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PJM MIC

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Background

- PJM Energy Cap was put in place 18 years ago based on fuel assumptions; has not been escalated with CPI or fuel cost
  - Underlying rationale was no demand response
- During the Polar Vortex, some generators incurred verifiable costs in excess of the energy cap, complied with PJM dispatch instructions and then were not allowed to recover costs in LMP
- Because of the caps, uplift payments soared to never before seen amounts
- The PJM Board told stakeholders that if we do not do something about this, they will
- DE would rather see stakeholders propose something that PJM can support, and not forego the opportunity to shape PJM rules.

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Why raise the energy cap?

- This benefits consumers/LSEs:
  - Creates less unhedgeable uplift
  - Rational, transparent pricing
- This benefits generators:
  - Ensures just and reasonable rate recovery
  - Retains the competitive aspects of an LMP market that are not reflected in up-lift (generators may have higher costs but they will be captured in LMP so can still compete rather than have no competitive pressure on costs put into up-lift: Incents performance when needed because potentially higher buy-back costs during non-performance
- Everyone is a winner:
  - Rational market rules that enhance price transparency enable all market participants to receive better information and make better decisions about how to manage their energy needs
  - Incents Load to bid in DA; increasing demand for generation
  - Capacity prices will reflect any additional energy revenues and will be reduced

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Proposal

- Day Ahead Offers:
  - Raise caps for cost based offers to [$2700], which reflects highest bids during Polar Vortex ($1800/MWh) x 150%
    - Alternatively, rerun analysis done 18 years ago with updated inputs
  - Only cost based offers may offer in in excess of existing price cap
  - The 10% adder is capped for bids over $1000 at the lower of 10% or $100-MWh
  - Cost offers above the energy cap must be submitted using [cost structure] on file with the Market Monitor
    - Price offers may be submitted up to or equal to cost offer
- Real Time Offers:
  - Market based offers capped at $2700
  - Cost based offers are not capped but are subject to verification by the Market Monitor;
  - The 10% adder is capped for bids over $1000 at the lower of 10% or $100-MWh
- Scarcity pricing penalty factors would have to be adjusted
  - Need to ensure that generation dispatched for reserves makes lost opportunity costs, which could be higher than the existing $1000 cap

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Proposal Implications

- Are likely to see higher prices during system stress
- Are likely to see far less uplift enabling better hedging
- Generators will incur higher penalties for non-performance during stress system times as they will be buying back energy at higher prices (not to mention potential capacity performance penalties)
- Generators will be assured of rate recovery, and be incented to run when needed the most
- Loads will be incented to forecast accurately to avoid paying deviations associated with higher LMPs
  - All load pays for reserve costs
- Continue to have strong oversight and verification requirements; manipulation and fraud rules apply
- Will not spend unnecessary and time and expense litigating matter at FERC

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Recommendations/Next Steps

- We have little time; Board meets in October, which is when it would likely authorize PJM to make filing
- DE has offered to take lead role in trying to develop compromise proposal; willing to set up meetings outside PJM schedule and within PJM meeting calendar
- DE has spoken with PJM, and PJM will provide education session on implications of raising energy cap, especially with respect to scarcity pricing
- Will need to expedite through stakeholder process with vote at October 1 MC.

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Questions & Answers

- What if generator clears DA at $1000k but its actual costs are $1200
  - A: The whole point of going to a market was to shift risk of energy management to generators and not make load pay for generator mistakes
- What about the disconnect between a lower DA price cap and RT cap?
  - A: Not ideal but this is compromise to move market in the right direction. This will incent load to bid as much as possible in the DA, increasing demand, so may drive to more natural equilibrium
- Isn't it cheaper to pay the up-lift rather than raise prices? [This is actual criticism of LMP design]
  - No it is not long term. You lose any ability to hedge costs; you produce inefficient price signals because LMPs are no longer reflecting marginal costs

Q & A cont'd

- Generators are making so much money with CP payments; shouldn't they have firm transportation and commodity contracts so with a timely nomination their costs do not spike?
  - First, this assumes that firm transportation is available.

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