

Subject: PJM MMU

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Kristi,

As assigned, attached is a quick overview of the PJM and a few comments on its applicability to RTO West. I do note that PJM again gets accolades for a very comprehensive web site for informing the public about their activities.

- * PJM is a tight power pool - virtually everything is centrally operated with Locational Marginal Prices (LMPs) being calculated at 2000 buses and posted every 5 minutes;
- * With the LMPs and related FTRs, PJM has a lot of transmission and energy market data and runs most of the markets.

PJM's Market Monitoring Plan is a relatively concise document:

- * The document is 7 pages long;
- * It describes what is intended to be undertaken in terms of markets monitored but does not say how, what indices should be produced or what methods for analysis should be undertaken;
- * PJM does try to monitor the bilateral energy markets
 - * However, the data they normally collect is inadequate to assess the bilateral markets;
 - * PJM has requested more data from participants, but has had problems obtaining all of the data;
 - * Bilateral markets have been a problem for PJM because of the complexity of the LMP system;
 - * To address this, PJM introduced 3 trading hubs, with one proving to be attractive enough to be liquid;
- * PJM has incorporated the Tariff Compliance Function;
- * They do undertake a corrective action role, in terms of:
 - * Engaging in discussions with players;
 - * Recommending modifications to the tariff or agreements;
 - * Issuing Demand Letters to discontinue actions;
 - * Then referring up to the PJM board for filing reports/complaints to the regulatory authority.
- * HENCE, THIS IS NOT ENFORCEMENT - THAT IS LEFT TO REGULATORY/LEGISLATIVE AUTHORITY.
- * Information collected is that from the normal course of business:
 - * Additional information can be requested, but not compelled.
 - * Compelling is done through the regulatory/judicial forums.
- * The PJM Market Monitoring role seems to be evolving over time as they encounter different issues and learn about their markets.

In terms of application to RTO West:

- * PJM being a tight and centrally dispatched pool results in their having need to monitor energy markets - hence it is hard to transfer their MMU activities to RTO West;
 - * Even then, monitoring the bilateral markets is difficult for PJM to undertake.
 - * I would suggest that it would be even more difficult for RTO West and outside of the scope of what RTO West should do;
- * The Market Monitoring Plan is tight at 7 pages and RTO West should follow their lead.
 - * What the MMU reports or undertakes will undoubtedly change over time as the market matures and the regulators provide additional directions,
- * Monitoring FTRs and T liquidity is a critical item for RTO West to ensure liquid energy markets. PJM has initiated a FTR auction and reports on that auction
 - * However, this seems to be quite undeveloped for PJM
 - * I think RTO West needs to focus specifically on the FTR aspect
- * I continue to have questions about the tariff compliance function under the MMU:
 - * Would the RTO operational staff not be in a better position to handle this?
 - * What exactly are we contemplating when we think of tariff compliance? Ensuring players follow the rules? Or ensuring that RTO West itself applies the rules correctly?
- * Our plan to monitor markets using data normally collected by the RTO and requesting extra information when required is consistent with PJM and seems to be on the mark;
- * The PJM corrective actions generally follows our proposed method of following up on market anomalies, but goes further to have MMU issue a demand letter to request a party stop an activity. Thereafter, it is back to sending reports to the appropriate regulatory and government agencies.

For those interested in further materials, I suggest the following web link and the can view PJM documents:

<http://www.pjm.com/>

- on the home page, click on the Market Monitoring Unit, which takes you to a menu of items including the reports they have produced.