



Monitoring Analytics

**Activities of the
Market Monitoring Unit
2008**

**INDEPENDENT MARKET MONITOR FOR PJM
MARCH 18, 2009**

Background

By order issued March 10, 1999, the Federal Energy Regulatory Commission (“FERC” or “Commission”) accepted the Market Monitoring Plan filed by PJM as part of the PJM Tariff to be effective April 1, 1999.¹ The Commission found the ability of the Market Monitoring Unit (“MMU”) to effectively and broadly monitor and investigate the PJM Market to be essential in view of its contemporaneous decision to approve market-based pricing authority on offers to sell energy in PJM.²

In 2007, there was disagreement between senior management at PJM and the Market Monitoring Unit about the definition of MMU independence. The issues were resolved in a settlement that was accepted by the Commission on March 21, 2008.³ This settlement removed the market monitoring function from PJM Interconnection, L.L.C., and housed that function in a separate corporation providing market monitoring services under a long-term contract. The settlement also established the tools available to the MMU to carry out its core functions, and included revisions to the market monitoring plan intended to strengthen the independence of the MMU and clarify its role.⁴

The MMU became a separate entity, organized as Monitoring Analytics, LLC, effective August 1, 2008.

This report is posted pursuant to Section VI.C of the Plan, which directs the MMU to “prepare a detailed public annual report about the Market Monitoring Unit’s activities, subject to protection of confidential, proprietary and commercially sensitive information and the protection of the confidentiality of ongoing investigations and monitoring activities.”

Activities

The MMU’s primary objectives, as defined in Section I of the Market Monitoring Plan, are to “objectively monitor, investigate, evaluate and report on the PJM Markets, including, but not limited to, structural, design or operational flaws in the PJM Markets or the exercise of market power or manipulation in the PJM Markets.

¹ *Atlantic City Electric Company, et al.*, 86 FERC ¶ 61,247 (1999)

² *Id.* at n.4 (citing *Atlantic City Elec. Co.*, 86 FERC ¶ 61,248 (1999)).

³ *Organization of PJM States, Inc., et al. v. PJM*, 122 FERC ¶61,257 (2008).

⁴ Attachment M of the PJM Open Access Transmission Tariff (“OATT”) constitutes the Market Monitoring Plan.

The Plan also prescribes reporting procedures that PJM will use to inform governmental agencies and others concerning its market monitoring activities.⁵

Section IV.B of the PJM Market Monitoring Plan states:

The Market Monitoring Unit shall be responsible for monitoring the following:

1. Compliance with the PJM Market Rules.
2. Actual or potential design flaws in the PJM Market Rules.
3. Structural problems in the PJM Markets that may inhibit a robust and competitive market.
4. The potential for a Market Participant to exercise market power or violate any of the FERC Market Rules, or the actual exercise of market power or violation of the PJM or FERC Market Rules.
5. PJM's implementation of the PJM Market Rules or operation of the PJM Markets, as further set forth in Section IV.C.
6. Such matters as are necessary to prepare the reports set forth in Section VI.

The MMU performs economic analysis and monitoring of all the PJM markets including the Day-Ahead Energy Market, the Real-Time Energy Market, the Daily Capacity Market, the Interval, Monthly and Multimonthly Capacity Markets, RPM base and incremental auctions, the Regulation Market, the Synchronized Reserve Market and the Annual, Monthly and Balance of Planning Period Auction Markets in Financial Transmission Rights (FTRs).

The ongoing market analysis and monitoring form the basis for all MMU activities, which can be categorized as monitoring of market participant behavior, including the implementation of market power mitigation and related activities; market analysis submitted to FERC in formal proceedings; participation in FERC proceedings; provision of data to FERC; market analysis in the form of published and internal reports; recommendations regarding PJM market rules; participation in PJM committees and working groups; industry briefings and presentations; and other activities.

The MMU posts all public reports, presentations and market messages and selected data on the Monitoring Analytics web page at this address: <http://www.monitoringanalytics.com>.

⁵ OATT, Attachment M § IV.H & I

Monitoring

The PJM Market Monitoring Plan provides that, in addition to informing Commission staff, the MMU may “Engage in discussions with Market Participants regarding issues relating to their possible violations of the FERC Market Rules, in order to understand such issues and to attempt to resolve informally such issues or other issues with Market Participants.”⁶ In fulfilling this role in 2008, the MMU monitored participant behavior and discussed relevant matters with FERC staff and with market participants. In addition, the MMU received and investigated confidential complaints. Additional details on most of these issues cannot be provided based on rules governing confidentiality.

A confidential complaint can reveal flaws in existing rules or procedures. The MMU received confidential complaints and when appropriate publicly proposed rule modifications while maintaining market participant confidentiality.

