

## Review of Virtual Transaction Rules

### Problem / Opportunity Statement

On October 12, 2015, PJM published a report titled, "Virtual Transactions in the PJM Energy Markets"<sup>1</sup>. In addition to background information, analysis, and recommendations, the paper illustrates instances where the existing market rules allow virtual transactions to be used in a manner that PJM feels does not add commensurate value to the market to offset the costs imposed by them. The purpose of this Problem Statement is to initiate stakeholder dialogue on the issues PJM highlighted within the report and for stakeholders to determine if any market rule changes would be beneficial to address them.

PJM highlighted the following concerns regarding virtual transaction rules in its report.

1. **Small Positions on Low-Risk Paths.** In the report, PJM explained a very common bidding strategy where large volumes of UTCs are placed across the system at very small bid spreads. The goal of the strategy is to take on a large volume of low-cost positions in the Day-ahead Market in the hope that one of the positions is profitable in real-time. This type of UTC makes up over 70% of the offered and cleared UTC volume. In most cases the high volume, low risk transactions are submitted at nodes where no physical activity can take place and therefore have the effect of driving the DA and RT markets apart. Additionally, the volume of UTCs significantly degrades the Day-ahead Market solution time. PJM has already committed to shortening its Day-ahead Market solution window to three hours beginning April 1, 2016 and further in the future when technically feasible.
2. **Inconsistent allocation of uplift charges.** Increment offers (INCs) and decrement bids (DECs) are allocated some portion of PJM's uplift costs while UTCs are not. PJM believes this type of allocation arbitrarily and unfairly disadvantages INCs and DECs to UTCs.
3. **Virtual transactions profiting from modeling discrepancies.** PJM has observed and provided examples of scenarios where virtual transactions are used to profit from modeling discrepancies between the Day-Ahead and Real-Time Markets. These types of transactions, while profitable, have no ability to provide price convergence or commitment convergence between the two markets.

While PJM feels that virtual transactions are an integral part of the market, it also feels that it is appropriate to review the rules that govern the use of these transactions in light of the aforementioned issues.

### Issue Source

PJM is bringing forward the problem statement in response to member requests, significant changes in market behavior and a FERC-initiated 206 proceeding.

---

<sup>1</sup> <http://www.pjm.com/~media/documents/reports/20151012-virtual-bid-report.ashx>

## Stakeholder Group Assignment

PJM's opinion is that reviewing the market rules governing virtual transactions may need to be addressed by several stakeholder groups and may require specific sequencing. The recommendation related to uplift and any FERC action in the open 206 proceeding should be addressed by the EMUSTF in a larger discussion on the allocation of uplift to all transactions. The recommendations focused on the available bidding nodes for virtual transactions, in addition to any other recommendations brought forth by stakeholders, may be best addressed at a new senior task force.

If the topic of virtual transactions is being addressed by multiple stakeholder groups, it is important to ensure that each group is kept abreast the activities and discussions of the others. PJM will ensure that regular updates are provided to all groups discussing the topic.

## Key Work Activities

The groups will be asked to discuss and determine whether or not PJM's proposed recommendations, with or without adjustments, should be implemented. The groups will also discuss whether further changes are needed to the market rules that govern virtual transactions.

## Expected Deliverables

The deliverables expected of the EMUSTF will be a set of market rule changes, if required, to ensure that PJM is compliant with FERC's order in docket EL14-37-000. PJM is required to take action on any compliance obligation resulting from this docket even if stakeholder consensus cannot be reached.

The deliverables expected from the newly formed senior task force will be,

1. a recommendation to the Markets and Reliability Committee (MRC) on a set of biddable points for virtual transactions. The available biddable points for each virtual transaction type may differ, and,
2. any further recommendations to the MRC on additional market rule changes that impact how virtual transactions are used in the PJM markets.

## Expected Overall Duration of Work

Any market rule changes required as a result of a compliance obligation in docket EL14-37-000 will be completed within the timelines set forth in the order in that docket.

PJM proposes a maximum duration for discussion regarding the available bidding points for virtual transactions of 90 days after which a recommendation will be brought to the MRC. PJM suggests an additional 90 days of discussion for further enhancements for a total duration of 180 days.

## Decision-Making Method

In accordance with Manual 34: PJM Stakeholder Process, Appendix I – Compliance Filing Protocol, the content of an ultimate compliance filing in this matter is the sole responsibility of PJM. However also in accordance with the protocol, a stakeholder process is being initiated to vet the issue with the objective of stakeholders and PJM coming to consensus on the content of the compliance filing. Tier 1 (consensus on a single proposal) will be the objective, with Tier 2 (multiple proposals) if Tier 1 is not achieved.