$1.31 | \$0.88 | \$1.78 | \$5.02 | \$5.55 | \$4.44 |
| JCPL | \$0.87 | \$0.59 | \$1.13 | \$6.11 | \$6.30 | \$5.93 |
| Met-Ed | \$1.12 | \$0.38 | \$1.83 | \$6.02 | \$6.65 | \$5.41 |
| PECO | \$1.12 | \$0.85 | \$1.37 | \$5.65 | \$6.31 | \$5.01 |
| PENELEC | \$1.56 | \$1.30 | \$1.80 | \$5.34 | \$5.52 | \$5.17 |
| PPL | \$1.11 | \$0.43 | \$1.78 | \$5.21 | \$5.09 | \$5.32 |
| PSEG | \$1.02 | \$0.82 | \$1.22 | \$5.76 | \$5.83 | \$5.70 |
| Pepco | \$2.15 | \$1.19 | \$3.09 | \$7.29 | \$7.19 | \$7.38 |
| RECO | \$1.18 | \$1.40 | \$0.98 | \$5.67 | \$5.36 | \$5.96 |

Table 3-60 Average real-time zonal markup component (Adjusted): January through March, 2017 and 2018

| | 2017 (Jan - Mar) | | | 2018 (Jan - Mar) | | |
|----------|------------------------------|---------------------------|-----------------------|------------------------------|---------------------------|-----------------------|
| | Markup Component (All Hours) | Off Peak Markup Component | Peak Markup Component | Markup Component (All Hours) | Off Peak Markup Component | Peak Markup Component |
| AECO | \$3.57 | \$2.94 | \$4.20 | \$9.57 | \$9.89 | \$9.24 |
| AEP | \$3.72 | \$3.07 | \$4.35 | \$7.75 | \$7.81 | \$7.69 |
| APS | \$3.98 | \$3.26 | \$4.70 | \$9.88 | \$9.98 | \$9.78 |
| ATSI | \$4.08 | \$3.14 | \$4.97 | \$8.78 | \$7.75 | \$9.77 |
| BGE | \$5.17 | \$3.76 | \$6.59 | \$12.57 | \$11.67 | \$13.49 |
| ComEd | \$3.41 | \$2.93 | \$3.85 | \$5.14 | \$4.19 | \$6.04 |
| DAY | \$3.98 | \$3.18 | \$4.73 | \$7.53 | \$7.11 | \$7.92 |
| DEOK | \$3.57 | \$3.03 | \$4.08 | \$8.21 | \$8.57 | \$7.85 |
| DLCO | \$3.79 | \$3.04 | \$4.51 | \$8.65 | \$7.70 | \$9.58 |
| DPL | \$4.44 | \$4.06 | \$4.83 | \$10.89 | \$11.66 | \$10.09 |
| Dominion | \$4.31 | \$3.44 | \$5.21 | \$12.74 | \$13.73 | \$11.71 |
| EKPC | \$3.64 | \$3.10 | \$4.22 | \$8.11 | \$8.45 | \$7.74 |
| JCPL | \$3.52 | \$2.84 | \$4.17 | \$9.84 | \$10.19 | \$9.51 |
| Met-Ed | \$3.69 | \$2.59 | \$4.75 | \$9.60 | \$10.36 | \$8.87 |
| PECO | \$3.65 | \$3.14 | \$4.14 | \$9.38 | \$10.15 | \$8.62 |
| PENELEC | \$4.01 | \$3.60 | \$4.40 | \$8.85 | \$8.94 | \$8.77 |
| PPL | \$3.71 | \$2.75 | \$4.63 | \$8.84 | \$8.88 | \$8.80 |
| PSEG | \$3.68 | \$3.06 | \$4.26 | \$9.40 | \$9.58 | \$9.23 |
| Pepco | \$4.62 | \$3.45 | \$5.75 | \$11.65 | \$11.61 | \$11.69 |
| RECO | \$3.81 | \$3.71 | \$3.89 | \$9.26 | \$8.85 | \$9.63 |

Markup by Real Time Price Levels

Table 3-61 shows the average markup component of LMP, based on the unadjusted cost-based offers and adjusted cost-based offers of the marginal units, when the PJM average LMP was in the identified price range.

Table 3-61 Average real-time markup component (By price category, unadjusted): January through March, 2017 and 2018

| LMP Category | 2017 (Jan - Mar) | | 2018 (Jan - Mar) | |
|----------------|--------------------------|-----------|--------------------------|-----------|
| | Average Markup Component | Frequency | Average Markup Component | Frequency |
| < \$25 | (\$0.11) | 44.3% | (\$0.12) | 40.2% |
| \$25 to \$50 | \$0.58 | 49.9% | \$1.13 | 40.7% |
| \$50 to \$75 | \$0.59 | 4.4% | \$0.85 | 6.8% |
| \$75 to \$100 | \$0.29 | 1.1% | \$0.39 | 2.9% |
| \$100 to \$125 | \$0.04 | 0.1% | \$0.59 | 3.2% |
| \$125 to \$150 | \$0.00 | 0.1% | \$0.34 | 1.8% |
| >= \$150 | \$0.07 | 0.1% | \$2.45 | 4.5% |

Table 3-62 Average real-time markup component (By price category, adjusted): January through March, 2017 and 2018

| LMP Category | 2017 (Jan - Mar) | | 2018 (Jan - Mar) | |
|----------------|--------------------------|-----------|--------------------------|-----------|
| | Average Markup Component | Frequency | Average Markup Component | Frequency |
| < \$25 | \$0.71 | 44.3% | \$0.60 | 40.2% |
| \$25 to \$50 | \$1.99 | 49.9% | \$2.19 | 40.7% |
| \$50 to \$75 | \$0.78 | 4.4% | \$1.15 | 6.8% |
| \$75 to \$100 | \$0.35 | 1.1% | \$0.61 | 2.9% |
| \$100 to \$125 | \$0.04 | 0.1% | \$0.90 | 3.2% |
| \$125 to \$150 | (\$0.00) | 0.1% | \$0.55 | 1.8% |
| >= \$150 | \$0.07 | 0.1% | \$3.23 | 4.5% |

Day-Ahead Markup

Markup Component of Day-Ahead Price by Fuel, Unit Type

The markup component of the PJM day-ahead, load-weighted average LMP by primary fuel and unit type is shown in Table 3-63. INC, DEC and up to congestion transactions (UTC) have zero markups. INCs were 6.2 percent of marginal resources and DEC were 10.1 percent of marginal resources in the first three months of 2018. The share of marginal up to congestion transactions

decreased significantly beginning on September 8, 2014, as a result of the FERC's UTC uplift refund notice which became effective on September 8, 2014. However, the share of marginal up to congestion transactions increased from 76.1 percent in 2015 to 82.4 percent in 2016 due to the expiration of the 15 months resettlement period for the proceeding related to uplift charges for UTC transactions. The share of marginal up to congestion transactions decreased from 83.7 percent in the first three months of 2017 to 76.1 percent in the first three months of 2018 as the result of a FERC order issued on February 20, 2018, and implemented on February 22, 2018.⁷⁸ The order limited UTC trading to hubs, residual metered load, and interfaces. The adjusted markup of coal, gas and oil units is calculated as the difference between the price-based offer, and the cost-based offer excluding the 10 percent adder. Table 3-63 shows the markup component of LMP for marginal generating resources. Generating resources were only 7.5 percent of marginal resources in the first three months of 2018. Using adjusted cost-based offers, the markup component of LMP for marginal generating resources increased for coal fired steam units from \$0.58 to \$1.66 and increased for gas fired CT units from \$0.04 to \$0.21. The markup component of LMP for coal fired steam units increased from -\$0.13 in the first three months of 2017 to \$0.89 in the first three months of 2018 using unadjusted cost-based offers. The markup component of LMP for gas fired steam units increased from \$0.31 in the first three months of 2017 to \$0.69 in the first three months of 2018 using unadjusted cost-based offers.

⁷⁸ 162 FERC ¶ 61,139 (2018).

Table 3-63 Markup component of the annual PJM day-ahead, load-weighted, average LMP by primary fuel type and unit type: January through March, 2017 and 2018

| Fuel Type | Unit Type | 2017 (Jan - Mar) | | | 2018 (Jan - Mar) | | |
|-----------|-----------|--------------------------------------|------------------------------------|-----------|--------------------------------------|------------------------------------|-----------|
| | | Markup Component of LMP (Unadjusted) | Markup Component of LMP (Adjusted) | Frequency | Markup Component of LMP (Unadjusted) | Markup Component of LMP (Adjusted) | Frequency |
| Coal | Steam | (\$0.13) | \$0.58 | 40.5% | \$0.89 | \$1.66 | 41.8% |
| Gas | CT | (\$0.00) | \$0.04 | 2.0% | \$0.05 | \$0.21 | 4.2% |
| Gas | Diesel | \$0.00 | \$0.00 | 0.4% | \$0.00 | \$0.01 | 0.8% |
| Gas | Steam | \$0.31 | \$0.91 | 40.1% | \$0.69 | \$1.51 | 47.4% |
| Oil | CT | (\$0.00) | \$0.00 | 10.3% | \$0.00 | (\$0.00) | 0.3% |
| Oil | Diesel | \$0.00 | (\$0.00) | 1.1% | \$0.00 | \$0.01 | 0.0% |
| Oil | Steam | \$0.00 | \$0.00 | 0.0% | (\$0.86) | (\$0.45) | 2.2% |
| Other | Steam | \$0.01 | \$0.01 | 0.1% | (\$0.00) | (\$0.00) | 0.1% |
| Uranium | Steam | \$0.00 | \$0.00 | 0.7% | \$0.00 | \$0.00 | 0.2% |
| Water | Hydro | \$0.00 | \$0.00 | 0.0% | \$0.00 | \$0.00 | 0.0% |
| Wind | Wind | \$0.01 | \$0.01 | 4.8% | \$0.01 | \$0.01 | 3.1% |
| Total | | \$0.20 | \$1.56 | 100.0% | \$0.79 | \$2.95 | 100.0% |

Markup Component of Day-Ahead Price

The markup component of price is the difference between the system price, when the system price is determined by the active offers of the marginal units, whether price or cost-based, and the system price, based on the cost-based offers of those marginal units. Only hours when generating units were marginal on either priced-based offers or on cost-based offers were included in the markup calculation.

Table 3-64 shows the markup component of average prices and of average monthly on-peak and off-peak prices using unadjusted cost-based offers. In the first three months of 2018, when using unadjusted cost-based offers, \$0.79 per MWh of the PJM day-ahead load-weighted average LMP was attributable to markup. In the first three months of 2018, the peak markup component was highest in January, \$4.04 per MWh using unadjusted cost-based offers.

Table 3-64 Monthly markup components of day-ahead (Unadjusted), load-weighted LMP: January 2017 through March 2018

| | 2017 | | | 2018 | | |
|--------|------------------------------|-----------------------|---------------------------|------------------------------|-----------------------|---------------------------|
| | Markup Component (All Hours) | Peak Markup Component | Off Peak Markup Component | Markup Component (All Hours) | Peak Markup Component | Off Peak Markup Component |
| Jan | (\$0.03) | \$0.19 | (\$0.23) | \$0.87 | \$4.04 | (\$2.29) |
| Feb | \$0.25 | \$0.59 | (\$0.10) | \$0.83 | \$1.58 | \$0.05 |
| Mar | \$0.38 | \$0.83 | (\$0.12) | \$0.65 | \$0.97 | \$0.32 |
| Apr | \$0.82 | \$1.64 | \$0.03 | | | |
| May | \$0.45 | \$1.07 | (\$0.25) | | | |
| Jun | \$0.90 | \$1.35 | \$0.35 | | | |
| Jul | \$0.60 | \$1.12 | \$0.09 | | | |
| Aug | \$1.13 | \$1.94 | \$0.09 | | | |
| Sep | \$1.65 | \$2.72 | \$0.57 | | | |
| Oct | \$1.71 | \$2.69 | \$0.64 | | | |
| Nov | (\$0.08) | (\$0.23) | \$0.08 | | | |
| Dec | \$0.90 | \$1.60 | \$0.29 | | | |
| Annual | \$0.72 | \$1.29 | \$0.12 | \$0.79 | \$2.29 | (\$0.75) |

Table 3-65 shows the markup component of average prices and of average monthly on peak and off peak prices using adjusted cost-based offers. In the first three months of 2018, when using adjusted cost-based offers, \$2.95 per MWh of the PJM day-ahead load-weighted average LMP was attributable to markup. In the first three months of 2018, the peak markup component was highest in January, \$7.25 per MWh using adjusted cost-based offers.

Table 3-65 Monthly markup components of day-ahead (Adjusted), load-weighted LMP: January 2017 through March 2018

| | 2017 | | | 2018 | | |
|--------|------------------------------|-----------------------|---------------------------|------------------------------|-----------------------|---------------------------|
| | Markup Component (All Hours) | Peak Markup Component | Off Peak Markup Component | Markup Component (All Hours) | Peak Markup Component | Off Peak Markup Component |
| Jan | \$1.40 | \$1.49 | \$1.32 | \$4.23 | \$7.25 | \$1.23 |
| Feb | \$1.65 | \$1.89 | \$1.39 | \$2.43 | \$3.26 | \$1.57 |
| Mar | \$1.65 | \$1.99 | \$1.27 | \$1.95 | \$2.22 | \$1.67 |
| Apr | \$1.94 | \$2.50 | \$1.41 | | | |
| May | \$1.62 | \$2.05 | \$1.14 | | | |
| Jun | \$2.40 | \$2.96 | \$1.71 | | | |
| Jul | \$1.73 | \$1.96 | \$1.50 | | | |
| Aug | \$2.40 | \$3.09 | \$1.52 | | | |
| Sep | \$2.98 | \$3.99 | \$1.96 | | | |
| Oct | \$2.88 | \$3.76 | \$1.92 | | | |
| Nov | \$1.33 | \$1.13 | \$1.53 | | | |
| Dec | \$2.52 | \$3.10 | \$2.03 | | | |
| Annual | \$2.04 | \$2.50 | \$1.56 | \$2.95 | \$4.39 | \$1.48 |

Markup Component of Day-Ahead Zonal Prices

The markup component of annual average day-ahead price using unadjusted cost-based offers is shown for each zone in Table 3-66. The markup component of annual average day-ahead price using adjusted cost-based offers is shown for each zone in Table 3-67. Using unadjusted cost-based offers, the markup component of the average day-ahead price increased in all zones except APS, BGE, Dominion, DPL, Pepco and RECO zones, from the first three months of 2017 to the first three months of 2018. The smallest zonal all hours average markup component using adjusted cost-based offers for the first three months of 2018 was in the BGE Zone, \$2.09 per MWh, while the highest was in the DEOK Control Zone, \$4.35 per MWh. The smallest zonal on peak average markup using adjusted cost-based offers was in the PENELEC Control Zone,

\$3.30 per MWh, while the highest was in the EKPC Control Zone, \$6.35 per MWh.

Table 3-66 Day-ahead, average, zonal markup component (Unadjusted): January through March, 2017 and 2018

| | 2017 (Jan - Mar) | | | 2018 (Jan - Mar) | | |
|----------|------------------------------|-----------------------|---------------------------|------------------------------|-----------------------|---------------------------|
| | Markup Component (All Hours) | Peak Markup Component | Off Peak Markup Component | Markup Component (All Hours) | Peak Markup Component | Off Peak Markup Component |
| AECO | \$0.63 | \$1.13 | \$0.11 | \$1.57 | \$2.70 | \$0.40 |
| AEP | \$0.10 | \$0.42 | (\$0.22) | \$1.30 | \$2.33 | \$0.27 |
| APS | \$0.13 | \$0.45 | (\$0.20) | \$0.03 | \$2.18 | (\$2.14) |
| ATSI | \$0.13 | \$0.44 | (\$0.21) | \$0.52 | \$1.98 | (\$1.02) |
| BGE | (\$0.03) | \$0.32 | (\$0.40) | (\$0.56) | \$2.11 | (\$3.22) |
| ComEd | \$0.09 | \$0.39 | (\$0.22) | \$1.12 | \$1.82 | \$0.38 |
| DAY | \$0.13 | \$0.44 | (\$0.20) | \$0.98 | \$3.03 | (\$1.17) |
| DEOK | \$0.13 | \$0.43 | (\$0.19) | \$2.36 | \$3.58 | \$1.12 |
| DLCO | \$0.13 | \$0.46 | (\$0.22) | \$0.42 | \$1.85 | (\$1.07) |
| Dominion | \$0.02 | \$0.38 | (\$0.32) | (\$0.18) | \$2.24 | (\$2.48) |
| DPL | \$0.65 | \$1.15 | \$0.15 | \$0.54 | \$2.64 | (\$1.49) |
| EKPC | \$0.11 | \$0.43 | (\$0.19) | \$2.00 | \$4.10 | \$0.06 |
| JCPL | \$0.47 | \$0.81 | \$0.11 | \$1.31 | \$2.45 | \$0.06 |
| Met-Ed | \$0.49 | \$0.84 | \$0.13 | \$0.82 | \$2.44 | (\$0.89) |
| PECO | \$0.64 | \$1.10 | \$0.17 | \$1.40 | \$2.70 | \$0.05 |
| PENELEC | \$0.27 | \$0.60 | (\$0.08) | \$1.66 | \$1.45 | \$1.89 |
| Pepco | (\$0.04) | \$0.29 | (\$0.37) | (\$0.50) | \$2.19 | (\$3.26) |
| PPL | \$0.51 | \$0.89 | \$0.12 | \$1.67 | \$2.56 | \$0.75 |
| PSEG | \$0.41 | \$0.75 | \$0.05 | \$0.81 | \$2.27 | (\$0.77) |
| RECO | \$0.43 | \$0.73 | \$0.11 | \$0.03 | \$1.81 | (\$1.95) |

Table 3-67 Day-ahead, average, zonal markup component (Adjusted): January through March, 2017 and 2018

| | 2017 (Jan - Mar) | | | 2018 (Jan - Mar) | | |
|----------|------------------------------|-----------------------|---------------------------|------------------------------|-----------------------|---------------------------|
| | Markup Component (All Hours) | Peak Markup Component | Off Peak Markup Component | Markup Component (All Hours) | Peak Markup Component | Off Peak Markup Component |
| AECO | \$2.02 | \$2.37 | \$1.65 | \$3.87 | \$4.93 | \$2.77 |
| AEP | \$1.46 | \$1.67 | \$1.25 | \$3.22 | \$4.25 | \$2.20 |
| APS | \$1.50 | \$1.72 | \$1.28 | \$2.20 | \$4.17 | \$0.22 |
| ATSI | \$1.52 | \$1.72 | \$1.29 | \$2.53 | \$3.94 | \$1.04 |
| BGE | \$1.39 | \$1.67 | \$1.11 | \$2.09 | \$4.59 | (\$0.41) |
| ComEd | \$1.41 | \$1.61 | \$1.20 | \$2.82 | \$3.63 | \$1.97 |
| DAY | \$1.50 | \$1.71 | \$1.28 | \$3.05 | \$5.05 | \$0.96 |
| DEOK | \$1.45 | \$1.66 | \$1.24 | \$4.35 | \$5.76 | \$2.92 |
| DLCO | \$1.49 | \$1.71 | \$1.25 | \$2.39 | \$3.73 | \$0.98 |
| Dominion | \$1.43 | \$1.68 | \$1.18 | \$2.42 | \$4.69 | \$0.25 |
| DPL | \$2.15 | \$2.54 | \$1.76 | \$3.00 | \$4.88 | \$1.17 |
| EKPC | \$1.44 | \$1.64 | \$1.24 | \$4.07 | \$6.35 | \$1.95 |
| JCPL | \$1.83 | \$2.01 | \$1.64 | \$3.62 | \$4.68 | \$2.47 |
| Met-Ed | \$1.85 | \$2.05 | \$1.64 | \$3.10 | \$4.58 | \$1.54 |
| PECO | \$2.04 | \$2.35 | \$1.71 | \$3.70 | \$4.88 | \$2.48 |
| PENELEC | \$1.60 | \$1.83 | \$1.35 | \$3.47 | \$3.30 | \$3.65 |
| Pepco | \$1.38 | \$1.62 | \$1.13 | \$2.11 | \$4.61 | (\$0.45) |
| PPL | \$1.87 | \$2.09 | \$1.64 | \$3.95 | \$4.74 | \$3.14 |
| PSEG | \$1.78 | \$1.96 | \$1.59 | \$3.14 | \$4.47 | \$1.69 |
| RECO | \$1.78 | \$1.93 | \$1.62 | \$2.36 | \$4.00 | \$0.53 |

Markup by Day-Ahead Price Levels

Table 3-68 and Table 3-69 show the average markup component of LMP, based on the unadjusted cost-based offers and adjusted cost-based offers of the marginal units, when the PJM system LMP was in the identified price range.