FERC Activities

In 2008, the MMU:

- Participated in FERC Office of Enforcement meetings for market monitors;
- Participated in conference calls with the Office of Enforcement regarding current issues;
- Briefed FERC staff on the 2007 State of the Market Report on March 11, 2008;
- Communicated regularly with FERC staff on market issues and attended ad hoc meetings at FERC;
- Provided data in response to requests from FERC’s Office of Enforcement;
- Participated in the Mirant Settlement Conference at FERC on March 3, 2008;
- Participated as a panelist in a FERC technical conference on “Forward Capacity Markets in PJM & NE Monitoring Policies” on April 7, 2008 (Docket No. AD08-4-000, et al);
- Filed the “Response of Joseph E. Bowring,” with PJM informational filing re RPM in Dockets ER05-1410-000 and EL05-148-000 on June 30, 2008;
- Participated in a FERC technical conference on a “Review of Wholesale Electricity Markets” on July 1, 2008 (Docket No. AD08-9-000);
- Filed the “Declaration of Joseph E. Bowring,” with PJM response to RPM Buyers complaint on July 11, 2008 (Docket No. EL08-67-000);

⁶ PJM Open Access Transmission Tariff, Attachment M, Section IV.D.

- Filed a Motion to Intervene Out-of-Time on August 28, 2008 and Comments on October 6, 2008 in FERC's Investigation of PJM's TPS test (Docket No. EL08-47-000);
- Filed a Motion to Intervene and Comments on October 20, 2008 in PJM's extension of the TPS Test into the regulation market (Docket No. ER09-13-000);
- Presented to the FERC Litigation Staff in Docket No. EL08-47-000 "Three Pivotal Supplier Test Discussion" on October 30, 2008;
- Filed Reply Comments on November 5, 2008 in FERC's Investigation of PJM's TPS test (Docket No. EL08-47-000);
- Filed a Motion to Intervene and Comments on November 10, 2008 in NY ISO's Emergency Scheduling Restrictions Proceeding (Docket No. ER09-198-000);
- Filed the Supplemental Response of the Independent Market Monitor for PJM on November 25, 2008 in FERC's Investigation of PJM's TPS test (Docket No. EL08-47-000);
- Filed a Doc-less Motion to Intervene on November 26, 2008 in the Duquesne transition from PJM to MISO (Docket No. ER08-1569-000);
- Filed a Doc-less Motion to Intervene Out-of-Time on December 8, 2008 concerning RPM (Docket No. ER05-1410, et al); and
- Filed a Request for Expedited Treatment on December 11, 2008 concerning RPM Settlement (Docket No. ER05-1410, et al).

Reports⁷

The *2007 State of the Market Report*, published on March 11, 2008, fulfilled the tariff reporting requirements⁸ by providing a comprehensive analysis of the markets within PJM and an assessment of the competitiveness of each market. The report also provided recommendations regarding retention and enhancement of market rules.

The MMU posts market data at <http://www.monitoringanalytics.com> to enhance market transparency.

The MMU released the following reports in 2008:

- "Activities of the Market Monitoring Unit 2007" (March 17);
- "Preliminary Market Structure Screen Results - 2011/2012 Auction" (February, 4 2008);
- "Analysis of the 2009 – 2010 RPM Auction" (February 11, 2008);

⁷ Public reports by the MMU are posted at <http://www.monitoringanalytics.com>.

⁸ OATT. Attachment M § VII.A (revised effective August 1, 2008, to become § VI.A).

- “RPM Default ACR for 2011-2012 Auction” (February 29, 2008);
- “2007 State of the Market Report” (March 11, 2008);
- “Net Energy and Ancillary Services Revenue Offset: 2011/2012 RPM Auction” (March 12, 2008);
- “Analysis of the 2010 – 2011 RPM Auction” (May 6, 2008);
- “Analysis of the 2008/2009 Third Incremental RPM Auction” (July 3, 2008);
- “APIR Report 2007-201” (September 8, 2008);
- “Energy and Ancillary Services Net Revenue Offset: 2012/2013 Auction” (September 24, 2008);
- “Position Of Independent Market Monitor For PJM on RPM Market Design Issues” (September 29, 2008);
- “Review of 2011, 2012 RPM Auction Revised Redline” (October 2, 2008);
- “Summary of Independent Market Monitor for PJM on RPM Market Design Issue” (October 6, 2008); and
- “IRM Impact” (November 17, 2008).

In response to requests from government agencies, the MMU prepared the following:

- Report to the North Carolina State Corporation Commission: Congestion in the Dominion Service Territory in North Carolina (July 15, 2008); and
- Report to the Virginia State Corporation Commission: Congestion in the Dominion Service Territory in Virginia (July 15, 2008).

Recommendations Regarding PJM Market Rules

Attachment M, Section IV.D provides “if the Market Monitoring Unit detects a design flaw or other problem with the PJM Markets, the Market Monitoring Unit may initiate and propose, through the appropriate stakeholder processes, changes to the design of such market. In support of this function, the Market Monitoring Unit may engage in discussions with stakeholders, State Commissions, PJM Management, or the PJM Board; participate in PJM stakeholder meetings or working groups regarding market design matters; publish proposals, reports or studies on such market design issues; and make filings with the Commission on market design issues.”⁹

During 2008, the MMU presented information and analysis to PJM Committees on the following topics:

⁹ OATT, Attachment M, Section IV.D.

