



TWIN CITIES POWER

PJM Financial Transactions Technical Conference

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BOR for Deviations

- PJM applies the BOR for deviations rate to the following:
 - Physical Deviations:
 - Difference from day ahead positions: load, IBTs, imports, and exports
 - Deviations from desired output: generation and demand response
 - Transmission line outage deviations
 - Financial Transactions: INCs and DECc
 - *Allocated by region: RTO, East or West*



What is a deviation?

- Undefined term
- Used frequently by PJM, but not a capitalized term in the Tariff.
- Definition from Merriam-Webster dictionary:

“An action, behavior, or condition that is different from what is usual or expected.”



Physical Deviations

- Difference from day ahead positions
 - load was under/over forecasted
 - Imports/exports are scheduled
- Change from desired output
 - Generation/DR did not meet desired/scheduled output
- *These both meet the definition found in Merriam-Webster.*



Virtual Transactions

- When a participant clears a financial contract in PJM, they receive both a day ahead and real time position.
 - Example:
 - Buy 100MWs in the DA Market
 - Sell 100MWs in the RT Market
- These positions are known when PJM clears the transactions (evening before operating day). The transactions cannot be cancelled, volume cannot be altered.



Virtual Transactions, Continued

- No changes are made by the participant after DAM close (noon prior to operating day)
- All virtual transactions behave in this manner
- The fact that the DAM is a buy, and the RTM is a sell is not unexpected by PJM when modeling – it is known in advance.
- *Per the Merriam-Webster definition, virtual transactions are not deviations.*



Conclusions

- PJM has over-broadened the application of the term “deviations” in their market.
- Virtual transactions do not deviate in the sense that they do not differ “*from what is usual or expected.*”



Conclusions, Continued

- If not the BOR for deviations rate, then what?
- I have often heard stakeholders in PJM say, “Physical deviations should be charged more than an INC or DEC, which should be charged more than an UTC.”
- Limited analysis by PJM/IMM has left stakeholders questioning what the correct balance is to this instinctual approach.
- The Commission and PJM must also ensure a fee is set at the right level to encourage the *ideal* level of participation in virtual transactions.
 - ICE/CME – How they set rates.
 - Similar to the goal of ISO/RTO Credit Policies: *To balance protecting the market from defaults, while encouraging the ideal volume of transactions in the market.*