Table 3-68 Average, day-ahead markup component (By LMP category, unadjusted): January through March, 2017 and 2018

| LMP Category | 2017 (Jan - Mar) | | 2018 (Jan - Mar) | |
|----------------|--------------------------|-----------|--------------------------|-----------|
| | Average Markup Component | Frequency | Average Markup Component | Frequency |
| < \$25 | (\$0.18) | 37.2% | (\$0.06) | 26.6% |
| \$25 to \$50 | \$0.35 | 60.3% | \$0.50 | 54.4% |
| \$50 to \$75 | \$0.02 | 2.1% | \$0.18 | 5.7% |
| \$75 to \$100 | \$0.00 | 0.3% | (\$0.01) | 4.2% |
| \$100 to \$125 | \$0.00 | 0.0% | \$0.21 | 3.2% |
| \$125 to \$150 | \$0.00 | 0.0% | \$0.24 | 2.3% |
| >= \$150 | \$0.00 | 0.0% | (\$0.27) | 3.6% |

Table 3-69 Average, day-ahead markup component (By LMP category, adjusted): January through March, 2017 and 2018

| LMP Category | 2017 (Jan - Mar) | | 2018 (Jan - Mar) | |
|----------------|--------------------------|-----------|--------------------------|-----------|
| | Average Markup Component | Frequency | Average Markup Component | Frequency |
| < \$25 | \$0.30 | 37.2% | \$0.29 | 26.6% |
| \$25 to \$50 | \$1.20 | 60.3% | \$1.36 | 54.4% |
| \$50 to \$75 | \$0.06 | 2.1% | \$0.30 | 5.7% |
| \$75 to \$100 | \$0.00 | 0.3% | \$0.15 | 4.2% |
| \$100 to \$125 | \$0.00 | 0.0% | \$0.37 | 3.2% |
| \$125 to \$150 | \$0.00 | 0.0% | \$0.35 | 2.3% |
| >= \$150 | \$0.00 | 0.0% | \$0.13 | 3.6% |

Prices

The behavior of individual market entities within a market structure is reflected in market prices. PJM locational marginal prices (LMPs) are a direct measure of market performance. Price level is a good, general indicator of market performance, although overall price results must be interpreted carefully because of the multiple factors that affect them. Among other things, overall average prices reflect changes in supply and demand, generation fuel mix,

the cost of fuel, emission related expenses, markup and local price differences caused by congestion. PJM also may administratively set prices with the creation of a closed loop interface related to demand side resources or reactive power.

Real-time and day-ahead energy market load-weighted prices were 63.3 percent and 56.4 percent higher in the first three months of 2018 than in the first three months of 2017.

PJM real-time energy market prices increased in the first three months of 2018 compared to the first three months of 2017. The average LMP was 51.9 percent higher in the first three months of 2018 than in the first three months of 2017, \$44.65 per MWh versus \$29.39 per MWh. The load-weighted average LMP was 63.3 percent higher in the first three months of 2018 than in the first three months of 2017, \$49.45 per MWh versus \$30.28 per MWh.

The fuel-cost adjusted, load-weighted, average LMP in the first three months of 2018 was 19.8 percent lower than the load-weighted, average LMP for the first three months of 2017. If fuel and emission costs in the first three months of 2018 had been the same as in the first three months of 2017, holding everything else constant, the load-weighted LMP would have been lower, \$39.64 per MWh instead of the observed \$49.45 per MWh.

PJM day-ahead energy market prices increased in the first three months of 2018 compared to the first three months of 2017. The day-ahead average LMP was 47.3 percent higher in the first three months of 2018 than in the first three months of 2017, \$43.59 per MWh versus \$29.59 per MWh. The day-ahead load-weighted average LMP was 56.4 percent higher in the first three months of 2018 than in the first three months of 2017, \$47.55 per MWh versus \$30.40 per MWh.

Occasionally, in a constrained market, the LMPs at some pricing nodes can exceed the offer price of the highest cleared generator in the supply stack.⁷⁹ In the nodal pricing system, the LMP at a pricing node is the total cost of meeting

incremental demand at that node. When there are binding transmission constraints, satisfying the marginal increase in demand at a node may require increasing the output of some generators while simultaneously decreasing the output of other generators, such that the transmission constraints are not violated. The total cost of redispatching multiple generators can at times exceed the cost of marginally increasing the output of the most expensive generator offered. Thus, the LMPs at some pricing nodes exceed \$1,000 per MWh, the cap on the generators' offer price in the PJM market.⁸⁰

Real-Time LMP

Real-time average LMP is the hourly average LMP for the PJM Real-Time Energy Market.⁸¹

Real-Time Average LMP

PJM Real-Time Average LMP Duration

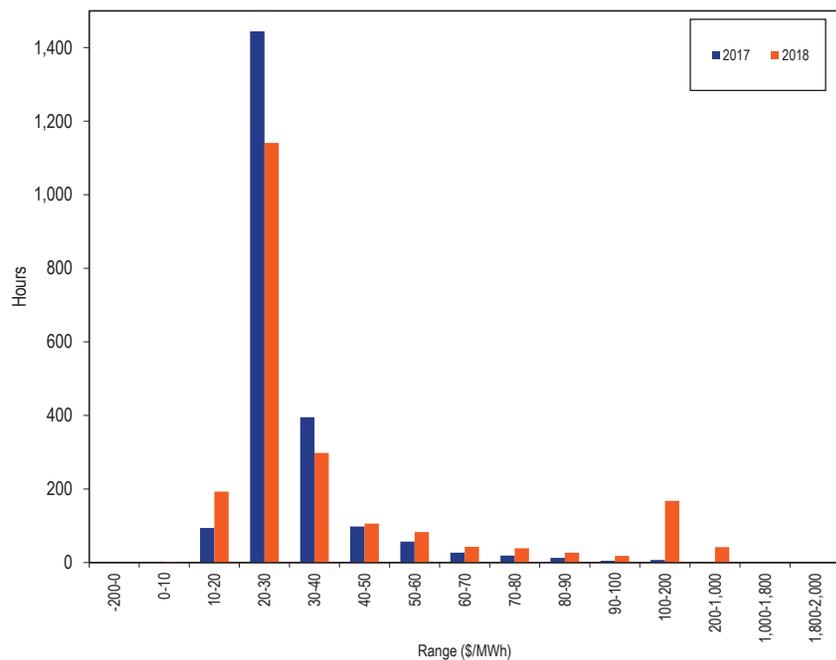
Figure 3-42 shows the hourly distribution of PJM real-time average LMP for the first three months of 2017 and 2018.

⁷⁹ See O'Neill R. P, Mead D. and Malvadkar P. "On Market Clearing Prices Higher than the Highest Bid and Other Almost Paranormal Phenomena." *The Electricity Journal* 2005; 18(2) at 19–27.

⁸⁰ The offer cap in PJM was temporarily increased to \$1,800 per MWh prior to the winter of 2014/2015. A new cap of \$2,000 per MWh, only for offers with costs exceeding \$1,000 per MWh, went into effect on December 14, 2015. See 153 FERC ¶ 61,289 (2015).

⁸¹ See the 2010 State of the Market Report for PJM: *Technical Reference for PJM Markets*, at "Calculating Locational Marginal Price," p 16-18 for detailed definition of Real-Time LMP. <http://www.monitoringanalytics.com/reports/Technical_References/references.shtml>.

Figure 3-42 Average LMP for the PJM Real-Time Energy Market: January through March, 2017 and 2018



PJM Real-Time, Average LMP

Table 3-70 shows the PJM real-time, average LMP for the first three months of 1998 through 2018.⁸²

Table 3-70 PJM real-time, average LMP (Dollars per MWh): January through March, 1998 through 2018

| (Jan-Mar) | Real-Time LMP | | | Year-to-Year Change | | |
|-----------|---------------|---------|--------------------|---------------------|---------|--------------------|
| | Average | Median | Standard Deviation | Average | Median | Standard Deviation |
| 1998 | \$17.51 | \$15.30 | \$7.84 | NA | NA | NA |
| 1999 | \$18.79 | \$16.56 | \$7.29 | 7.3% | 8.3% | (7.0%) |
| 2000 | \$23.66 | \$17.73 | \$16.22 | 25.9% | 7.0% | 122.4% |
| 2001 | \$33.77 | \$26.01 | \$20.79 | 42.8% | 46.8% | 28.2% |
| 2002 | \$22.23 | \$19.22 | \$9.61 | (34.2%) | (26.1%) | (53.8%) |
| 2003 | \$49.57 | \$43.08 | \$30.54 | 123.0% | 124.2% | 217.9% |
| 2004 | \$46.37 | \$41.04 | \$24.07 | (6.5%) | (4.8%) | (21.2%) |
| 2005 | \$46.51 | \$40.62 | \$22.07 | 0.3% | (1.0%) | (8.3%) |
| 2006 | \$52.98 | \$46.15 | \$23.29 | 13.9% | 13.6% | 5.5% |
| 2007 | \$55.34 | \$47.15 | \$33.29 | 4.5% | 2.2% | 43.0% |
| 2008 | \$66.75 | \$57.05 | \$35.54 | 20.6% | 21.0% | 6.8% |
| 2009 | \$47.29 | \$40.56 | \$21.99 | (29.2%) | (28.9%) | (38.1%) |
| 2010 | \$44.13 | \$37.82 | \$21.87 | (6.7%) | (6.8%) | (0.6%) |
| 2011 | \$44.76 | \$38.14 | \$23.10 | 1.4% | 0.8% | 5.6% |
| 2012 | \$30.38 | \$28.82 | \$11.63 | (32.1%) | (24.4%) | (49.7%) |
| 2013 | \$36.33 | \$32.29 | \$18.47 | 19.6% | 12.1% | 58.9% |
| 2014 | \$84.04 | \$48.77 | \$119.84 | 131.3% | 51.0% | 548.8% |
| 2015 | \$47.39 | \$31.95 | \$42.42 | (43.6%) | (34.5%) | (64.6%) |
| 2016 | \$25.60 | \$22.91 | \$12.99 | (46.0%) | (28.3%) | (69.4%) |
| 2017 | \$29.39 | \$25.71 | \$12.28 | 14.8% | 12.2% | (5.4%) |
| 2018 | \$44.65 | \$26.83 | \$49.68 | 51.9% | 4.4% | 304.5% |

⁸² The system average LMP is the average of the hourly LMP without any weighting. The only exception is that market-clearing prices (MCPs) are included for January to April 1998. MCP was the single market-clearing price calculated by PJM prior to implementation of LMP.

Real-Time, Load-Weighted, Average LMP

Higher demand (load) generally results in higher prices, all else constant. As a result, load-weighted, average prices are generally higher than average prices. Load-weighted LMP reflects the average LMP paid for actual MWh consumed during a year. Load-weighted, average LMP is the average of PJM hourly LMP, each weighted by the PJM total hourly load.

PJM Real-Time, Load-Weighted, Average LMP

Table 3-71 shows the PJM real-time, load-weighted, average LMP in the first three months of 1998 through 2018.

Table 3-71 PJM real-time, load-weighted, average LMP (Dollars per MWh): January through March, 1998 through 2018

| (Jan-Mar) | Real-Time, Load-Weighted, Average LMP | | | Year-to-Year Change | | |
|-----------|---------------------------------------|---------|--------------------|---------------------|---------|--------------------|
| | Average | Median | Standard Deviation | Average | Median | Standard Deviation |
| 1998 | \$18.13 | \$15.80 | \$8.14 | NA | NA | NA |
| 1999 | \$19.38 | \$16.90 | \$7.66 | 6.9% | 7.0% | (5.9%) |
| 2000 | \$25.10 | \$18.25 | \$17.22 | 29.5% | 8.0% | 124.9% |
| 2001 | \$35.16 | \$27.38 | \$21.52 | 40.1% | 50.0% | 25.0% |
| 2002 | \$23.01 | \$19.89 | \$9.93 | (34.6%) | (27.4%) | (53.8%) |
| 2003 | \$51.93 | \$46.12 | \$30.99 | 125.6% | 131.9% | 211.9% |
| 2004 | \$48.77 | \$43.22 | \$24.62 | (6.1%) | (6.3%) | (20.6%) |
| 2005 | \$48.37 | \$42.20 | \$22.62 | (0.8%) | (2.4%) | (8.1%) |
| 2006 | \$54.43 | \$47.62 | \$23.69 | 12.5% | 12.9% | 4.7% |
| 2007 | \$58.07 | \$50.60 | \$34.44 | 6.7% | 6.3% | 45.4% |
| 2008 | \$69.35 | \$60.11 | \$36.56 | 19.4% | 18.8% | 6.2% |
| 2009 | \$49.60 | \$42.23 | \$23.38 | (28.5%) | (29.8%) | (36.1%) |
| 2010 | \$45.92 | \$39.01 | \$22.99 | (7.4%) | (7.6%) | (1.7%) |
| 2011 | \$46.35 | \$39.11 | \$24.26 | 0.9% | 0.3% | 5.5% |
| 2012 | \$31.21 | \$29.25 | \$12.02 | (32.7%) | (25.2%) | (50.5%) |
| 2013 | \$37.41 | \$32.79 | \$19.90 | 19.9% | 12.1% | 65.7% |
| 2014 | \$92.98 | \$51.62 | \$134.40 | 148.5% | 57.4% | 575.3% |
| 2015 | \$50.91 | \$33.51 | \$46.43 | (45.2%) | (35.1%) | (65.5%) |
| 2016 | \$26.80 | \$23.45 | \$13.98 | (47.4%) | (30.0%) | (69.9%) |
| 2017 | \$30.28 | \$26.26 | \$13.08 | 13.0% | 12.0% | (6.4%) |
| 2018 | \$49.45 | \$27.96 | \$55.22 | 63.3% | 6.5% | 322.1% |

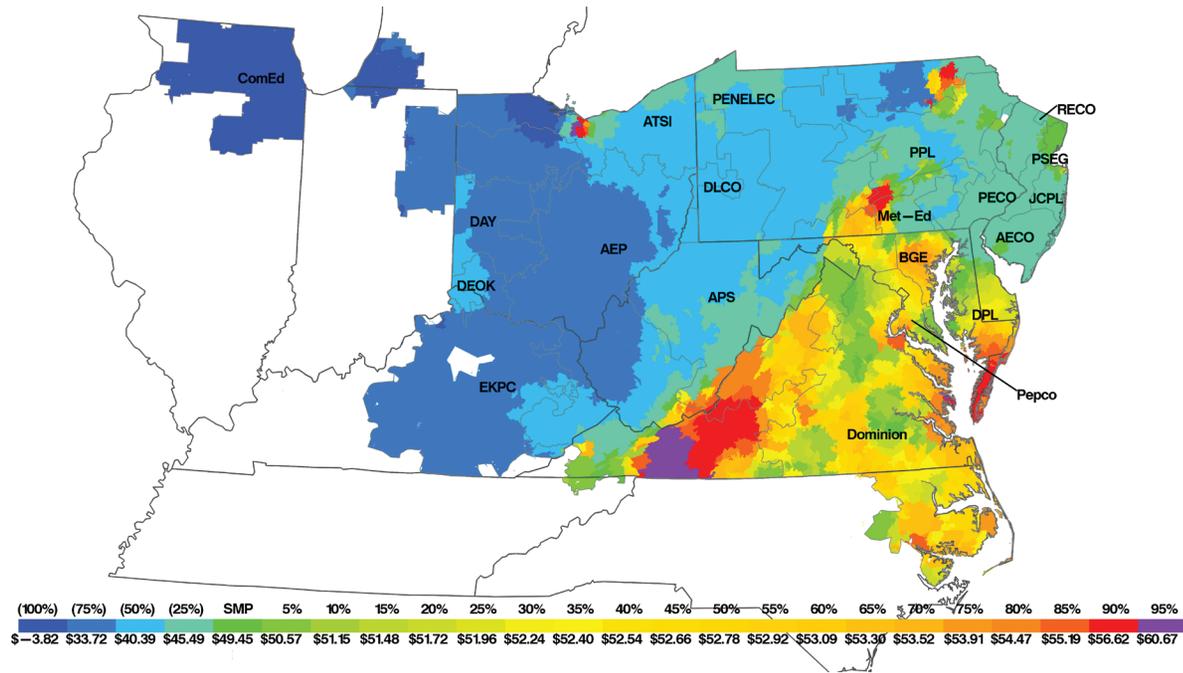
Table 3-72 shows zonal real-time, and real-time, load-weighted, average LMP in the first three months of 2017 and 2018.