- Small Suppliers and Market Power for the Three Pivotal Supplier Task Force (TPSTF)(January 9, 2008);
- The Three Pivotal Supplier Test for the TPSTF;
- Market Monitoring Report for the Members Committee (MC)(January 24, 2008);
- Small Suppliers and Market Power for the TPSTF (February 6, 2008);
- Up-to Congestion/Spread Bidding in the Day Ahead Energy Market for the Market Implementation Committee (MIC);
- Three Pivotal Supplier Test: Regulation Market Example for the TPSTF;
- State of the Market 2007;
- State of the Market Report 2007 Overview and State of the Market Report Briefing for the Markets and Reliability Committee (MRC);
- Market Monitoring Report for the MC (March 27, 2008);
- Market Monitoring Report for the MC (May 1, 2008);
- Three Pivotal Supplier Test Regulation Market for the TPSTF;
- MMU Demand Response Whitepaper for the Demand Response Steering Committee (DRSC);
- System Average Heat Rates for the DRSC;
- Market Monitoring Report for the MC (June 26, 2008);
- Market Monitoring Report for the MC (September 25,2008)
- Regulation Structural MP Test Options and Regulation Offered vs Capability, Calendar Year 2007 for the TPSTF;
- Overview of MMU response submitted as part of PJM's informational filing in response to RPM Buyers at the RPM Stakeholder Meeting ;
- Draft meeting notes LTCM for the Cost Development Task Force (CDTF);
- Energy and Ancillary Net Revenue Offset and Position of the Independent Market Monitor for PJM on RPM market Design Issues for the Capacity Market Evolution Committee (CMEC);
- Market Monitoring Report to the Members Committee (MC)(December 20, 2008)
- Proposed Alternative Tariff Section 2.6A Original Tariff language per TAC meeting of November 6, 2008;
- Estimated 2008 Net Revenues for New CT and CC; and
- MMAC Agenda and Charter.

Presentations are available on Monitoring Analytics website at <http://www.monitoringanalytics.com>.

The annual meeting of the MMUAC occurred on December 8th coinciding with the CDTF Meeting. The Market Monitoring Unit Advisory Committee ("MMUAC") is established pursuant to Section III.H of Attachment M of the OATT, which provides:

"There shall be an MMU Advisory Committee, chaired by the Market Monitor that is open to all stakeholders and representatives of Authorized Government Agencies. The MMU Advisory Committee shall act as a liaison between stakeholders and the MMU and shall provide advice from time to time on matters relevant to the MMU's responsibilities under this Plan. The MMU Advisory Committee shall have no authority to direct, supervise, review, or otherwise interfere with the functions of the MMU under this Plan, nor any authority to terminate or propose to terminate the Market Monitor."

The MMUAC succeeds the PJM Market Monitoring Advisory Committee ("MMAC").

Industry Briefings and Presentations

As part of its reporting role, the MMU provided briefings and presentations to industry groups. The MMU shared the results of its analyses, experience and knowledge regarding competitive markets, market monitoring and market power mitigation.

During 2008, the MMU provided:

- State of the Market Report briefings and presentations to industry press, FERC staff, the Organization of PJM States, Inc. (OPSI) and state commission staffs;
- Meetings and conference calls with state regulators, state consumer advocates, industrial customer coalitions, Midwest ISO and the Organization of PJM States, Inc. (OPSI) to answer questions and discuss a range of topics including monitoring, capacity markets and PJM market specifics; and
- Presentations at industry conferences:
 - "Perspective on Long-term Contracting in Wholesale Markets"- PJM Symposium on Long-term Contracting II;
 - Meetings and presentation to E3RG group at Cornell;
 - "Market Power Monitoring and Mitigation in a World of Financial Transactions"- HEPG speaker;
 - "PJM Performance"- Panelist at CRRI Eastern Conference;

- Discussant for panel where two papers were presented, one on RPM and the other on the proposed Exelon-PSEG merger- Thirteenth Annual POWER Research Conference UCEI CSEM (March 21, 2008);
- “Wholesale Electricity Markets “- Organization of PJM States, Inc. (September 17-18);
- Peer Reviewer for the Visualization and Controls Reliability and Controls Session – Office of Electricity Delivery and Energy Reliability U.S. Department of Energy (October 21-22);
- Testimony of Joseph E. Bowring at the Public Hearing on the Current and Future Wholesale Electricity Markets – Commonwealth of Pennsylvania Public Utility Commission (October 30, 2008); and
- “Regulation—Policing/Oversight of RTO Financial Markets” Platt’s the Nodal Trader in Jersey City- Speaker (November 13-14).

Implementation of Mitigation and Related Activities

In addition to participation in committees and working groups (see above), in 2008 the MMU:

- Posted market messages regarding clarification of or compliance with PJM Market Rules or related communications;
- Analyzed implementation of and results from the three pivotal supplier test;
- Participated in meetings and conference calls with individual member companies regarding RPM implementation, including avoidable costs, net revenue, mitigation, and avoidable project investment recovery;
- Conducted RPM Avoidable Cost training and assisted with RPM review sessions for members; and
- Participated in meetings with PJM and member companies to discuss market issues, e.g. outage rules or DSR.

Other Activities

Monitoring Analytics introduced our initial website on October 10, 2008.