

Role of the Market Monitoring Unit

Market Monitoring Unit
Advisory Committee
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Monitoring Analytics

The Role of the MMU

- Order No. 719 prescribes three core functions for MMUs
 - Reporting
 - Market Design
 - Monitoring



The Role of the MMU

- Attachment M requires the monitoring of:
 - Compliance with the PJM Market Rules.
 - Actual or potential design flaws in the PJM Market Rules.
 - Structural problems in the PJM Markets that may inhibit a robust and competitive market.
 - The potential for a Market Participant to exercise market power or violate any of the PJM or FERC Market Rules or the actual exercise of market power or violation of the PJM or FERC Market Rules.
 - PJM's implementation of the PJM Market Rules or operation of the PJM Markets, as further set forth in Section IV.C.



Reporting

- The MMU produces comprehensive annual state of the market reports for PJM, and quarterly state of the market reports with summary analysis, updated market information and selected analysis topics.
- These reports represent the independent and objective analysis of the MMU, based on the MMU's unlimited access to PJM market data.



Reporting

- The state of the market reports consider market structure, the behavior of market participants, the performance of the market and market design.
- In its latest quarterly report, the MMU has presented the results in a new format.
- The conclusions of this analysis have both policy and legal implications.



Market Design

- From its inception, the MMU has actively explained its views on market design to PJM, stakeholders, regulators and the public.
- As an independent entity, the MMU has had the unconstrained ability to present its views in regulatory proceedings.
- The rules (market design) are critical to ensure competitive market performance because PJM's markets are characterized by structural market power.



Market Design

- The MMU can and does actively participate in the stakeholder process. The MMU has less flexibility to compromise or negotiate on market design issues than other parties, including PJM.
- The MMU does not implement the market rules; the MMU is not a public utility; and the MMU cannot file revisions to the tariff under section 205 of the Federal Power Act.



Monitoring

- The MMU monitors market structure, participant behavior and market outcomes.
- The MMU receives and pursues assertions of market power and gaming from stakeholders, from PJM, from regulators, and from other interested parties. Investigating matters brought to the MMU's attention by third parties is an essential part of the MMU function.



Monitoring

- The MMU follows a process defined at Attachment M § IV.I that includes: (i) identifying or receiving a report about an issue, (ii) notifying the FERC, (iii) investigating the matter, including contacting market participants and (iv) issuing a referral, if the applicable standard is met. Once a referral issues, the MMU does not investigate the matter further except at the direction of FERC staff. The MMU performs investigations confidentially.
- The MMU does not refer a matter until it believes it has identified a violation and has evidence showing that a violation occurred. The applicable standard is: “...reason to believe, based on sufficient credible information...”



Items for Discussion

- Should the MMU continue to contact market participants to discuss potential violations prior to referring a matter to the FERC?
- Does the MMU have discretion with respect to reporting a violation?



Items for Discussion

- Should PJM report such violations to the FERC as they relate to market behavior?
 - What reporting standard applies to PJM?
 - If PJM reports, can it continue to investigate?
- What are the implications of different entities reporting the same matter to the FERC?
- Should the MMU issue a referral before its investigation is complete?



Market Behavior and Evaluating Inputs to Prospective Mitigation

- Cost-based offer caps apply in the energy, capacity and regulation markets when the TPS test is failed.
- When a market participant offers an inflated cost-based offer, this may constitute an attempt to exercise market power.
- If the MMU explicitly accepts a specific offer as reasonable, ex ante, it is making a determination that the cost-based offer does not raise market power concerns.



Market Behavior and Evaluating Inputs to Prospective Mitigation

- PJM is the authority, subject to a final decision by FERC, regarding compliance with such rules, although the MMU may provide an initial review.
- To the extent that inputs (a form of market participant behavior) are subject to review for market power issues, the MMU is the authority, subject to a final decision by FERC.