Table 3-72 Zonal real-time and real-time, load-weighted, average LMP (Dollars per MWh): January through March, 2017 and 2018

| Zone | Real-Time Average LMP | | | Real-Time, Load-Weighted, Average LMP | | |
|----------|-----------------------|----------------|----------------|---------------------------------------|----------------|----------------|
| | 2017 (Jan-Mar) | 2018 (Jan-Mar) | Percent Change | 2017 (Jan-Mar) | 2018 (Jan-Mar) | Percent Change |
| AECO | \$28.48 | \$47.15 | 65.5% | \$29.59 | \$52.68 | 78.0% |
| AEP | \$28.70 | \$41.46 | 44.4% | \$29.39 | \$45.32 | 54.2% |
| APS | \$29.68 | \$47.16 | 58.9% | \$30.63 | \$52.60 | 71.7% |
| ATSI | \$29.81 | \$43.28 | 45.2% | \$30.45 | \$45.71 | 50.1% |
| BGE | \$33.15 | \$53.93 | 62.6% | \$34.79 | \$62.64 | 80.0% |
| ComEd | \$26.52 | \$29.58 | 11.6% | \$26.95 | \$30.75 | 14.1% |
| Day | \$29.20 | \$39.65 | 35.8% | \$29.88 | \$42.30 | 41.5% |
| DEOK | \$27.94 | \$40.89 | 46.3% | \$28.57 | \$44.52 | 55.8% |
| DLCO | \$29.03 | \$42.16 | 45.3% | \$29.67 | \$45.19 | 52.3% |
| Dominion | \$30.88 | \$52.49 | 70.0% | \$32.58 | \$62.87 | 93.0% |
| DPL | \$31.16 | \$50.18 | 61.1% | \$33.13 | \$60.33 | 82.1% |
| EKPC | \$27.79 | \$36.99 | 33.1% | \$28.75 | \$42.72 | 48.6% |
| JCPL | \$29.45 | \$47.44 | 61.1% | \$30.63 | \$52.80 | 72.4% |
| Met-Ed | \$29.37 | \$47.43 | 61.5% | \$30.41 | \$53.15 | 74.8% |
| PECO | \$28.53 | \$46.91 | 64.4% | \$29.58 | \$52.85 | 78.7% |
| PENELEC | \$29.07 | \$44.98 | 54.7% | \$29.79 | \$48.10 | 61.4% |
| Pepco | \$31.76 | \$52.48 | 65.3% | \$33.26 | \$60.70 | 82.5% |
| PPL | \$29.22 | \$45.34 | 55.2% | \$30.35 | \$51.04 | 68.2% |
| PSEG | \$29.61 | \$47.59 | 60.7% | \$30.51 | \$52.04 | 70.6% |
| RECO | \$29.84 | \$46.80 | 56.9% | \$30.77 | \$50.64 | 64.6% |
| PJM | \$29.39 | \$44.65 | 51.9% | \$30.28 | \$49.45 | 63.3% |

Figure 3-43 is a contour map of the real-time, load-weighted, average LMP in the first three months of 2018. In the legend, green represents the system marginal price (SMP) and each increment to the right and left of the SMP represents five percent of the pricing nodes above and below the SMP. The LMP for each five percent increment is the highest nodal average LMP for that set of nodes. Each increment to the left of the SMP is the lowest nodal average LMP for that set of nodes.

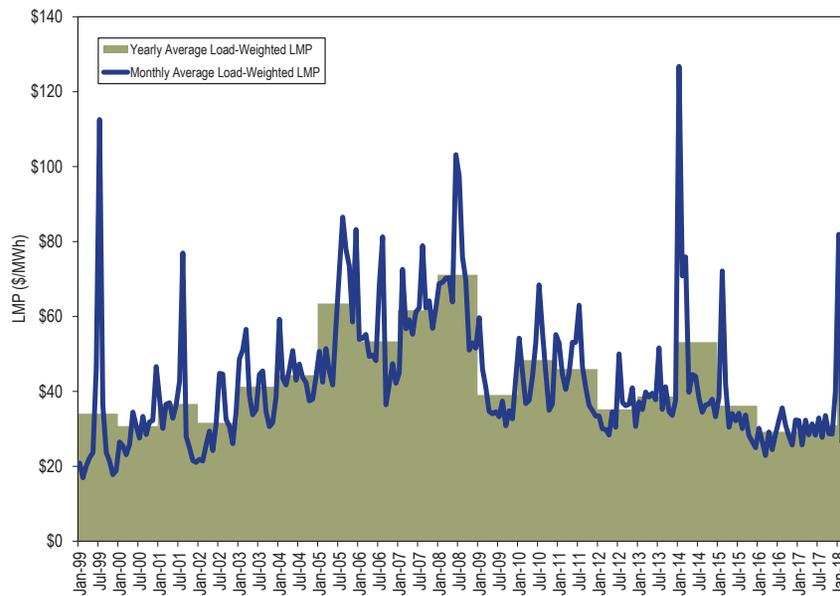
Figure 3-43 PJM real-time, load-weighted, average LMP: January through March, 2018



PJM Real-Time, Monthly, Load-Weighted, Average LMP

Figure 3-44 shows the PJM real-time monthly and annual load-weighted LMP for January 1999 through March 2018. PJM real-time monthly load-weighted average LMP in June 2016 was \$22.90, which is the lowest real-time monthly load-weighted average LMP since February 2002 at \$21.39.

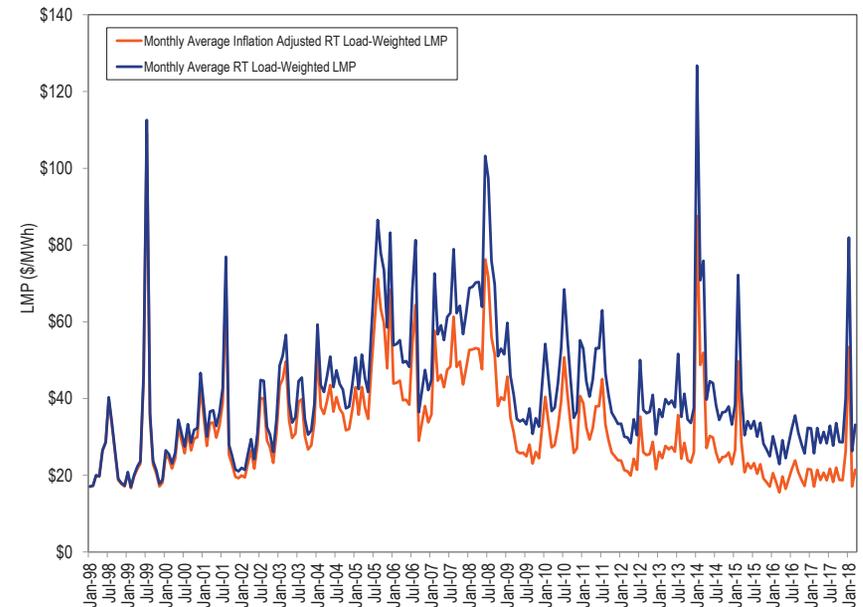
Figure 3-44 PJM real-time, monthly and annual, load-weighted, average LMP: January 1999 through March 2018



PJM Real-Time, Monthly, Inflation Adjusted Load-Weighted, Average LMP

Figure 3-45 shows the PJM real-time monthly load-weighted average LMP and inflation adjusted monthly load-weighted average LMP for 1998, through March 2018.⁸³ Table 3-73 shows the PJM real-time first three months load-weighted average LMP and inflation adjusted yearly load-weighted average LMP for every year starting from 1998 through 2018.

Figure 3-45 PJM real-time, monthly, load-weighted, average LMP and real-time, monthly inflation adjusted load-weighted, average LMP: January 1998 through March 2018



⁸³ To obtain the inflation adjusted monthly load-weighted average LMP, the PJM system-wide load-weighted average LMP is deflated using the US Consumer Price Index for all items, Urban Consumers (base period: January 1998), published by Bureau of Labor Statistics. <<http://download.bls.gov/pub/time.series/cu/cu.data.1.AllItems>> (Accessed April 20, 2018)

Table 3-73 PJM real-time, yearly, load-weighted, average LMP and real-time, yearly inflation adjusted load-weighted, average LMP: 1998 through March 2018

| | Load-Weighted, Average LMP | Inflation Adjusted Load-Weighted, Average LMP |
|------|----------------------------|---|
| 1998 | \$18.13 | \$18.10 |
| 1999 | \$19.38 | \$19.03 |
| 2000 | \$25.10 | \$23.89 |
| 2001 | \$35.16 | \$32.35 |
| 2002 | \$23.01 | \$20.90 |
| 2003 | \$51.93 | \$45.86 |
| 2004 | \$48.77 | \$42.36 |
| 2005 | \$48.37 | \$40.73 |
| 2006 | \$54.43 | \$44.21 |
| 2007 | \$58.07 | \$46.05 |
| 2008 | \$69.35 | \$52.85 |
| 2009 | \$49.60 | \$37.83 |
| 2010 | \$45.92 | \$34.21 |
| 2011 | \$46.35 | \$33.83 |
| 2012 | \$31.21 | \$22.14 |
| 2013 | \$37.41 | \$26.09 |
| 2014 | \$92.98 | \$64.01 |
| 2015 | \$50.91 | \$35.04 |
| 2016 | \$26.80 | \$18.25 |
| 2017 | \$30.28 | \$20.11 |
| 2018 | \$49.45 | \$32.17 |

Fuel Price Trends and LMP

Changes in LMP can result from changes in the marginal costs of marginal units, the units setting LMP. In general, fuel costs make up between 80 percent and 90 percent of marginal cost depending on generating technology, unit efficiency, unit age and other factors. The impact of fuel cost on marginal cost and on LMP depends on the fuel burned by marginal units and changes in fuel costs. Changes in emission allowance costs are another contributor to changes in the marginal cost of marginal units. Eastern natural gas prices and coal prices increased in the first three months of 2018 compared to the first three months of 2017. The price of Northern Appalachian coal was 1.2 percent higher; the price of Central Appalachian coal was 9.0 percent higher; the price of Powder River Basin coal was 4.5 percent higher; the price of eastern natural

gas was 135.6 percent higher; and the price of western natural gas was 1.5 percent lower. Figure 3-46 shows monthly average spot fuel prices.⁸⁴

Figure 3-46 Spot average fuel price comparison with fuel delivery charges: January 2012 through March 2018 (\$/MMBtu)

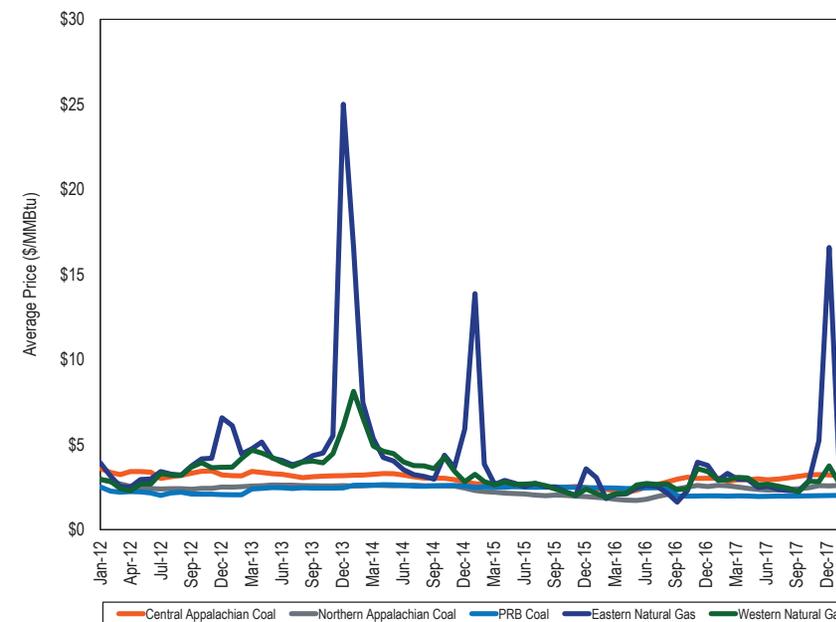


Table 3-74 compares the first three months of 2018 PJM real-time fuel-cost adjusted, load-weighted, average LMP to the first three month of 2018 load-weighted, average LMP.⁸⁵ The real-time fuel-cost adjusted, load-weighted, average LMP for the first three months of 2018 was 19.8 percent lower than the real-time load-weighted, average LMP for the first three months of 2018. The real-time, fuel-cost adjusted, load-weighted, average LMP for the first three months of 2018 was 30.9 percent higher than the real-time load-

⁸⁴ Eastern natural gas consists of the average of Texas M3, Transco Zone 6 non-NY, Transco Zone 6 NY and Transco Zone 5 daily fuel price indices. Western natural gas prices are the average of Dominion North Point, Columbia Appalachia and Chicago Citygate daily fuel price indices. Coal prices are the average of daily fuel prices for Central Appalachian coal, Northern Appalachian coal, and Powder River Basin coal. All fuel prices are from Platts.

⁸⁵ The fuel-cost adjusted LMP reflects both the fuel and emissions where applicable, including NO_x, CO₂ and SO_x costs.

weighted LMP for the first three months of 2017. If fuel and emissions costs in the first three months of 2018 had been the same as in first three months of 2017, holding everything else constant, the real-time load-weighted LMP in the first three months of 2018 would have been lower, \$39.64 per MWh, than the observed \$49.45 per MWh.

Table 3-74 PJM real-time annual, fuel-cost adjusted, load-weighted average LMP (Dollars per MWh): January through March, 2017 and 2018

| | 2018 Load-Weighted LMP | 2018 Fuel-Cost Adjusted, Load-Weighted LMP | Change |
|---------|------------------------|--|---------|
| Average | \$49.45 | \$39.64 | (19.8%) |
| | 2017 Load-Weighted LMP | 2018 Fuel-Cost Adjusted, Load-Weighted LMP | Change |
| Average | \$30.28 | \$39.64 | 30.9% |
| | 2017 Load-Weighted LMP | 2018 Load-Weighted LMP | Change |
| Average | \$30.28 | \$49.45 | 63.3% |

Table 3-75 shows the impact of each fuel type on the difference between the fuel-cost adjusted, load-weighted average LMP and the load-weighted LMP in the first three months of 2018. Table 3-75 shows that higher natural gas prices explain most of the fuel-cost related increase in the real-time annual load-weighted average LMP in the first three months of 2018 from the first three months of 2017.

Table 3-75 Change in PJM real-time annual, fuel-cost adjusted, load-weighted average LMP (Dollars per MWh) by fuel type: January through March, 2017 to 2018

| Fuel Type | Share of Change in Fuel Cost Adjusted, Load Weighted LMP | Percent |
|-----------------|--|---------|
| Coal | \$0.38 | 3.9% |
| Gas | \$7.30 | 74.4% |
| Municipal Waste | \$0.32 | 3.3% |
| Oil | \$1.80 | 18.4% |
| Other | \$0.00 | 0.0% |
| Uranium | \$0.00 | 0.0% |
| Wind | \$0.00 | 0.0% |
| Total | \$9.81 | 100.0% |

Components of Real-Time, Load-Weighted LMP

LMPs result from the operation of a market based on security-constrained, economic (least-cost) dispatch (SCED) in which marginal units determine system LMPs, based on their offers and five minute ahead forecasts of system conditions. Those offers can be decomposed into components including fuel costs, emission costs, variable operation and maintenance costs, markup, FMU adder and the 10 percent cost adder. As a result, it is possible to decompose LMP by the components of unit offers.

Cost offers of marginal units are separated into their component parts. The fuel related component is based on unit specific heat rates and spot fuel prices. Emission costs are calculated using spot prices for NO_x, SO₂ and CO₂ emission credits, emission rates for NO_x, emission rates for SO₂ and emission rates for CO₂. The CO₂ emission costs are applicable to PJM units in the PJM states that participate in RGGI: Delaware and Maryland.⁸⁶ The FMU adder is the calculated contribution of the FMU and AU adders to LMP that results when units with FMU or AU adders are marginal.

Since the implementation of scarcity pricing on October 1, 2012, PJM jointly optimizes the commitment and dispatch of energy and ancillary services. In periods of scarcity when generators providing energy have to be dispatched down from their economic operating level to meet reserve requirements, the joint optimization of energy and reserves takes into account the opportunity cost of the reduced generation and the associated incremental cost to maintain reserves. If a unit incurring such opportunity costs is a marginal resource in the energy market, this opportunity cost will contribute to LMP. In addition, in periods when generators providing energy cannot meet the reserve requirements, PJM can invoke shortage pricing. PJM invoked shortage pricing on January 6, January 7 of 2014 and September 21 of 2017.⁸⁷ During the shortage conditions, the LMPs of marginal generators reflect the cost of not meeting the reserve requirements, the scarcity adder, which is defined by the operating reserve demand curve.

⁸⁶ New Jersey withdrew from RGGI, effective January 1, 2012.

⁸⁷ PJM triggered shortage pricing on January 6, 2015, following a RTO-wide voltage reduction action. PJM triggered shortage pricing on January 7, 2014, due to a RTO-wide shortage of synchronized reserve. PJM triggered shortage pricing on September 21, 2017 due to a sudden decrease in imports from neighboring regions.

LMP may, at times, be set by transmission penalty factors. When a transmission constraint is binding and there are no generation alternatives to resolve the constraint, system operators may allow the transmission limit to be violated. When this occurs, the shadow price of the constraint is set by transmission penalty factors. The shadow price directly affects the LMP. Transmission penalty factors are administratively determined and can be thought of as a form of locational scarcity pricing.

Table 3-78 shows the frequency and average shadow price of transmission constraints in PJM. In the first three months of 2018, there were 42,987 transmission constraints in the real-time market with a non-zero shadow price. For nearly 11 percent of these transmission constraints, the line limit was violated, meaning that the flow exceeded the facility limit.⁸⁸ In the first three months of 2018, the average shadow price of transmission constraints when the line limit was violated was nearly five times higher than when transmission constraint was binding at its limit.

Transmission penalty factors should be stated explicitly and publicly and applied without discretion. Penalty factors should be set high enough so that they do not act to suppress prices based on available generator solutions. But rather than permit the transmission penalty factor to set the shadow price when line limits are violated, PJM uses a procedure called constraint relaxation logic to prevent the penalty factors from directly setting the shadow price of the constraint. The result is that the transmission penalty factor does not directly set the shadow price. The details of PJM's logic and practice are not entirely clear. In the first three months of 2018, for all the violated transmission constraints for which the penalty factor was greater than or equal to \$2,000 per MWh, 51 percent of the constraints' shadow prices were within 10 percent of the penalty factor.

The MMU recommends that PJM explicitly state its policy on the use of transmission penalty factors including: the level of the penalty factors; the triggers for the use of the penalty factors; the appropriate line ratings to trigger the use of penalty factors; the allowed duration of the violation; the

⁸⁸ The line limit of a facility associated with a transmission constraint is not necessarily the rated line limit. In PJM, the dispatcher has the discretion to lower the rated line limit.

use of constraint relaxation logic; and when the transmission penalty factors will be used to set the shadow price.

The components of LMP are shown in Table 3-76, including markup using unadjusted cost-based offers.⁸⁹ Table 3-76 shows that in the first three months of 2018, 14.3 percent of the load-weighted LMP was the result of coal costs, 38.7 percent was the result of gas costs and 0.53 percent was the result of the cost of emission allowances. Using adjusted cost-based offers, markup was 18.5 percent of the load-weighted LMP. The fuel-related components of LMP reflect the degree to which the cost of the identified fuel affects LMP and does not reflect the other components of the offers of units burning that fuel. The component NA is the unexplained portion of load-weighted LMP. For several intervals, PJM fails to provide all the data needed to accurately calculate generator sensitivity factors. As a result, the LMP for those intervals cannot be decomposed into component costs. The cumulative effect of excluding those five-minute intervals is the component NA. In the first three months of 2018, nearly 26.15 percent of all five-minute intervals had insufficient data. The percent column is the difference in the proportion of LMP represented by each component between the first three months of 2018 and 2017.

⁸⁹ These components are explained in the *Technical Reference for PJM Markets*, at p 27 "Calculation and Use of Generator Sensitivity/Unit Participation Factors." <http://www.monitoringanalytics.com/reports/Technical_References/references.shtml>.

