



Monitoring
Analytics

MMU EMUSTF Phase 3: Solutions

The Independent Market Monitor for PJM
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Solutions

Up to Congestion Transactions: Option 1

UTCs should be eliminated from PJM markets.

Up to congestion transactions (UTCs) have not been shown to provide any measurable benefits to PJM markets although PJM market participants pay substantial amounts every year to holders of UTCs. UTCs purported contributions to price and system convergence are unsubstantiated.

Up to Congestion Transactions: Option 2

UTCs should be limited to zones, hubs and interfaces.

Up to congestion transactions have not been shown to provide any measurable benefits to PJM markets although PJM market participants pay substantial amounts every year to holders of UTCs. No specific benefits to PJM markets have been shown to result from the ability of UTCs to be placed at individual nodes. UTCs purported contributions to price and system convergence are unsubstantiated.

The incentives to use UTCs to arbitrage price differences between the day ahead and real time market are, relative to those of INCS and DECS, less consistent with point specific price convergence. UTCs can be profitable in net, but contribute simultaneously to both price convergence at one bus and price divergence at their other bus. The evidence shows that the majority of UTCs are profitable at only one end of the transaction. Limiting UTC activity to liquid trading points will minimize the effect and profitability of engaging in inefficient trading.

Where profitable trading opportunities are created by 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, with no benefit to the market. This is false arbitrage.

The effect of modeling differences are more pronounced at individual buses and are minimized at aggregates such as zones, hubs and interfaces. Limiting UTC activity to zones, hubs and interfaces will minimize false arbitrage opportunities for UTCs.