EMUSTF Phase 3: Package E

Sponsored by VECO Power Trading

Summary

Package E would change bidding rules for INC/DEC/UTC as follows:

- Redefine a single set of allowed locations across INC/DEC/UTC to include:
  - Active physical generation
  - Residual metered load (e.g. zones) and settled nodal load
  - Interfaces
  - Hubs
- Individual nodes disconnected/de-energized due to outages or topology ineligible for bidding
- Set bidding price range for all products to +/- the physical offer cap
- No other changes to bid count limits, forfeiture rule, etc

Discussion

PJM's original proposal for Phase 3 used this package's set of bidding locations for INC, DEC, and UTC sources, but omitted generator locations as UTC sinks. This Package E was proposed simply to restore the symmetry between UTC sources and sinks so as to prevent there from being any location where more opportunity was offered to "supply" side bids (e.g. generator, INC, or UTC source) than to "demand" side bids (e.g. load, DEC, but not UTC sink), thereby impeding efficient price discovery.

More recently, in the January EMUSTF meeting, PJM's proposal reduced the biddable locations for UTCs to only zones, hubs, and interfaces. As a result, the options available for Phase 3 now largely consist of two groupings: Packages A, B, C all seek dramatic reduction in the scope of virtual trading, whereas packages F and G are generally expansions relative to the status quo.

Package E seeks to be a "compromise option" by:

- Responding to the concerns about trades at non-physically-settling locations in the PJM White Paper by overall reducing tradable locations (i.e. eliminating individual load buses)
- Removing de-energized locations (a point of general agreement)
- Respecting solve time limitations by continuing the "soft cap" approach
- Providing parity across INC/DEC/UTC, which we note seems to be the general direction of recent FERC activity as well (e.g. unified portfolio treatment for forfeiture rule, uplift NOPR both provide uniformity across the products)

Finally, we note that the White Paper gives significant emphasis to the issue of UTCs not being allocated uplift, leading to high volumes of low-risk transactions that may not enhance market efficiency and presumably also harm solve time. At this point, the MRC has approved Package Q in Phase 2 (charge uplift to both the source and sink end of UTCs), **and** the uplift NOPR also provides a framework for charging uplift to transmission deviations including UTCs. As a result, through either of these avenues it seems inevitable that UTCs will be charged uplift analogously to INC/DEC, which should address the concerns related to their current lack of charges.