Table 3-76 Components of PJM real-time (Unadjusted), load-weighted, average LMP: January through March, 2017 and 2018

| Element | 2017 (Jan - Mar) | | 2018 (Jan - Mar) | | Change Percent |
|-----------------------------------|------------------------|---------|------------------------|---------|-------------------|
| | Contribution to LMP | Percent | Contribution to LMP | Percent | |
| Gas | \$12.17 | 40.2% | \$19.16 | 38.7% | (1.5%) |
| Coal | \$9.81 | 32.4% | \$7.06 | 14.3% | (18.1%) |
| Oil | \$0.40 | 1.3% | \$6.31 | 12.8% | 11.4% |
| Markup | \$1.45 | 4.8% | \$5.56 | 11.2% | 6.5% |
| Ten Percent Adder | \$2.44 | 8.1% | \$3.61 | 7.3% | (0.8%) |
| VOM | \$1.33 | 4.4% | \$2.95 | 6.0% | 1.6% |
| NA | \$0.46 | 1.5% | \$1.80 | 3.6% | 2.1% |
| Increase Generation Adder | \$0.99 | 3.3% | \$1.14 | 2.3% | (1.0%) |
| LPA Rounding Difference | \$0.52 | 1.7% | \$0.90 | 1.8% | 0.1% |
| Ancillary Service Redispatch Cost | \$0.29 | 0.9% | \$0.70 | 1.4% | 0.5% |
| Municipal Waste | \$0.04 | 0.1% | \$0.33 | 0.7% | 0.5% |
| CO ₂ Cost | \$0.14 | 0.5% | \$0.17 | 0.4% | (0.1%) |
| NO _x Cost | \$0.43 | 1.4% | \$0.08 | 0.2% | (1.3%) |
| Opportunity Cost Adder | \$0.00 | 0.0% | \$0.05 | 0.1% | 0.1% |
| Other | \$0.02 | 0.1% | \$0.04 | 0.1% | 0.0% |
| Market-to-Market Adder | \$0.00 | 0.0% | \$0.01 | 0.0% | 0.0% |
| SO ₂ Cost | \$0.06 | 0.2% | \$0.01 | 0.0% | (0.2%) |
| Wind | (\$0.25) | (0.8%) | \$0.00 | 0.0% | 0.8% |
| Uranium | (\$0.00) | (0.0%) | \$0.00 | 0.0% | 0.0% |
| LPA-SCED Differential | (\$0.01) | (0.0%) | (\$0.11) | (0.2%) | (0.2%) |
| Decrease Generation Adder | (\$0.01) | (0.0%) | (\$0.34) | (0.7%) | (0.7%) |
| Total | \$30.28 | 100.0% | \$49.45 | 100.0% | 0.0% |

In order to accurately assess the markup behavior of market participants, real-time and day-ahead LMPs are decomposed using two different approaches. In the first approach (Table 3-76 and Table 3-83), markup is simply the difference between the price offer and the cost-based offer (unadjusted markup). In the second approach (Table 3-77 and Table 3-84), the 10 percent markup is removed from the cost-based offers of coal gas and oil units (adjusted markup).

The components of LMP are shown in Table 3-77, including markup using adjusted cost-based offers.

Table 3-77 Components of PJM real-time (Adjusted), load-weighted, average LMP: January through March, 2017 and 2018

| Element | 2017 (Jan - Mar) | | 2018 (Jan - Mar) | | Change Percent |
|-----------------------------------|------------------------|---------|------------------------|---------|-------------------|
| | Contribution to LMP | Percent | Contribution to LMP | Percent | |
| Gas | \$12.17 | 40.2% | \$19.15 | 38.7% | (1.5%) |
| Markup | \$3.90 | 12.9% | \$9.14 | 18.5% | 5.6% |
| Coal | \$9.81 | 32.4% | \$7.06 | 14.3% | (18.1%) |
| Oil | \$0.40 | 1.3% | \$6.31 | 12.8% | 11.4% |
| VOM | \$1.33 | 4.4% | \$2.96 | 6.0% | 1.6% |
| NA | \$0.46 | 1.5% | \$1.80 | 3.6% | 2.1% |
| Increase Generation Adder | \$0.99 | 3.3% | \$1.14 | 2.3% | (1.0%) |
| LPA Rounding Difference | \$0.52 | 1.7% | \$0.89 | 1.8% | 0.1% |
| Ancillary Service Redispatch Cost | \$0.29 | 0.9% | \$0.70 | 1.4% | 0.5% |
| Municipal Waste | \$0.04 | 0.1% | \$0.33 | 0.7% | 0.5% |
| CO ₂ Cost | \$0.14 | 0.5% | \$0.17 | 0.4% | (0.1%) |
| NO _x Cost | \$0.43 | 1.4% | \$0.08 | 0.2% | (1.3%) |
| Opportunity Cost Adder | \$0.00 | 0.0% | \$0.05 | 0.1% | 0.1% |
| Ten Percent Adder | (\$0.02) | (0.1%) | \$0.04 | 0.1% | 0.1% |
| Other | \$0.02 | 0.1% | \$0.04 | 0.1% | 0.0% |
| Market-to-Market Adder | \$0.00 | 0.0% | \$0.01 | 0.0% | 0.0% |
| SO ₂ Cost | \$0.06 | 0.2% | \$0.01 | 0.0% | (0.2%) |
| Wind | (\$0.25) | (0.8%) | \$0.00 | 0.0% | 0.8% |
| Uranium | (\$0.00) | (0.0%) | \$0.00 | 0.0% | 0.0% |
| LPA-SCED Differential | (\$0.01) | (0.0%) | (\$0.11) | (0.2%) | (0.2%) |
| Decrease Generation Adder | (\$0.01) | (0.0%) | (\$0.34) | (0.7%) | (0.7%) |
| Total | \$30.28 | 100.0% | \$49.45 | 100.0% | 0.0% |

Table 3-78 Frequency and average shadow price of transmission constraints in PJM: January through March, 2017 and 2018

| Description | Frequency | | Average Shadow Price | |
|--|---------------------|---------------------|----------------------|---------------------|
| | 2017 (Jan - Mar) | 2018 (Jan - Mar) | 2017 (Jan - Mar) | 2018 (Jan - Mar) |
| PJM Internal Violated Transmission Constraints | 4,163 | 4,649 | \$367.28 | \$1,400.76 |
| PJM Internal Binding Transmission Constraints | 25,038 | 26,031 | \$104.28 | \$266.79 |
| Market to Market Transmission Constraints | 15,964 | 12,307 | \$166.35 | \$444.31 |
| Total | 45,165 | 42,987 | | |

Day-Ahead LMP

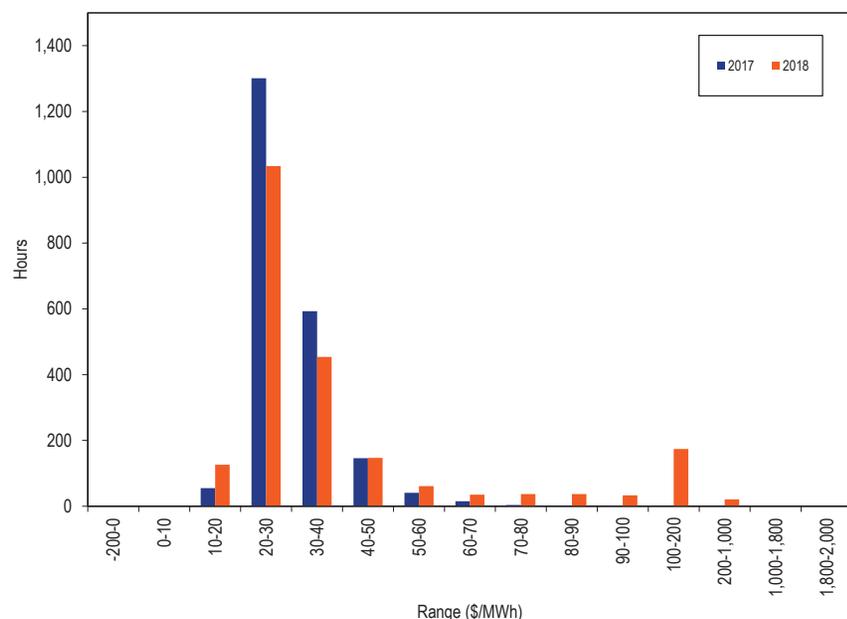
Day-ahead average LMP is the hourly average LMP for the PJM Day-Ahead Energy Market.⁹⁰

Day-Ahead Average LMP

PJM Day-Ahead Average LMP Duration

Figure 3-47 shows the hourly distribution of PJM day-ahead average LMP in the first three months of 2017 and 2018.

Figure 3-47 Average LMP for the PJM Day-Ahead Energy Market: January through March, 2017 and 2018



⁹⁰ See the *MMU Technical Reference for the PJM Markets*, at "Calculating Locational Marginal Price" for a detailed definition of Day-Ahead LMP. <http://www.monitoringanalytics.com/reports/Technical_References/references.shtml>.

PJM Day-Ahead, Average LMP

Table 3-79 shows the PJM day-ahead, average LMP in the first three months of 2000 through 2018.

Table 3-79 PJM day-ahead, average LMP (Dollars per MWh): January through March, 2000 through 2018

| (Jan-Mar) | Day-Ahead LMP | | | Year-to-Year Change | | |
|-----------|---------------|---------|--------------------|---------------------|---------|--------------------|
| | Average | Median | Standard Deviation | Average | Median | Standard Deviation |
| 2000 | NA | NA | NA | NA | NA | NA |
| 2001 | \$36.45 | \$32.72 | \$16.39 | NA | NA | NA |
| 2002 | \$22.43 | \$20.59 | \$7.56 | (38.5%) | (37.1%) | (53.9%) |
| 2003 | \$51.20 | \$46.06 | \$25.65 | 128.2% | 123.7% | 239.3% |
| 2004 | \$45.84 | \$43.01 | \$18.85 | (10.5%) | (6.6%) | (26.5%) |
| 2005 | \$45.14 | \$41.56 | \$16.19 | (1.5%) | (3.4%) | (14.1%) |
| 2006 | \$51.23 | \$48.53 | \$14.16 | 13.5% | 16.8% | (12.6%) |
| 2007 | \$52.76 | \$49.43 | \$22.59 | 3.0% | 1.9% | 59.5% |
| 2008 | \$66.10 | \$62.57 | \$23.90 | 25.3% | 26.6% | 5.8% |
| 2009 | \$47.41 | \$43.43 | \$16.85 | (28.3%) | (30.6%) | (29.5%) |
| 2010 | \$46.13 | \$41.99 | \$15.93 | (2.7%) | (3.3%) | (5.5%) |
| 2011 | \$45.60 | \$41.10 | \$16.82 | (1.2%) | (2.1%) | 5.6% |
| 2012 | \$30.82 | \$30.04 | \$6.63 | (32.4%) | (26.9%) | (60.6%) |
| 2013 | \$36.46 | \$34.45 | \$9.78 | 18.3% | 14.7% | 47.5% |
| 2014 | \$86.52 | \$52.80 | \$92.80 | 137.3% | 53.3% | 848.8% |
| 2015 | \$48.62 | \$35.48 | \$36.77 | (43.8%) | (32.8%) | (60.4%) |
| 2016 | \$26.90 | \$25.11 | \$8.83 | (44.7%) | (29.2%) | (76.0%) |
| 2017 | \$29.59 | \$27.33 | \$8.54 | 10.0% | 8.8% | (3.3%) |
| 2018 | \$43.59 | \$29.01 | \$38.64 | 47.3% | 6.2% | 352.5% |

Day-Ahead, Load-Weighted, Average LMP

Day-ahead, load-weighted LMP reflects the average LMP paid for day-ahead MWh. Day-ahead, load-weighted LMP is the average of PJM day-ahead hourly LMP, each weighted by the PJM total cleared day-ahead hourly load, including day-ahead fixed load, price-sensitive load, decrement bids and up to congestion.

PJM Day-Ahead, Load-Weighted, Average LMP

Table 3-80 shows the PJM day-ahead, load-weighted, average LMP in the first three months of 2000 through 2018.

Table 3-80 PJM day-ahead, load-weighted, average LMP (Dollars per MWh): January through March, 2000 through 2018

| (Jan-Mar) | Day-Ahead, Load-Weighted, Average LMP | | | Year-to-Year Change | | |
|-----------|---------------------------------------|---------|--------------------|---------------------|---------|--------------------|
| | Average | Median | Standard Deviation | Average | Median | Standard Deviation |
| 2000 | NA | NA | NA | NA | NA | NA |
| 2001 | \$37.70 | \$34.55 | \$16.66 | NA | NA | NA |
| 2002 | \$23.17 | \$21.18 | \$7.76 | (38.5%) | (38.7%) | (53.4%) |
| 2003 | \$53.16 | \$48.69 | \$25.75 | 129.5% | 129.9% | 231.7% |
| 2004 | \$47.75 | \$45.02 | \$19.19 | (10.2%) | (7.5%) | (25.4%) |
| 2005 | \$46.54 | \$42.88 | \$16.46 | (2.5%) | (4.8%) | (14.2%) |
| 2006 | \$52.40 | \$49.51 | \$14.29 | 12.6% | 15.5% | (13.2%) |
| 2007 | \$54.87 | \$51.89 | \$23.16 | 4.7% | 4.8% | 62.0% |
| 2008 | \$68.00 | \$64.70 | \$24.35 | 23.9% | 24.7% | 5.1% |
| 2009 | \$49.44 | \$44.85 | \$17.54 | (27.3%) | (30.7%) | (28.0%) |
| 2010 | \$47.77 | \$43.62 | \$16.52 | (3.4%) | (2.7%) | (5.8%) |
| 2011 | \$47.14 | \$42.49 | \$17.73 | (1.3%) | (2.6%) | 7.3% |
| 2012 | \$31.51 | \$30.44 | \$6.83 | (33.2%) | (28.3%) | (61.5%) |
| 2013 | \$37.26 | \$35.02 | \$10.26 | 18.3% | 15.0% | 50.3% |
| 2014 | \$94.97 | \$56.53 | \$102.23 | 154.9% | 61.4% | 896.7% |
| 2015 | \$52.02 | \$36.94 | \$40.10 | (45.2%) | (34.7%) | (60.8%) |
| 2016 | \$27.94 | \$25.99 | \$9.28 | (46.3%) | (29.6%) | (76.8%) |
| 2017 | \$30.40 | \$27.99 | \$8.98 | 8.8% | 7.7% | (3.3%) |
| 2018 | \$47.55 | \$30.24 | \$42.58 | 56.4% | 8.0% | 374.2% |

Table 3-81 shows zonal day-ahead, and day-ahead, load-weighted, average LMP in the first three months of 2017 and 2018.

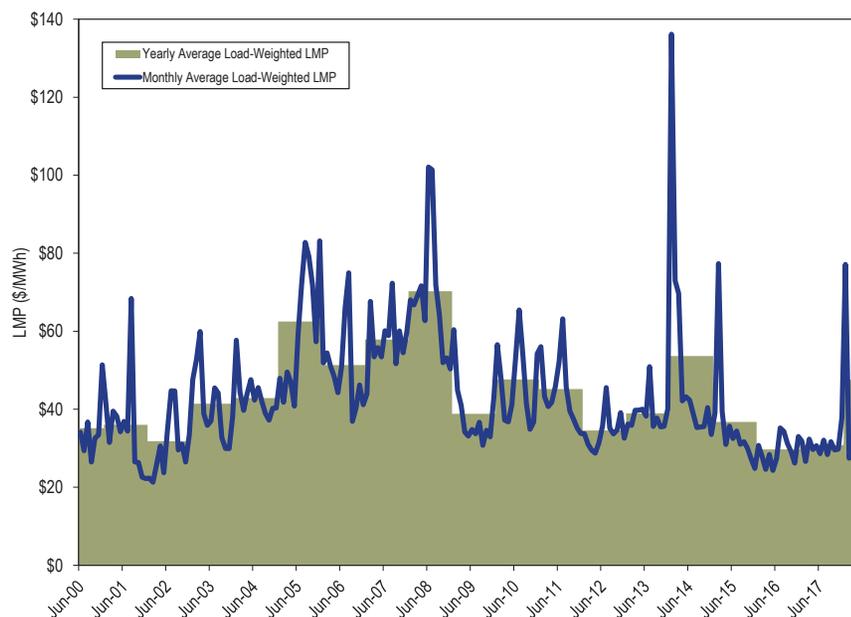
Table 3-81 Zonal day-ahead and day-ahead, load-weighted, average LMP (Dollars per MWh): January through March, 2017 and 2018

| Zone | Day-Ahead Average LMP | | | Day-Ahead, Load-Weighted, Average LMP | | |
|----------|-----------------------|----------------|----------------|---------------------------------------|----------------|----------------|
| | 2017 (Jan-Mar) | 2018 (Jan-Mar) | Percent Change | 2017 (Jan-Mar) | 2018 (Jan-Mar) | Percent Change |
| AECO | \$28.77 | \$46.75 | 62.5% | \$29.62 | \$51.31 | 73.2% |
| AEP | \$29.02 | \$40.26 | 38.7% | \$29.69 | \$43.44 | 46.3% |
| APS | \$29.93 | \$45.51 | 52.0% | \$30.80 | \$49.30 | 60.1% |
| ATSI | \$30.03 | \$42.25 | 40.7% | \$30.69 | \$44.22 | 44.1% |
| BGE | \$33.28 | \$51.90 | 56.0% | \$34.70 | \$58.36 | 68.2% |
| ComEd | \$27.18 | \$28.41 | 4.5% | \$27.70 | \$29.50 | 6.5% |
| Day | \$29.42 | \$39.86 | 35.5% | \$30.05 | \$42.52 | 41.5% |
| DEOK | \$28.40 | \$42.70 | 50.4% | \$29.05 | \$46.36 | 59.6% |
| DLCO | \$29.28 | \$41.61 | 42.1% | \$29.89 | \$44.19 | 47.8% |
| Dominion | \$31.14 | \$50.64 | 62.6% | \$32.59 | \$59.39 | 82.2% |
| DPL | \$31.33 | \$49.80 | 59.0% | \$32.80 | \$58.81 | 79.3% |
| EKPC | \$28.17 | \$35.96 | 27.7% | \$29.21 | \$40.44 | 38.4% |
| JCPL | \$29.50 | \$46.76 | 58.5% | \$30.42 | \$51.32 | 68.7% |
| Met-Ed | \$29.42 | \$47.01 | 59.8% | \$30.26 | \$51.16 | 69.1% |
| PECO | \$28.49 | \$46.64 | 63.7% | \$29.29 | \$51.34 | 75.3% |
| PENELEC | \$29.11 | \$42.96 | 47.6% | \$29.77 | \$46.12 | 54.9% |
| Pepco | \$32.12 | \$50.80 | 58.1% | \$33.32 | \$57.32 | 72.1% |
| PPL | \$29.19 | \$45.26 | 55.1% | \$30.01 | \$49.90 | 66.3% |
| PSEG | \$29.85 | \$48.04 | 61.0% | \$30.68 | \$52.40 | 70.8% |
| RECO | \$30.00 | \$46.76 | 55.9% | \$30.74 | \$50.67 | 64.8% |
| PJM | \$29.59 | \$43.59 | 47.3% | \$30.40 | \$47.55 | 56.4% |

PJM Day-Ahead, Monthly, Load-Weighted, Average LMP

Figure 3-48 shows the PJM day-ahead, monthly and annual, load-weighted LMP from June 1, 2000 through March 31, 2018.⁹¹ The PJM day-ahead monthly load-weighted average LMP in May 2016 was \$24.32, which is the lowest day-ahead monthly load-weighted average since May 2002 at \$23.74.