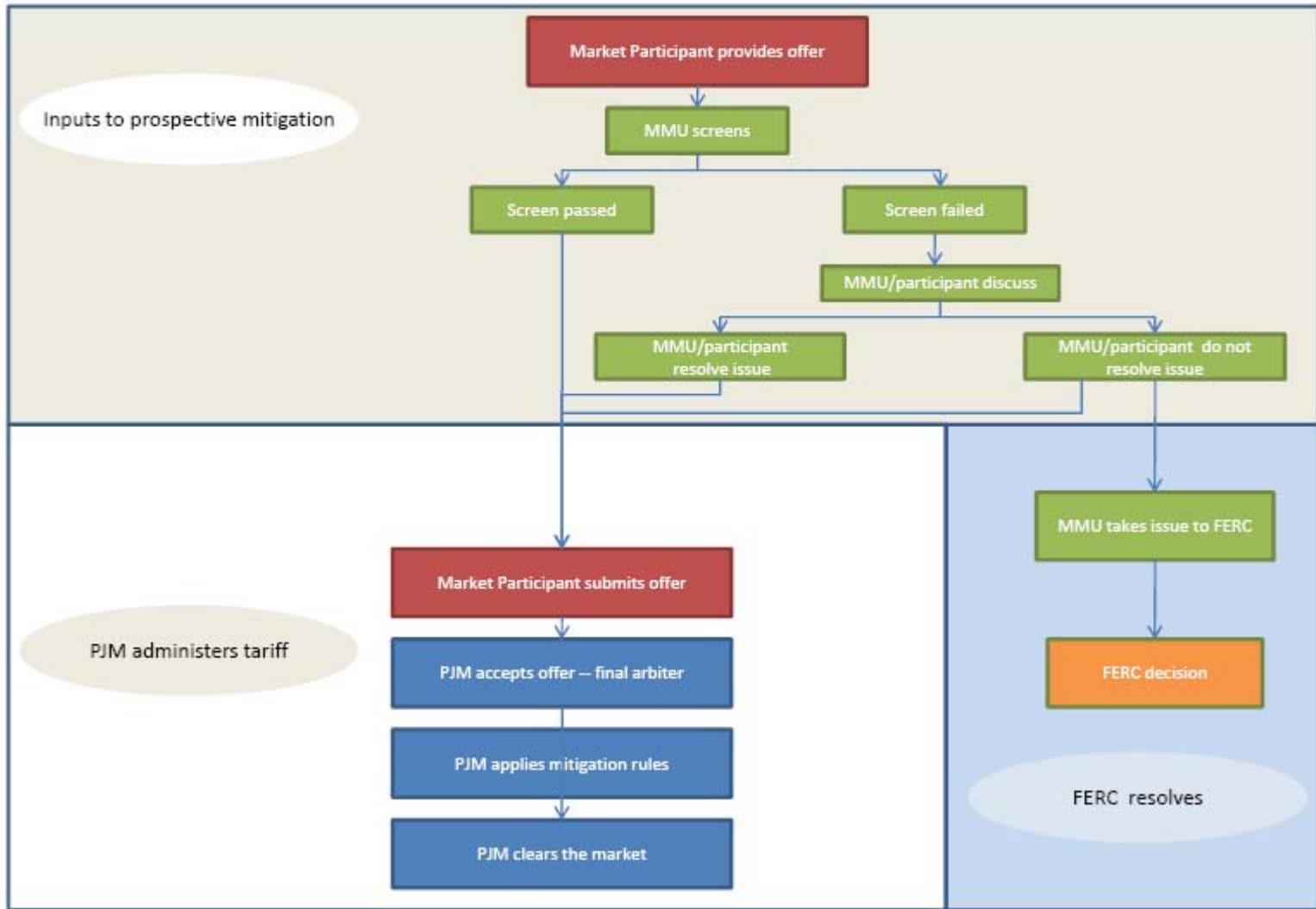


Market Behavior and Evaluating Inputs to Prospective Mitigation

- With regard to market power considerations, the MMU flow chart for the review of inputs describes the process.
- The primary difference between the MMU's position before and after the December 18, 2009, FERC order on 719 compliance, concerns the administration of the market rules.



PJM Implementation of Prospective Mitigation: Overview



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