Figure 3-48 Day-ahead, monthly and annual, load-weighted, average LMP: June 2000 through March 2018

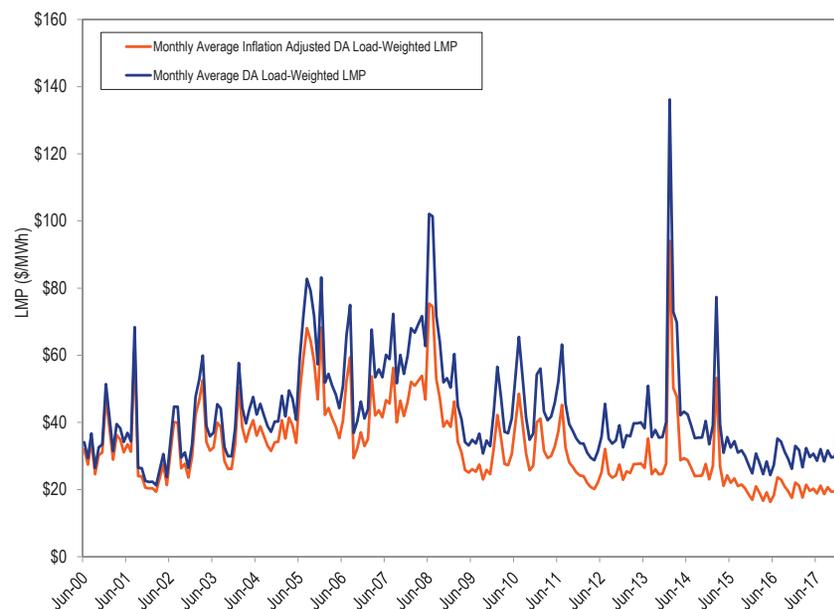


⁹¹ Since the Day-Ahead Energy Market did not start until June 1, 2000, the day-ahead data for 2000 only includes data for the last seven months of that year.

PJM Day-Ahead, Monthly, Inflation Adjusted Load-Weighted, Average LMP

Figure 3-51 shows the PJM day-ahead monthly load-weighted average LMP and inflation adjusted monthly day-ahead load-weighted average LMP for June 2000 through March 2018.⁹² The PJM day-ahead inflation adjusted monthly load-weighted average LMP in May 2016 was \$16.36, which is the lowest day-ahead monthly load-weighted average real LMP observed since PJM day-ahead markets started in 2000. Table 3-82 shows the PJM day-ahead yearly load-weighted average LMP and inflation adjusted first three months load-weighted average LMP for every year from 2000 through 2018.

Figure 3-49 PJM day-ahead, monthly, load-weighted, average LMP and day-ahead, monthly inflation adjusted load-weighted, average LMP: June 2000 through March 2018



⁹² To obtain the inflation adjusted monthly load-weighted average LMP, the PJM system-wide load-weighted average LMP is deflated using US Consumer Price Index for all items, Urban Consumers (base period: January 1998), published by Bureau of Labor Statistics. <<http://download.bls.gov/pub/time.series/cu/cu.data.1.AllItems>> (Accessed April 20, 2018).

Table 3-82 PJM day-ahead, yearly, load-weighted, average LMP and day-ahead, yearly inflation adjusted load-weighted, average LMP: 2001 through March 2018

| | Load-Weighted, Average LMP | Inflation Adjusted Load-Weighted, Average LMP |
|------|----------------------------|---|
| 2001 | \$37.70 | \$34.68 |
| 2002 | \$23.17 | \$21.04 |
| 2003 | \$53.16 | \$46.94 |
| 2004 | \$47.75 | \$41.47 |
| 2005 | \$46.54 | \$39.19 |
| 2006 | \$52.40 | \$42.57 |
| 2007 | \$54.87 | \$43.51 |
| 2008 | \$68.00 | \$51.82 |
| 2009 | \$49.44 | \$37.71 |
| 2010 | \$47.77 | \$35.59 |
| 2011 | \$47.14 | \$34.41 |
| 2012 | \$31.51 | \$22.35 |
| 2013 | \$37.26 | \$25.98 |
| 2014 | \$94.97 | \$65.40 |
| 2015 | \$52.02 | \$35.80 |
| 2016 | \$27.94 | \$19.03 |
| 2017 | \$30.40 | \$20.18 |
| 2018 | \$47.55 | \$30.93 |

Components of Day-Ahead, Load-Weighted LMP

LMPs result from the operation of a market based on security-constrained, least-cost dispatch in which marginal resources determine system LMPs, based on their offers. For physical units, those offers can be decomposed into their components including fuel costs, emission costs, variable operation and maintenance costs, markup, day-ahead scheduling reserve (DASR) adder and the 10 percent cost offer adder. INC offers, DEC bids and up to congestion transactions are dispatchable injections and withdrawals in the Day-Ahead Energy Market with an offer price that cannot be decomposed. Using identified marginal resource offers and the components of unit offers, it is possible to decompose PJM system LMP using the components of unit offers and sensitivity factors.

Cost-based offers of marginal units are separated into their component parts. The fuel related component is based on unit specific heat rates and spot fuel prices. Emission costs are calculated using spot prices for NO_x, SO₂ and CO₂ emission credits, emission rates for NO_x, emission rates for SO₂ and emission

rates for CO₂. CO₂ emission costs are applicable to PJM units in the PJM states that participate in RGGI: Delaware, Maryland and New Jersey.⁹³ Day-ahead scheduling reserve (DASR), lost opportunity cost (LOC) and DASR offer adders are the calculated contribution to LMP when redispatch of resources is needed in order to satisfy DASR requirements.

Table 3-83 shows the components of the PJM day-ahead, annual, load-weighted average LMP. In the first three months of 2018, 13.1 percent of the load-weighted LMP was the result of coal costs, 20.3 percent of the load-weighted LMP was the result of gas costs, 4.4 percent was the result of the up to congestion transaction costs, 26.2 percent was the result of DEC bid costs and 14.8 percent was the result of INC bid costs.

Table 3-83 Components of PJM day-ahead, (unadjusted), load-weighted, average LMP (Dollars per MWh): January through March, 2017 and 2018

| Element | 2017 (Jan - Mar) | | 2018 (Jan - Mar) | | Change Percent |
|------------------------------|---------------------|---------|---------------------|---------|----------------|
| | Contribution to LMP | Percent | Contribution to LMP | Percent | |
| DEC | \$7.52 | 24.7% | \$12.44 | 26.2% | 1.4% |
| Gas | \$6.40 | 21.1% | \$9.67 | 20.3% | (0.7%) |
| INC | \$5.94 | 19.5% | \$7.03 | 14.8% | (4.8%) |
| Coal | \$6.38 | 21.0% | \$6.21 | 13.1% | (7.9%) |
| Oil | \$0.03 | 0.1% | \$4.02 | 8.4% | 8.4% |
| Ten Percent Cost Adder | \$1.40 | 4.6% | \$2.21 | 4.6% | 0.0% |
| Up to Congestion Transaction | \$1.04 | 3.4% | \$2.08 | 4.4% | 1.0% |
| VOM | \$0.81 | 2.7% | \$1.97 | 4.1% | 1.5% |
| Markup | \$0.20 | 0.6% | \$0.79 | 1.7% | 1.0% |
| Dispatchable Transaction | \$0.26 | 0.9% | \$0.75 | 1.6% | 0.7% |
| Price Sensitive Demand | \$0.00 | 0.0% | \$0.30 | 0.6% | 0.6% |
| CO ₂ | \$0.09 | 0.3% | \$0.14 | 0.3% | 0.0% |
| NO _x | \$0.28 | 0.9% | \$0.05 | 0.1% | (0.8%) |
| Opportunity Cost | \$0.00 | 0.0% | \$0.02 | 0.0% | 0.0% |
| SO ₂ | \$0.04 | 0.1% | \$0.01 | 0.0% | (0.1%) |
| Uranium | \$0.00 | 0.0% | (\$0.00) | (0.0%) | (0.0%) |
| Constrained Off | \$0.00 | 0.0% | (\$0.00) | (0.0%) | (0.0%) |
| Other | \$0.01 | 0.0% | (\$0.00) | (0.0%) | (0.0%) |
| Wind | (\$0.01) | (0.0%) | (\$0.01) | (0.0%) | 0.0% |
| DASR Offer Adder | \$0.00 | 0.0% | (\$0.02) | (0.0%) | (0.0%) |
| DASR LOC Adder | \$0.00 | 0.0% | (\$0.08) | (0.2%) | (0.2%) |
| NA | \$0.00 | 0.0% | \$0.00 | 0.0% | (0.0%) |
| Total | \$30.40 | 100.0% | \$47.55 | 100.0% | (0.0%) |

⁹³ New Jersey withdrew from RGGI, effective January 1, 2012 and rejoined RGGI, effective January 29, 2018.

Table 3-84 shows the components of the PJM day-ahead, annual, load-weighted average LMP including the adjusted markup calculated by excluding the 10 percent adder from the coal, gas or oil units.

Table 3-84 Components of PJM day-ahead, (adjusted), load-weighted, average LMP (Dollars per MWh): January through March, 2017 and 2018

| Element | 2017 (Jan - Mar) | | 2018 (Jan - Mar) | | Change Percent |
|------------------------------|---------------------|---------|---------------------|---------|----------------|
| | Contribution to LMP | Percent | Contribution to LMP | Percent | |
| DEC | \$7.52 | 24.7% | \$12.44 | 26.2% | 1.4% |
| Gas | \$6.40 | 21.1% | \$9.67 | 20.3% | (0.7%) |
| INC | \$5.94 | 19.5% | \$7.03 | 14.8% | (4.8%) |
| Coal | \$6.38 | 21.0% | \$6.21 | 13.1% | (7.9%) |
| Oil | \$0.03 | 0.1% | \$4.02 | 8.4% | 8.4% |
| Markup | \$1.56 | 5.1% | \$2.95 | 6.2% | 1.1% |
| Up to Congestion Transaction | \$1.04 | 3.4% | \$2.08 | 4.4% | 1.0% |
| VOM | \$0.81 | 2.7% | \$1.97 | 4.1% | 1.5% |
| Dispatchable Transaction | \$0.26 | 0.9% | \$0.75 | 1.6% | 0.7% |
| Price Sensitive Demand | \$0.00 | 0.0% | \$0.30 | 0.6% | 0.6% |
| CO ₂ | \$0.09 | 0.3% | \$0.14 | 0.3% | 0.0% |
| NO _x | \$0.28 | 0.9% | \$0.05 | 0.1% | (0.8%) |
| Ten Percent Cost Adder | \$0.04 | 0.1% | \$0.05 | 0.1% | (0.0%) |
| Opportunity Cost | \$0.00 | 0.0% | \$0.02 | 0.0% | 0.0% |
| SO ₂ | \$0.04 | 0.1% | \$0.01 | 0.0% | (0.1%) |
| Uranium | \$0.00 | 0.0% | (\$0.00) | (0.0%) | (0.0%) |
| Constrained Off | \$0.00 | 0.0% | (\$0.00) | (0.0%) | (0.0%) |
| Other | \$0.01 | 0.0% | (\$0.00) | (0.0%) | (0.0%) |
| Wind | (\$0.01) | (0.0%) | (\$0.01) | (0.0%) | 0.0% |
| DASR Offer Adder | \$0.00 | 0.0% | (\$0.02) | (0.0%) | (0.0%) |
| DASR LOC Adder | \$0.00 | 0.0% | (\$0.08) | (0.2%) | (0.2%) |
| NA | \$0.00 | 0.0% | \$0.00 | 0.0% | (0.0%) |
| Total | \$30.40 | 100.0% | \$47.55 | 100.0% | 0.0% |

Price Convergence

The introduction of the PJM Day-Ahead Energy Market with virtuals as part of the design created the possibility that competition, exercised through the use of virtual offers and bids, could tend to cause prices in the Day-Ahead and Real-Time Energy Markets to converge more than would be the case without virtuals. Convergence is not the goal of virtual trading, but it is a possible outcome. The degree of convergence, by itself, is not a measure of the competitiveness or effectiveness of the Day-Ahead Energy Market. Price

convergence does not necessarily mean a zero or even a very small difference in prices between Day-Ahead and Real-Time Energy Markets. There may be factors, from operating reserve charges to differences in risk that result in a competitive, market-based differential. In addition, convergence in the sense that day-ahead and real-time prices are equal at individual buses or aggregates on a day to day basis is not a realistic expectation as a result of uncertainty, lags in response time and modeling differences, such as differences in modeled contingencies and marginal loss calculations, between the Day-Ahead and Real-Time Energy Market.

Where arbitrage opportunities are created by differences between day-ahead and real-time energy market expectations, reactions by market participants may lead to more efficient market outcomes but there is no guarantee that the results of virtual bids and offers will result in more efficient market outcomes.

Where arbitrage incentives are created by systematic modeling differences, such as differences between the day-ahead and real-time modeled transmission contingencies and marginal loss calculations, virtual bids and offers cannot result in more efficient market outcomes. Such offers may be profitable but cannot change the underlying reason for the price difference. The virtual transactions will continue to profit from the activity for that reason regardless of the volume of those transactions. This is termed false arbitrage.

INCs, DECs and UTCs allow participants to profit from price differences between the Day-Ahead and Real-Time Energy Market. Absent a physical position in real time, the seller of an INC must buy energy in the Real-Time Energy Market to fulfill the financial obligation to provide energy. If the day-ahead price for energy is higher than the real-time price for energy, the INC makes a profit. Absent a physical position in real time, the buyer of a DEC must sell energy in the Real-Time Energy Market to fulfill the financial obligation to buy energy. If the day-ahead price for energy is lower than the real-time price for energy, the DEC makes a profit.

The profitability of a UTC transaction is the net of the separate profitability of the component INC and DEC. A UTC can be net profitable if the profit on one side of the UTC transaction exceeds the losses on the other side.

Table 3-85 shows the number of cleared UTC transactions, the number of profitable cleared UTCs, the number of cleared UTCs that were profitable at their source point and the number of cleared UTCs that were profitable at their sink point in the first three months of 2017 and 2018. In the first three months of 2018, 50.6 percent of all cleared UTC transactions were net profitable. Of cleared UTC transactions, 65.9 percent were profitable on the source side and 34.9 were profitable on the sink side but only 5.2 percent were profitable on both the source and sink side.

Table 3-85 Cleared UTC profitability by source and sink point: January through March, 2017 and 2018⁹⁴

| Jan-Mar | Cleared UTCs | Profitable UTCs | UTC | | UTC Profitable at Source and Sink | Profitable UTC | Profitable Source | Profitable Sink | Profitable at Source and Sink |
|---------|--------------|-----------------|--------------------------|------------------------|-----------------------------------|----------------|-------------------|-----------------|-------------------------------|
| | | | Profitable at Source Bus | Profitable at Sink Bus | | | | | |
| 2017 | 6,164,808 | 3,267,720 | 4,072,387 | 2,123,007 | 299,605 | 53.0% | 66.1% | 34.4% | 4.9% |
| 2018 | 3,410,615 | 1,726,543 | 2,247,221 | 1,190,570 | 177,172 | 50.6% | 65.9% | 34.9% | 5.2% |

Table 3-86 shows the number of cleared INC and DEC transactions, the number of profitable cleared transactions in the first three months of 2017 and 2018. In the first three months of 2018, 50.6 percent of all cleared UTC transactions were net profitable. Of cleared INC and DEC transactions in the first three months of 2018, 66.6 percent of INCs were profitable and 35.7 percent of DEC were profitable.

Table 3-86 Cleared INC and DEC profitability: January through March, 2017 and 2018

| Jan-Mar | Cleared INC | Profitable INC | Profitable INC | Cleared DEC | Profitable Dec | Profitable Dec |
|---------|-------------|----------------|----------------|-------------|----------------|----------------|
| 2017 | 563,338 | 366,610 | 65.1% | 327,526 | 136,014 | 65.1% |
| 2018 | 793,590 | 528,435 | 66.6% | 482,534 | 172,054 | 35.7% |

Figure 3-50 shows total UTC daily gross profits and losses and net profits and losses in the first three months of 2018.

⁹⁴ Calculations exclude PJM administrative charges.

Figure 3-50 UTC daily gross profits and losses and net profits: January through March, 2018⁹⁵

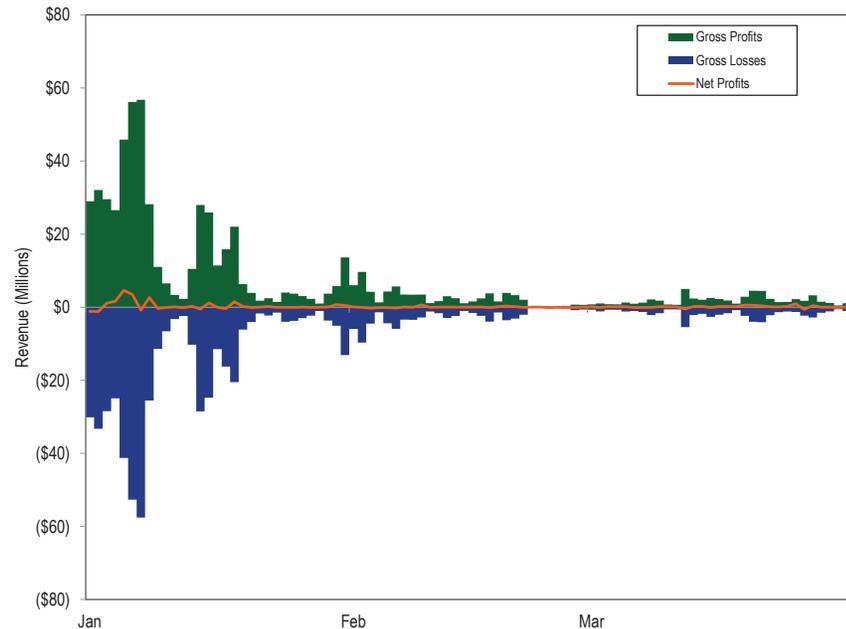


Figure 3-51 shows the cumulative UTC daily profits for January 1, 2013 through March 31, 2018. UTC profits during this period were primarily a result of significant unanticipated price differences between day ahead and real time LMPs. The large increases in cumulative daily UTC profits were due to PJM events that resulted in high real time LMPs. For example, the cumulative daily UTC profits in 2014 were greater than for the other three years as a result of profits from the significant and unanticipated day-ahead and real-time price differences that resulted from the polar vortex conditions in January 2014. The cumulative daily UTC profits increased during late February 2015 as a result of profits from the significant day-ahead and real-time prices differences that resulted from cold weather conditions. The cumulative daily UTC profits increased during late September and December 2017 as a result

⁹⁵ Calculations exclude PJM administrative charges.

of profits from the significant day-ahead and real-time price difference that resulted from the shortage event on September 21, 2017 and cold weather in late December.

Figure 3-51 Cumulative daily UTC profits: January 2013 through March 2018

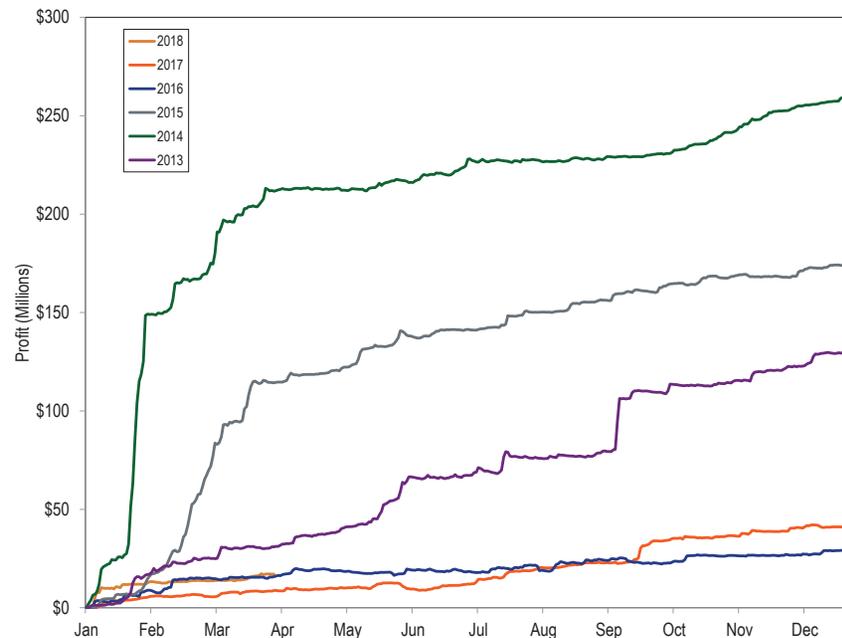


Table 3-87 shows UTC profits by month for January 1, 2013 through March 31, 2018. May 2016, September 2016 and February 2017 were the only months in the past six years where the total monthly profits were negative.

Table 3-87 UTC profits by month: January 2013 through March 2018

| | January | February | March | April | May | June | July | August | September | October | November | December | Total |
|------|---------------|--------------|--------------|-------------|---------------|-------------|-------------|-------------|---------------|--------------|--------------|--------------|---------------|
| 2013 | \$17,048,654 | \$8,304,767 | \$5,629,392 | \$7,560,773 | \$25,219,947 | \$3,484,372 | \$8,781,526 | \$2,327,168 | \$31,160,618 | \$4,393,583 | \$8,730,701 | \$6,793,990 | \$129,435,490 |
| 2014 | \$148,973,434 | \$23,235,621 | \$39,448,716 | \$1,581,786 | \$3,851,636 | \$7,353,460 | \$3,179,356 | \$287,824 | \$2,727,763 | \$10,889,817 | \$11,042,443 | \$6,191,101 | \$258,762,955 |
| 2015 | \$16,132,319 | \$53,830,098 | \$44,309,656 | \$6,392,939 | \$19,793,475 | \$824,817 | \$8,879,275 | \$5,507,608 | \$6,957,012 | \$4,852,454 | \$392,876 | \$6,620,581 | \$174,493,110 |
| 2016 | \$8,874,363 | \$6,118,477 | \$1,119,457 | \$2,768,591 | (\$1,333,563) | \$841,706 | \$3,128,346 | \$3,200,573 | (\$2,518,408) | \$4,216,717 | \$254,684 | \$3,271,368 | \$29,942,312 |
| 2017 | \$5,716,757 | (\$17,860) | \$3,083,167 | \$944,939 | \$1,245,988 | \$868,400 | \$7,053,390 | \$4,002,063 | \$10,960,012 | \$2,360,817 | \$2,716,950 | \$15,936,217 | \$54,870,839 |
| 2018 | \$13,184,346 | \$506,509 | \$3,410,577 | | | | | | | | | | \$17,101,431 |

There are incentives to use virtual transactions to profit from price differences between the Day-Ahead and Real-Time Energy Markets, but there is no guarantee that such activity will result in price convergence and no data to support that claim. As a general matter, virtual offers and bids are based on expectations about both day-ahead and real-time energy market conditions and reflect the uncertainty about conditions in both markets and the fact that these conditions change hourly and daily. PJM markets do not provide a mechanism that could result in immediate convergence after a change in system conditions as there is at least a one day lag after any change in system conditions before offers could reflect such changes.

Table 3-88 Day-ahead and real-time average LMP (Dollars per MWh): January through March, 2017 and 2018⁹⁶

| | 2017 (Jan-Mar) | | | | 2018 (Jan-Mar) | | | |
|-----------------------------|----------------|-----------|------------|----------------------|----------------|-----------|------------|----------------------|
| | Day-Ahead | Real-Time | Difference | Percent of Real Time | Day-Ahead | Real-Time | Difference | Percent of Real Time |
| Average | \$29.59 | \$29.39 | (\$0.20) | (0.7%) | \$43.59 | \$44.65 | \$1.07 | 2.4% |
| Median | \$27.33 | \$25.71 | (\$1.62) | (6.3%) | \$29.01 | \$26.83 | (\$2.18) | (8.1%) |
| Standard deviation | \$8.54 | \$12.28 | \$3.74 | 30.5% | \$38.64 | \$49.68 | \$11.04 | 22.2% |
| Peak average | \$32.48 | \$31.77 | (\$0.70) | (2.2%) | \$46.66 | \$45.42 | (\$1.24) | (2.7%) |
| Peak median | \$30.39 | \$27.91 | (\$2.47) | (8.9%) | \$32.23 | \$28.96 | (\$3.27) | (11.3%) |
| Peak standard deviation | \$8.54 | \$12.44 | \$3.90 | 31.4% | \$39.79 | \$42.48 | \$2.69 | 6.3% |
| Off peak average | \$26.99 | \$27.24 | \$0.25 | 0.9% | \$40.82 | \$43.96 | \$3.14 | 7.2% |
| Off peak median | \$24.42 | \$23.79 | (\$0.63) | (2.6%) | \$26.23 | \$25.09 | (\$1.15) | (4.6%) |
| Off peak standard deviation | \$7.66 | \$11.74 | \$4.07 | 34.7% | \$37.37 | \$55.38 | \$18.01 | 32.5% |

⁹⁶ The averages used are the annual average of the hourly average PJM prices for day-ahead and real-time.

Substantial virtual trading activity does not guarantee that market power cannot be exercised in the Day-Ahead Energy Market. Hourly and daily price differences between the Day-Ahead and Real-Time Energy Markets fluctuate continuously and substantially from positive to negative. There may be substantial, persistent differences between day-ahead and real-time prices even on a monthly basis (Figure 3-53).

Table 3-88 shows that the difference between the average real-time price and the average day-ahead price was -\$0.20 per MWh in the first three months of 2017, and \$1.07 per MWh in the first three months of 2018. The difference between average peak real-time price and the average peak day-ahead price was -\$0.70 per MWh in the first three months of 2017 and -\$1.24 per MWh in the first three months of 2018.

The price difference between the Real-Time and the Day-Ahead Energy Markets results in part, from conditions in the Real-Time Energy Market that are difficult, or impossible, to anticipate in the Day-Ahead Energy Market.

Table 3-89 shows the difference between the real-time and the day-ahead energy market prices for the first three months of 2001 through 2018.

Table 3-89 Day-ahead and real-time average LMP (Dollars per MWh): January through March, 2001 through 2018

| (Jan-Mar) | Day-Ahead | Real-Time | Difference | Percent of Real Time |
|-----------|-----------|-----------|------------|----------------------|
| 2001 | \$36.45 | \$33.77 | (\$2.68) | (7.3%) |
| 2002 | \$22.43 | \$22.23 | (\$0.20) | (0.9%) |
| 2003 | \$51.20 | \$49.57 | (\$1.63) | (3.2%) |
| 2004 | \$45.84 | \$46.37 | \$0.52 | 1.1% |
| 2005 | \$45.14 | \$46.51 | \$1.37 | 3.0% |
| 2006 | \$51.23 | \$52.98 | \$1.75 | 3.4% |
| 2007 | \$52.76 | \$55.34 | \$2.58 | 4.9% |
| 2008 | \$66.10 | \$66.75 | \$0.65 | 1.0% |
| 2009 | \$47.41 | \$47.29 | (\$0.12) | (0.2%) |
| 2010 | \$46.13 | \$44.13 | (\$2.00) | (4.3%) |
| 2011 | \$45.60 | \$44.76 | (\$0.84) | (1.8%) |
| 2012 | \$30.82 | \$30.38 | (\$0.43) | (1.4%) |
| 2013 | \$36.46 | \$36.33 | (\$0.13) | (0.4%) |
| 2014 | \$86.52 | \$84.04 | (\$2.48) | (2.9%) |
| 2015 | \$48.62 | \$47.39 | (\$1.23) | (2.5%) |
| 2016 | \$26.90 | \$25.60 | (\$1.30) | (4.8%) |
| 2017 | \$29.59 | \$29.39 | (\$0.20) | (0.7%) |
| 2018 | \$43.59 | \$44.65 | \$1.07 | 2.4% |

Table 3-90 provides frequency distributions of the differences between PJM real-time hourly LMP and PJM day-ahead hourly LMP for January through March, 2017 and 2018.

Table 3-90 Frequency distribution by hours of PJM real-time LMP minus day-ahead LMP (Dollars per MWh): January through March, 2017 and 2018

| LMP | 2017 (Jan-Mar) | | 2018 (Jan-Mar) | |
|----------------------|----------------|--------------------|----------------|--------------------|
| | Frequency | Cumulative Percent | Frequency | Cumulative Percent |
| < (\$1,000) | 0 | 0.00% | 0 | 0.00% |
| (\$1,000) to (\$750) | 0 | 0.00% | 0 | 0.00% |
| (\$750) to (\$500) | 0 | 0.00% | 0 | 0.00% |
| (\$500) to (\$450) | 0 | 0.00% | 0 | 0.00% |
| (\$450) to (\$400) | 0 | 0.00% | 0 | 0.00% |
| (\$400) to (\$350) | 0 | 0.00% | 0 | 0.00% |
| (\$350) to (\$300) | 0 | 0.00% | 0 | 0.00% |
| (\$300) to (\$250) | 0 | 0.00% | 0 | 0.00% |
| (\$250) to (\$200) | 0 | 0.00% | 0 | 0.00% |
| (\$200) to (\$150) | 0 | 0.00% | 1 | 0.05% |
| (\$150) to (\$100) | 0 | 0.00% | 3 | 0.19% |
| (\$100) to (\$50) | 0 | 0.00% | 25 | 1.34% |
| (\$50) to \$0 | 1,443 | 66.84% | 1,427 | 67.44% |
| \$0 to \$50 | 707 | 99.58% | 630 | 96.62% |
| \$50 to \$100 | 8 | 99.95% | 48 | 98.84% |
| \$100 to \$150 | 1 | 100.00% | 13 | 99.44% |
| \$150 to \$200 | 0 | 100.00% | 4 | 99.63% |
| \$200 to \$250 | 0 | 100.00% | 5 | 99.86% |
| \$250 to \$300 | 0 | 100.00% | 1 | 99.91% |
| \$300 to \$350 | 0 | 100.00% | 1 | 99.95% |
| \$350 to \$400 | 0 | 100.00% | 0 | 99.95% |
| \$400 to \$450 | 0 | 100.00% | 1 | 100.00% |
| \$450 to \$500 | 0 | 100.00% | 0 | 100.00% |
| \$500 to \$750 | 0 | 100.00% | 0 | 100.00% |
| \$750 to \$1,000 | 0 | 100.00% | 0 | 100.00% |
| \$1,000 to \$1,250 | 0 | 100.00% | 0 | 100.00% |
| >= \$1,250 | 0 | 100.00% | 0 | 100.00% |

Figure 3-52 shows the hourly differences between day-ahead and real-time hourly LMP in the first three months of 2018.

Figure 3-52 Real-time hourly LMP minus day-ahead hourly LMP: January through March, 2018

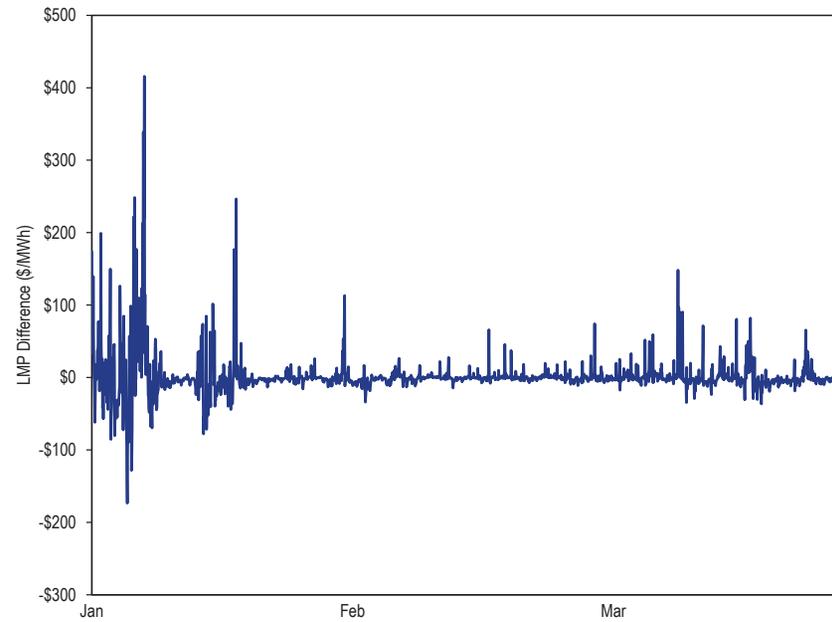


Figure 3-53 shows the monthly average of the differences between the day-ahead and real-time PJM average LMPs from January 1, 2013, through March 31, 2018.

Figure 3-53 Monthly average of real-time minus day-ahead LMP: January 2013 through March 2018

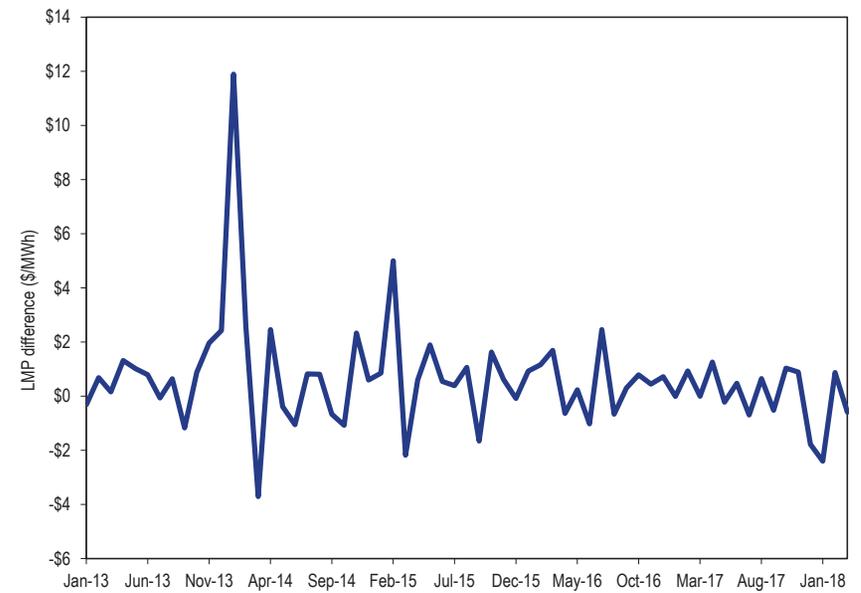


Figure 3-54 shows the monthly average of the absolute value of the differences between the day-ahead and real-time hourly, nodal LMPs from January 1, 2013, through March 31, 2018.

Figure 3-54 Monthly average of the absolute value of real-time minus day-ahead LMP by nnode: January 2013 through March 2018

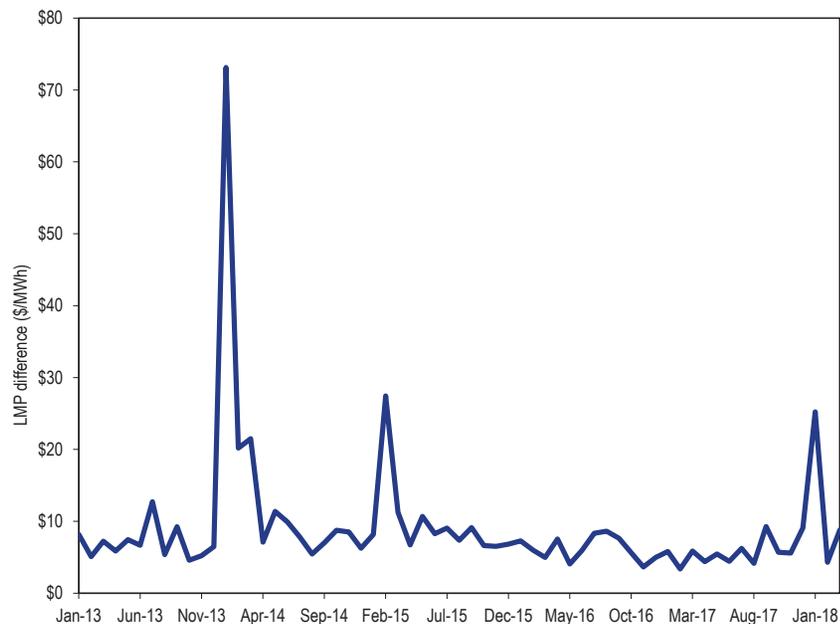
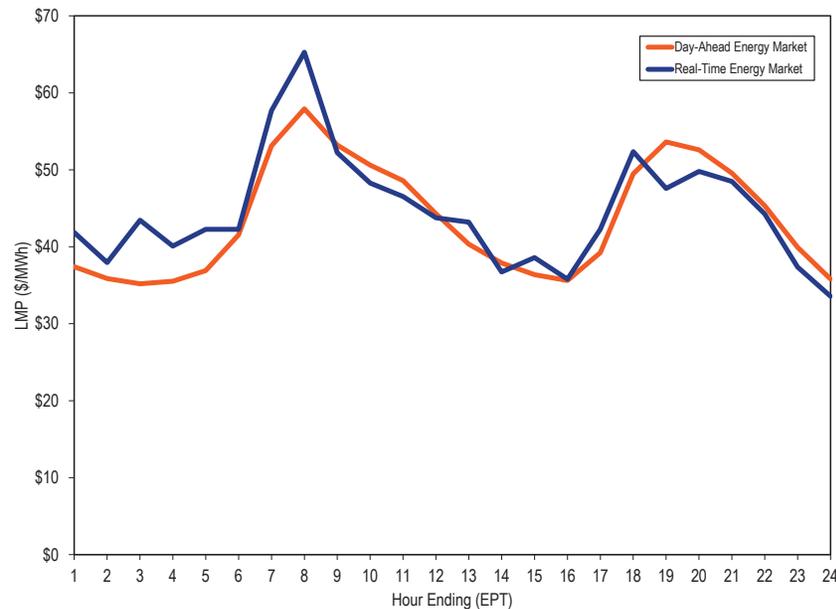


Figure 3-55 shows day-ahead and real-time LMP on an average hourly basis for the first three months of 2018. Hour ending 3 had the largest difference between the DA and RT LMP, at \$8.27 per MWh, and hour ending 16 had the smallest difference at \$0.19 per MWh. The average for the first three months of 2018 was \$1.07 per MWh higher in the RT LMP than DA LMP.

Figure 3-55 PJM system hourly average LMP: January through March, 2018



Scarcity

PJM's energy market did not experience any shortage pricing events in the first three months of 2018. Table 3-91 shows a summary of the number of days emergency alerts, warnings and actions were declared in PJM in the first three months of 2017 and 2018.

Table 3-91 Summary of emergency events declared: January through March, 2017 and 2018

| Event Type | Number of days events declared | |
|---|--------------------------------|-----------------|
| | Jan – Mar, 2017 | Jan – Mar, 2018 |
| Cold Weather Alert | 0 | 12 |
| Hot Weather Alert | 0 | 0 |
| Maximum Emergency Generation Alert | 0 | 0 |
| Primary Reserve Alert | 0 | 0 |
| Voltage Reduction Alert | 0 | 0 |
| Primary Reserve Warning | 0 | 0 |
| Voltage Reduction Warning | 0 | 0 |
| Pre Emergency Mandatory Load Management Reduction Action | 0 | 0 |
| Emergency Mandatory Load Management Reduction Action (30, 60 or 120 minute lead time) | 0 | 0 |
| Maximum Emergency Action | 0 | 0 |
| Emergency Energy Bids Requested | 0 | 0 |
| Voltage Reduction Action | 0 | 0 |
| Shortage Pricing | 0 | 0 |
| Energy export recalls from PJM capacity resources | 0 | 0 |

Figure 3-56 shows the number of days that weather and capacity emergency alerts were issued in PJM in the first three months from 2014 through 2018. Figure 3-57 shows the number of days emergency warnings were issued and actions were taken in PJM in the first three months from 2014 through 2018.

Figure 3-56 PJM declared emergency alerts: January through March, 2014 through 2018

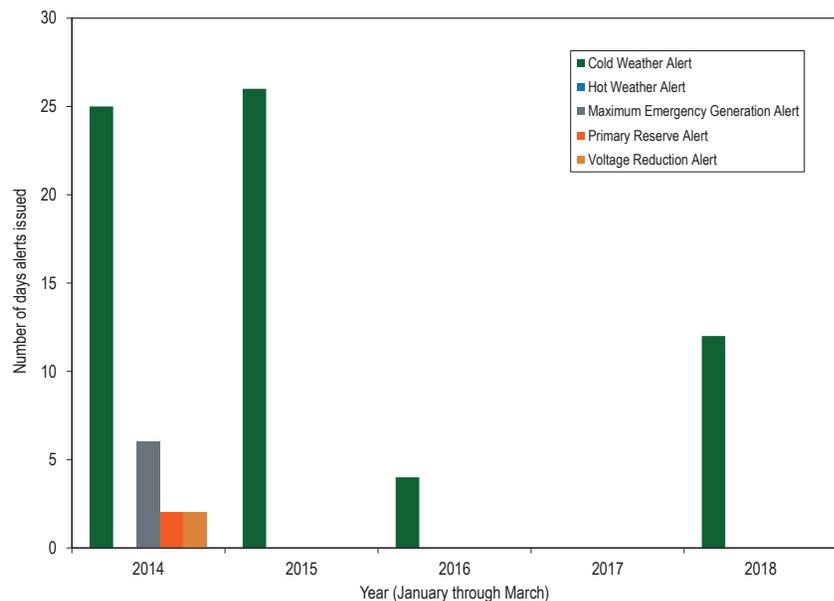
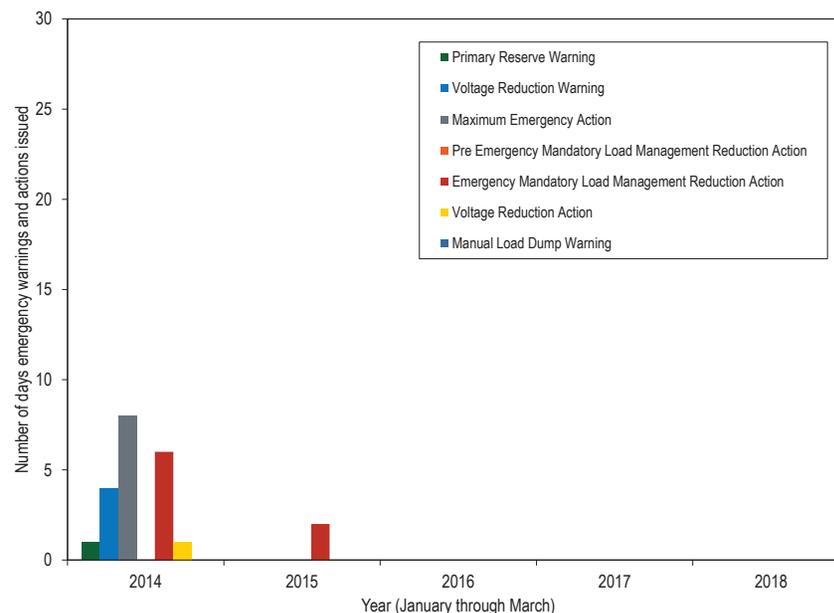


Figure 3-57 PJM declared emergency warnings and actions: January through March, 2014 through 2018



Emergency Procedures

PJM declares alerts at least a day prior to the operating day to warn members of possible emergency actions that could be taken during the operating day. In real time, on the operating day, PJM issues warnings notifying members of system conditions that could result in emergency actions during the operating day.

PJM declared cold weather alerts on 12 days in the first three months of 2018 compared to zero days in the first three months of 2017.⁹⁷ The purpose of a cold weather alert is to prepare personnel and facilities for expected

⁹⁷ See PJM, "Manual 13: Emergency Operations," Rev. 65 (Jan. 1, 2018), Section 3.3 Cold Weather Alert, p. 56.

extreme cold weather conditions, generally when temperatures are forecast to approach or fall below 10 degrees Fahrenheit.

PJM did not declare any hot weather alerts in the first three months of 2018 and 2017.⁹⁸ The purpose of a hot weather alert is to prepare personnel and facilities for expected extreme hot and humid weather conditions, generally when temperatures are forecast to exceed 90 degrees Fahrenheit with high humidity.

PJM did not declare any maximum emergency generation alerts in the first three months of 2018 and 2017. The purpose of a maximum emergency generation alert is to provide an alert at least one day prior to the operating day that system conditions may require use of PJM emergency actions. It is called to alert PJM members that maximum emergency generation may be requested in the operating capacity.⁹⁹ This means that if PJM directs members to load maximum emergency generation during the operating day, the resources must be able to increase generation above the maximum economic level of their offer.

PJM did not declare any primary reserve alerts in the first three months of 2018 and 2017. The purpose of a primary reserve alert is to alert members at least one day prior to the operating day that available primary reserves are anticipated to be short of the primary reserve requirement on the operating day.¹⁰⁰ It is issued when the estimated primary reserves are less than the forecast primary reserve requirement.

PJM did not declare any voltage reduction alerts in the first three months of 2018 and 2017. The purpose of a voltage reduction alert is to alert members at least one day prior to the operating day that a voltage reduction may be required on the operating day.¹⁰¹ It is issued when the estimated operating reserve is less than the forecast synchronized reserve requirement.

⁹⁸ See PJM. "Manual 13: Emergency Operations," Rev. 65 (Jan. 1, 2018), Section 3.4 Hot Weather Alert, p. 60.

⁹⁹ See PJM. "Manual 13: Emergency Operations," Rev. 65 (Jan. 1, 2018), Section 2.3.1 Advance Notice Emergency Procedures: Alerts, p. 23.

¹⁰⁰ *Id.* at 24.

¹⁰¹ *Id.* at 25.

PJM did not declare any primary reserve warning in the first three months of 2018 and 2017. The purpose of a primary reserve warning is to warn members that available primary reserves are less than the primary reserve requirement but greater than the synchronized reserve requirement.¹⁰²

PJM did not declare any voltage reduction warnings or reductions of noncritical plant load in the first three months of 2018 and 2017. The purpose of a voltage reduction warning and reduction of noncritical plant load is to warn members that available synchronized reserves are less than the synchronized reserve requirement and that a voltage reduction may be required. It can be issued for the RTO or for specific control zones.

PJM did not declare any emergency mandatory load management reductions in the first three months of 2018 and 2017. The purpose of emergency mandatory load management is to request curtailment service providers (CSP) to implement load reductions from demand resources registered in PJM demand response programs that have a lead time of between one and two hours (long lead time) and a lead time of up to one hour (short lead time). Starting in June 2014, PJM combined the long lead and short lead emergency load management action procedures into Emergency Mandatory Load Management Reduction Action (30, 60 or 120 minute lead time). PJM dispatch declares NERC Energy Emergency Alert level 2 (EEA2) concurrent with Emergency Mandatory load Management Reductions. PJM also added a Pre-Emergency Mandatory Load Management Reduction Action (30, 60 or 120 minute lead time) step to request load reductions before declaring emergency load management reductions.¹⁰³

PJM did not declare any maximum emergency generation actions in the first three months of 2018 and 2017. The purpose of a maximum emergency generation action is to request generators to increase output to the maximum emergency level which unit owners may define at a level above the maximum economic level.¹⁰⁴ A maximum emergency generation action can be issued for the RTO, for specific control zones or for parts of control zones.

¹⁰² *Id.* at 33.

¹⁰³ See PJM. "Manual 13: Emergency Operations," Rev. 65 (Jan. 1, 2018), Section 2.3 Capacity Shortages, at 30–32.

¹⁰⁴ *Id.* at 34.

PJM did not request any offers for emergency energy purchases in the first three months of 2018 and 2017.

PJM did not declare any voltage reduction actions in the first three months of 2018 and 2017. The purpose of a voltage reduction is to reduce load to provide sufficient reserves, to maintain tie flow schedules, and to preserve limited energy sources. When a voltage reduction action is issued for a reserve zone or subzone, the primary reserve penalty factor and synchronized reserve penalty factor are incorporated into the synchronized and nonsynchronized reserve market clearing prices and locational marginal prices until the voltage reduction action has been terminated.

PJM declared three synchronized reserve events in the first three months of 2018 compared to nine events in the first three months of 2017.¹⁰⁵ Synchronized reserve events may occur at any time of the year due to sudden loss of generation or transmission facilities, or sudden loss of imports, and do not necessarily coincide with capacity emergency conditions such as maximum generation emergency events or emergency load management events.

Table 3-92 provides a description of PJM declared emergency procedures.

Table 3-92 Description of emergency procedures

| Emergency Procedure | Purpose |
|--|---|
| Cold Weather Alert | To prepare personnel and facilities for extreme cold weather conditions, generally when forecast weather conditions approach minimum or temperatures fall below ten degrees Fahrenheit. |
| Hot Weather Alert | To prepare personnel and facilities for extreme hot and/or humid weather conditions, generally when forecast temperatures exceed 90 degrees with high humidity. |
| Maximum Emergency Generation Alert | To provide an early alert at least one day prior to the operating day that system conditions may require the use of the PJM emergency procedures and resources must be able to increase generation above the maximum economic level of their offers. |
| Primary Reserve Alert | To alert members of a projected shortage of primary reserve for a future period. It is implemented when estimated primary reserve is less than the forecast requirement. |
| Voltage Reduction Alert | To alert members that a voltage reduction may be required during a future critical period. It is implemented when estimated reserve capacity is less than forecasted synchronized reserve requirement. |
| Pre-Emergency Load Management Reduction Action | To request load reductions from customers registered in the PJM Demand Response program that need 30, 60, or 120 minute lead time before declaring emergency load management reductions |
| Emergency Mandatory Load Management Reduction Action | To request load reductions from customers registered in the PJM Demand Response program that need 30, 60, or 120 minute lead time to provide additional load relief, generally declared simultaneously with NERC Energy Emergency Alert Level 2 (EEA2) |
| Primary Reserve Warning | To warn members that available primary reserve is less than required and present operations are becoming critical. It is implemented when available primary reserve is less than the primary reserve requirement but greater than the synchronized reserve requirement. |
| Maximum Emergency Generation Action | To provide real time notice to increase generation above the maximum economic level. It is implemented whenever generation is needed that is greater than the maximum economic level. |
| Voltage Reduction Warning & Reduction of Non-Critical Plant Load | To warn members that actual synchronized reserves are less than the synchronized reserve requirement and that voltage reduction may be required. |
| Deploy All Resources Action | For emergency events that do not evolve over time, but rather develop rapidly and without prior warning, PJM issues this action to instruct all generation resources to be online immediately and to all load management resources to reduce load immediately. |
| Manual Load Dump Warning | To warn members of the critical condition of present operations that may require manually dumping load. Issued when available primary reserve capacity is less than the largest operating generator or the loss of a transmission facility jeopardizes reliable operations after all other possible measures are taken to increase reserve. |
| Voltage Reduction Action | To reduce load to provide sufficient reserve capacity to maintain tie flow schedules and preserve limited energy sources. It is implemented when load relief is needed to maintain tie schedules. |
| Manual Load Dump Action | To provide load relief when all other possible means of supplying internal PJM RTO load have been used to prevent a catastrophe within the PJM RTO or to maintain tie schedules so as not to jeopardize the reliability of the other interconnected regions. |

¹⁰⁵ See 2018 Quarterly State of the Market Report for PJM: January through March, Section 10: Ancillary Service Markets for details on the spinning events.

Table 3-93 shows the dates when emergency alerts and warnings were declared and when emergency actions were implemented in the first three months of 2018.

Table 3-93 PJM declared emergency alerts, warnings and actions: January through March, 2018

| Date | Cold Weather Alert | Hot Weather Alert | Maximum Emergency Generation Alert | Primary Reserve Alert | Voltage Reduction Alert | Primary Reserve Warning | Voltage Reduction Warning and Reduction of Non-Critical Plant Load | Maximum Emergency Generation Action | Pre-Emergency Mandatory Load Management Reduction | Emergency Mandatory Load Management Reduction | Voltage Reduction | Manual Load Dump Warning |
|-----------|--------------------|-------------------|------------------------------------|-----------------------|-------------------------|-------------------------|--|-------------------------------------|---|---|-------------------|--------------------------|
| 1/1/2018 | PJM RTO | | | | | | | | | | | |
| 1/2/2018 | PJM RTO | | | | | | | | | | | |
| 1/3/2018 | Western | | | | | | | | | | | |
| 1/4/2018 | Western | | | | | | | | | | | |
| 1/5/2018 | PJM RTO | | | | | | | | | | | |
| 1/6/2018 | PJM RTO | | | | | | | | | | | |
| 1/7/2018 | PJM RTO | | | | | | | | | | | |
| 1/14/2018 | Western | | | | | | | | | | | |
| 1/16/2018 | Western | | | | | | | | | | | |
| 1/17/2018 | Western | | | | | | | | | | | |
| 2/5/2018 | ComEd | | | | | | | | | | | |
| 2/6/2018 | ComEd | | | | | | | | | | | |

Scarcity and Scarcity Pricing

In electricity markets, scarcity means that demand, including reserve requirements, is nearing the limits of the available capacity of the system. Under the PJM rules that were in place through September 30, 2012, high prices, or scarcity pricing, resulted from high offers by individual generation owners for specific units when the system was close to its available capacity. But this was not an efficient way to manage scarcity pricing and made it difficult to distinguish between market power and scarcity pricing. PJM refers to scarcity pricing as shortage pricing. The terms are used interchangeably here.

On October 1, 2012, PJM introduced a new administrative scarcity pricing regime. Under these market rules, shortage pricing conditions are triggered when there is a shortage of synchronized or primary reserves in the RTO or in the Mid-Atlantic and Dominion (MAD) Subzone. In times of reserve shortage, the value of reserves is included as a penalty factor in the optimization and in the price of energy.¹⁰⁶ Shortage pricing is also triggered when PJM issues a voltage reduction action or a manual load dump action for a reserve zone or a reserve subzone. When shortage pricing is triggered, the reserve penalty factors are incorporated in the calculation of the market clearing prices for the reserve that is short. The market clearing prices for reserves during reserve shortages in real time were determined based on vertical demand curves for synchronized and primary reserves, defined for the Mid-Atlantic Region and for the entire RTO, called the Operating Reserve Demand Curves (ORDC). The penalty factors for the reserve products in the ORDC started at \$250 per MWh for the 2012/2013 Delivery Year and gradually increased to \$850 per MWh for the 2015/2016 Delivery Year.

In 2015, PJM revised the rules to add a conditional second step to the operating reserve demand curves, that is only in effect during hot weather alerts, cold weather alerts and other emergency conditions, to allow PJM to procure additional reserves at a lower clearing price of \$300 per MWh.¹⁰⁷ When there are no emergency conditions in place, the ORDC remains a single-step curve.

¹⁰⁶ See OA Schedule 1 § 2.2(d).

¹⁰⁷ 151 FERC ¶ 61,017 (2015).

On May 11, 2017, PJM made revisions to the triggers for shortage pricing and implemented five minute shortage pricing in response to Order No. 825. These revisions did not change the operating reserve demand curves.

On July 12, 2017, PJM implemented updates to the Operating Reserve Demand Curves that determine the value of the penalty factors that are incorporated in the calculation of the synchronized and primary reserve market clearing prices and the locational marginal price for energy. PJM added an extended reserve requirement to the operating reserve demand curves. The extended synchronized reserve requirement is defined as the synchronized reserve requirement plus 190 MW. The extended primary reserve requirement is defined as the primary reserve requirement plus 190 MW. PJM retains the ability to add a conditional extended reserve requirement during hot weather alerts, cold weather alerts or other emergencies that would increase the extended reserve requirement beyond 190 MW.

In the first three months of 2018, there were no shortage pricing events in PJM.

Final Rule on Shortage Pricing and Settlement Intervals (Order No. 825)

On September 17, 2015, the Commission issued a Notice of Proposed Rulemaking (NOPR) in which the Commission proposed to address price formation issues in RTOs/ISOs (“price formation NOPR”).¹⁰⁸ In particular, the price formation NOPR proposed (i) to require the alignment of settlement and dispatch intervals for energy and operating reserves; and (ii) to require that each RTO/ISO trigger shortage pricing for any dispatch interval during which a shortage of energy or operating reserves occurs. These proposed reforms are intended to ensure that resources have price signals that provide incentives to conform their output to dispatch instructions, and that prices reflect operating needs at each dispatch interval.¹⁰⁹

¹⁰⁸ 152 FERC ¶ 61,218 (2015).

¹⁰⁹ *Id.* at P. 5.

The Commission required each RTO/ISO to trigger shortage pricing for any dispatch and pricing interval in which a shortage of energy or operating reserves is indicated by the RTO/ISO’s software.¹¹⁰ As of May 11, 2017, the rule requires PJM to trigger shortage pricing for any five minute interval for which the Real-Time SCED (Security Constrained Economic Dispatch) indicates a shortage of synchronized reserves or primary reserves. Prior to May 11, 2017, if the dispatch tools (Intermediate-Term and Real-Time SCED) reflect a shortage of reserves (primary or synchronized) for a time period shorter than a defined threshold (30 minutes) due to ramp limitations or unit startup delays, it was considered a transient shortage, a shortage event was not declared, and shortage pricing was not implemented. Both Real-Time SCED and Intermediate-Term SCED had to consistently identify that a shortage of a particular reserve product existed for a period of at least 30 minutes to trigger the shortage pricing penalty factor for that reserve product. For example, if Real-Time SCED indicated a shortage of RTO wide primary reserve for an interval but the Intermediate-Term SCED forecasts that the reserve shortage did not extend beyond its first look ahead interval (15 minutes ahead of the Real-Time SCED interval), it was considered a transient shortage, and shortage pricing was not implemented. If Real-Time SCED indicated a shortage of RTO wide primary reserve for an interval and the Intermediate-Term SCED forecasts that the reserve shortage extended for at least two look ahead intervals (30 minutes ahead of the Real-Time SCED interval), shortage pricing was implemented.

The rationale for including voltage reduction actions and manual load dump actions as triggers for shortage pricing is to reflect the fact that when dispatchers need to take these emergency actions to maintain reliability, the system is short reserves and prices should reflect that condition, even if the data does not show a shortage of reserves.¹¹¹

PJM Compliance Filing on Shortage Pricing

On January 11, 2017, PJM filed proposed tariff revisions to comply with Order No. 825 and requested a simultaneous implementation date of February 1,

¹¹⁰ *Id.* at P. 162.

¹¹¹ See, e.g., Scarcity and Shortage Pricing, Offer Mitigation and Offer Caps Workshop, Docket No. AD14-14-000, Transcript 29:21-30:14 (Oct. 28, 2014).

2018, for the settlement interval reforms and shortage pricing reforms.¹¹² In the January 11th Compliance Filing, PJM proposed to implement shortage pricing through the inclusion of the Reserve Penalty Factors in real-time LMPs when the real-time security constrained economic dispatch software determines that a primary reserve or synchronized reserve shortage exists on a five minute basis.

On February 1, 2017, the MMU filed comments generally supporting the January 11th Compliance Filing but seeking a number of refinements.¹¹³ The MMU recommended that: (i) the PJM rules require that dispatchable resources have five minute meters so that there can be accurate five minute settlements; (ii) the rules clarify the settlement interval applicable to withdrawals by generators; (iii) the exemption of DR from the five minute settlements requirement be removed; (iv) the rules consistently provide for division by 12; (v) that the rules include a precise mathematical formulation of deviation charges with clear definitions of withdrawals and injections, units of measurement, and time periods; and (vi) that the rules require PJM to document biasing practices that affect market outcomes, as used in SCED (Security Constrained Economic Dispatch) and ASO (Ancillary Services Optimizer) and to report its application of biasing.¹¹⁴

On May 11, 2017, PJM implemented five minute shortage pricing. From May 11 through December 31, there were 21 intervals when five minute shortage pricing was triggered, all on the same day, September 21.

PJM Tariff Revisions to Operating Reserve Demand Curves

On May 12, 2017, PJM submitted tariff revisions to reflect changes to the Operating Reserve Demand Curves (ORDC) used in the Real-Time Energy Market to price shortage of primary reserves and synchronized reserves.¹¹⁵ The updates to the ORDC went into effect on July 12, 2017.

PJM revised the synchronized reserve requirement in a reserve zone or a subzone from the economic maximum of the largest unit on the system to 100 percent of the actual output of the single largest online unit in that reserve zone or subzone. PJM revised the primary reserve requirement in a reserve zone or a subzone from 150 percent of the economic maximum of the largest unit on the system to 150 percent of the actual output of the single largest online unit in that reserve zone or subzone. The first step of the demand curves for primary and synchronized reserves are set at the primary and synchronized reserve requirement. Since the primary and synchronized reserve requirements are based on the actual output of the largest resource, the MW value of the first step changes in real time based on the real-time dispatch solution. The first step continues to be priced at \$850 per MWh. PJM also added a permanent second step to the primary and synchronized reserve demand curves, set at the extended primary and synchronized reserve requirements. The extended primary and synchronized reserve requirements are defined as the primary and synchronized reserve requirements, plus 190 MW. This 190 MW second step is priced at \$300 per MWh. Figure 3-58 shows an example of the updated synchronized reserve demand curve when the output of the single largest unit in the region equals 1,000 MW.

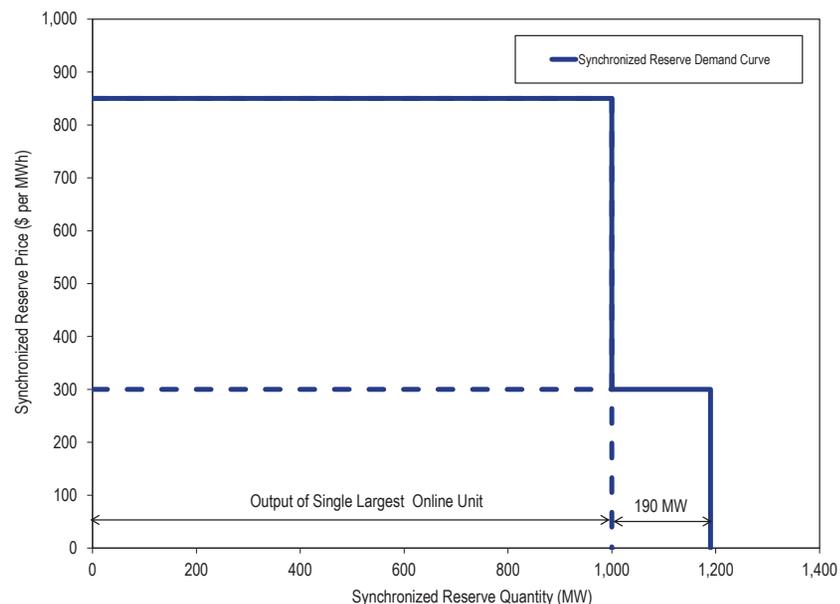
¹¹² See *PJM Interconnection LLC*, Order No. 825 Compliance Filing, Docket No. ER17-775 (January 11, 2017) (“January 11th Compliance Filing”).

¹¹³ Comments of the Independent Market Monitor for PJM, Docket No. ER17-775.

¹¹⁴ *Id.*

¹¹⁵ See PJM Filing, FERC Docket No. ER17-1590-000 (May 12, 2017).

Figure 3-58 Updated synchronized reserve demand curve showing the permanent second step



Scarcity Pricing and Energy Price Formation

The current operating reserve demand curves (ORDC) in PJM value the estimated reserves (primary and synchronized reserves) up to the extended reserve requirement quantities. The demand curve shown in Figure 3-58 drops to a zero price for quantities above the extended reserve requirement. The price for reserve quantities less than the reserve requirement is \$850 per MWh and the price for reserve quantities above the reserve requirement to 190 MW above the reserve requirement is \$300 per MWh. The current ORDCs do not necessarily reflect the economic value of maintaining the quantities of reserves on the curve.

An alternative way to construct the operating reserve demand curve is to estimate the economic value of carrying varying reserve quantities.

Synchronized reserves and primary reserves are maintained for the system operator to be able to meet demand if there is a disturbance in the system. Without maintaining reserve capacity, in the case of a disturbance, there would likely be a loss of load event. If loss of load is determined to have an economic cost that can be expressed in dollars per MWh of load shed, then maintaining a particular quantity of reserves contributes to avoiding that cost.¹¹⁶ The economic value of maintaining a certain quantity of reserves is equivalent to costs avoided during a loss of load event as a result of the reserves maintained. The value at any particular quantity of reserves depends on the likelihood of having a loss of load event at that reserve quantity.

Under the PJM market rules, resources with a capacity market obligation are paid to be available to the system any time they are needed to meet demand. Unlike in an energy only market, where the only source of revenues for supply resources are the energy prices and uplift, PJM markets also provide resources that take on an obligation and are paid capacity revenue for availability during the delivery year to meet demand. The value of primary and secondary reserves captured by the ORDC should reflect only the value of avoiding a temporary blackout. The energy market ORDC should not reflect the value of capacity reserves, which is included in the capacity market.

Locational Reserve Requirements

In addition to the construction of the operating reserve demand curves to reflect the value of maintaining reserves and avoiding a loss of load event, the modeling of reserve requirements should reflect locational needs and should price operator actions to commit resources out of market.

The current operating reserve demand curves are modeled for reserve requirements for the RTO level (RTO reserve zone) and for the Mid-Atlantic and Dominion region (MAD subzone). This was a result of historical congestion patterns where limits to transmission capacity to deliver power from outside the MAD subzone into the MAD subzone necessitated maintaining reserves in the MAD area to respond to disturbances within the subzone. However, in real time operations, due to generator outages, transmission outages, and local

¹¹⁶ The theoretical cost of a loss of load event in dollar per MWh terms is referred to as Value of Lost Load (VOLL).

weather patterns, PJM may need to maintain or operate resources in local areas to maintain local reliability, in addition to the RTO and MAD reserve levels. Currently, these units are committed out of market for reliability reasons, or are modeled as closed loop interfaces with limited deliverability inside the closed loop from resources located outside. The value of operating these resources, including generators that are manually committed for reliability and demand resources that may be dispatched inside a closed loop, is not reflected in prices. A more efficient way to reflect these requirements would be to have locational reserve requirements that are adjusted based on PJM forecasts and reliability studies.

Operator Actions

Actions taken by PJM operators to maintain reliability, such as out of market commitments, do not set prices because they are not providing the marginal unit of energy to the system. But these commitments can suppress prices and result in uplift payments. The need to commit resources out of market for reliability reasons could instead be reflected in the reserve requirement, allowing the market to efficiently account for the reliability commitment in the energy and reserves markets.

Accuracy of Reserve Measurement

The definition of a shortage of synchronized and primary reserves is based on the measured and estimated levels of load, generation, interchange, demand response, and reserves from the real-time SCED software. The definition of such shortage also includes discretionary operator inputs to the ASO (Ancillary Service Optimizer) or SCED software. For shortage pricing to be accurate, there must be accurate measurement of real-time reserves. That does not appear to be the case at present in PJM, but there does not appear to be any reason that PJM cannot accurately measure reserves. Without accurate measurement of reserves on a minute by minute basis, system operators cannot know with certainty that there is a shortage condition and a reliable trigger for five minute shortage pricing does not exist. The benefits of five minute shortage

pricing are based on the assumption that a shortage can be precisely and transparently defined.¹¹⁷

The Commission directed in the Final Rule that, to the extent an RTO/ISO needs to enhance its measurement capabilities to implement the shortage pricing requirement, it should propose to do so in its compliance filing.¹¹⁸ PJM did not propose any enhancements to reserve measurement in the January 11th compliance filing.

In the period between May 11, 2017, and December 31, 2017, there were instances when the real time reserve data on the PJM website showed a shortage of synchronized reserves but there was not shortage pricing. The real-time reserves on the PJM website were operational reserves as measured by Energy Management System (EMS), and not the reserves dispatched and priced by SCED.¹¹⁹ RT SCED estimated reserves based on generation dispatch with a 15 minute look ahead until July 16, 2017. On July 17, PJM reduced the RT SCED look-ahead from 15 minutes to 10 minutes, but the reserve levels used to define shortage pricing continue to be look-ahead estimates and not real time operational reserves. As a result, PJM's scarcity pricing does not reflect actual current scarcity conditions, but reflects the expected response of generation and forecast load 10 minutes in the future.¹²⁰

The accuracy of reserve measurement in PJM can be evaluated using historical data on performance during spinning events. The level of tier 1 biasing also reflects PJM dispatchers' estimate of the error in the measurement of tier 1 synchronized reserve.

Historical Performance During Spinning Events

All resources that respond to spinning events are paid for their response. Table 3-94 shows the performance of tier 1 and tier 2 synchronized reserves during spinning events declared in 2015, 2016, 2017, and the first three months of 2018 that lasted at least 10 minutes. In 2015, tier 1 response MW were measured as the increase in MW from all resources as a response to the

¹¹⁷ See Comments of the Independent Market Monitor for PJM, Docket No. RM15-24-000 (December 1, 2015) at 9.

¹¹⁸ 155 FERC ¶ 61,276 at P 177 (2016).

¹¹⁹ PJM has since added the real-time SCED dispatched reserve quantities, in addition to the operational reserve quantities to its website.

¹²⁰ Prior to July 17, 2017, PJM's scarcity pricing reflected the expected response of generation and load fifteen minutes in the future.

spinning event declaration, regardless of whether the units were part of the tier 1 MW estimate. As a result, the 2015 estimates for tier 1 response were greater than 100 percent.

Beginning in 2016, PJM reported the response to spinning events only from the units that were part of its tier 1 estimate. In 2016, the tier 1 response rate was never greater than 85 percent, with an average response rate of 75 percent. In 2017, the tier 1 response rate was never greater than 75 percent, with an average response rate of 60 percent. In the first three months of 2018, the tier 1 response rate was 27 percent during the only spinning event that lasted for at least 10 minutes.

PJM's current approach to estimating tier 1 reserves is not an accurate basis for defining shortage.

Table 3-94 Performance of synchronized reserves during spinning events: January 1, 2015 through March 31, 2018

| Spin Event (Date, Hour) | Duration (Minutes) | Tier 1 Estimate MW | | Tier 2 Scheduled MW | | Tier 1 Response | | Tier 2 Response | |
|-------------------------|--------------------|--------------------|--------------------|---------------------|--------------------|-----------------|---------|-----------------|--|
| | | (Adjusted by DGP) | Tier 1 Response MW | Tier 2 Scheduled MW | Tier 2 Response MW | Percent | Percent | | |
| Mar 3, 2015 12 | 11 | 1,079.0 | 1,365.1 | 484.4 | 272.3 | 126.5% | 56.2% | | |
| Mar 16, 2015 06 | 24 | 541.5 | 576.4 | 248.0 | 180.2 | 106.4% | 72.7% | | |
| Mar 17, 2015 19 | 17 | 1,428.9 | 1,693.1 | 247.2 | 232.8 | 118.5% | 94.2% | | |
| Mar 23, 2015 19 | 15 | 851.3 | 1,420.0 | 273.5 | 205.8 | 166.8% | 75.2% | | |
| Jul 30, 2015 10 | 10 | 1,458.4 | 2,145.7 | 79.7 | 24.0 | 147.1% | 30.1% | | |
| Jan 18, 2016 17 | 12 | 861.0 | 733.5 | 616.7 | 508.8 | 85.2% | 82.5% | | |
| Feb 8, 2016 15 | 10 | 1,750.2 | 1,338.2 | 228.4 | 200.1 | 76.5% | 87.6% | | |
| Apr 14, 2016 20 | 10 | 1,182.8 | 1,000.6 | 346.3 | 304.8 | 84.6% | 88.0% | | |
| Jul 28, 2016 13 | 15 | 649.4 | 500.4 | 822.9 | 655.8 | 77.1% | 79.7% | | |
| Nov 4, 2016 17 | 11 | 744.5 | 497.1 | 758.0 | 709.2 | 66.8% | 93.6% | | |
| Dec 31, 2016 05 | 12 | 971.2 | 585.0 | 594.4 | 485.7 | 60.2% | 81.7% | | |
| Mar 23, 2017 06 | 24 | 926.8 | 566.7 | 742.8 | 559.1 | 61.1% | 75.3% | | |
| Apr 08, 2017 11 | 10 | 1,222.6 | 827.2 | 879.3 | 828.7 | 67.7% | 94.2% | | |
| May 08, 2017 04 | 10 | 1,325.6 | 976.3 | 335.1 | 298.5 | 73.6% | 89.1% | | |
| Jun 08, 2017 03 | 10 | 974.4 | 726.7 | 575.7 | 522.4 | 74.6% | 90.7% | | |
| Sep 04, 2017 20 | 15 | 476.3 | 68.1 | 601.0 | 563.8 | 14.3% | 93.8% | | |
| Sep 21, 2017 14 | 16 | 305.8 | 217.4 | 1,253.9 | 1,037.3 | 71.1% | 82.7% | | |
| Jan 03, 2018 03 | 13 | 1,896.7 | 509.9 | 112.6 | 57.6 | 26.9% | 51.2% | | |

Tier 1 Synchronized Reserve Estimate Bias

Tier 1 synchronized reserves are calculated based on unit capabilities but are also subject to tier 1 estimate bias by PJM. PJM manually modifies (increasing or decreasing) the tier 1 synchronized reserve estimate of the market solution, forcing more or less tier 2 synchronized reserve and nonsynchronized reserve to clear to meet reserve requirements. Tier 1 biasing reflects the operators' view of the available tier 1 MW. Table 10-14 shows the average monthly biasing of tier 1 estimates in the Ancillary Service Optimizer (ASO) in 2017 and the first three months of 2018.

There are no rules in the PJM tariff or manuals regarding the use of tier 1 MW biasing. With five minute shortage pricing and the associated market impacts, there is a clear need for explicit rules governing operator discretion to calculate reserves. The MMU has recommended since 2012 that PJM explicitly define the rules for using tier 1 biasing.

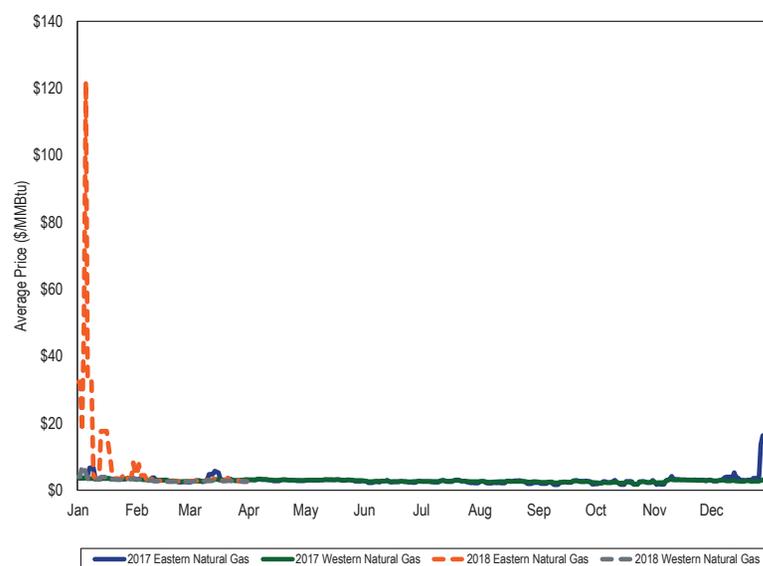
Generator Data used for Reserve Estimates

A potential source of error in calculating tier 1 MW is the use of the economic dispatch point to calculate the available ramp limited MW in 10 minutes rather than the actual output from the generator for any five minute interval. PJM addressed this issue partially in 2015 by adjusting a resource's available 10 minute ramp with Degree of Generator Performance metric (DGP).

PJM Cold Weather Operations 2018 Natural Gas Supply and Prices

As of March 31, 2018, gas fired generation was 37 percent (67,987.1MW) of the total installed PJM capacity (183,837MW).¹²¹ Figure 3-59 shows the average daily price of delivered natural gas for eastern and western parts of PJM service territory in 2018 and 2017.¹²²

Figure 3-59 Average daily delivered price for natural gas: January 2017 through March 2018 (\$/MMBtu)



¹²¹ 2018 Quarterly State of the Market Report for PJM: January through March, Section 5: Capacity Market, at Installed Capacity.

¹²² Eastern natural gas consists of the average of Texas Eastern M3, Transco Zone 6 non-NY, Transco Zone 6 NY and Transco Zone 5 daily fuel price indices. Western natural gas prices are the average of Dominion North Point, Columbia Appalachia and Chicago City gate daily fuel price indices.

During the first three months of 2018, a number of interstate gas pipelines that supply fuel for generators in the PJM service territory issued restriction notices limiting the availability of nonfirm transportation services. These notices include warnings of operational flow orders (OFO) and actual OFOs. OFOs may, depending on the nature of the transportation service purchased, permit the pipelines to restrict the provision of gas to 24 hour ratable takes which means that hourly nominations must be the same for each of the 24 hours in the gas day, with penalties for deviating from the nominated quantities. Pipelines may also enforce strict balancing constraints which limit the ability of gas users, depending on the nature of the transportation service purchased, to deviate from the 24 hour ratable take and which may limit the ability of users to have access to unused gas.

Pipeline operators use restrictive and inflexible rules to manage the balance of supply and demand during extreme operating conditions. The independent operations of geographically overlapping pipelines during extreme conditions highlights the potential shortcomings of a gas pipeline network that relies on individual pipelines to manage the balancing of supply and demand. The independent operational restrictions imposed by pipelines and the impact on electric generators during extreme conditions suggests there may be potential benefits to creating an ISO/RTO structure to coordinate the supply of gas across pipelines and with the electric RTOs and to facilitate the interoperability of the pipelines in an explicit network.

