

DC-OPC Energy Price Formation Proposal

Markets & Reliability Committee

January 24, 2019

Office of the People's Counsel for the District of Columbia



Sources of Stakeholder Uncertainty

- ❖ Significant uncertainty still exists and will continue to exist when stakeholders and the Board have to make a decision
 - ❖ Will all the modeling be complete?
 - ❖ Late additions/changes?
 - ❖ Timing pressure?
 - ❖ Effect of FERC decision on fast start pricing?
 - ❖ Other external events?
- ❖ Effort to reach a compromise proposal given the Board's timeline and direction



Comprehensive Reserve Pricing Reform

The PJM Board has determined that a comprehensive package inclusive of the components outlined below, is needed to meaningfully address the reserve procurement and pricing issues.

1. Consolidation of Tier 1 and Tier 2 Synchronized Reserve products
2. Improved utilization of existing capability for locational reserve needs
3. Alignment of market-based reserve products in Day-ahead and Real-time Energy Markets *
4. Operating Reserve Demand Curves (ORDC) for all reserve products
5. Increased penalty factors to ORDCs to ensure utilization of all supply prior to a reserve shortage *
6. Transitional mechanism to the RPM Energy and Ancillary Services (E&AS) Revenue Offset to reflect expected changes in revenues in the determination of the Net Cost of New Entry

* Not previously discussed as part of short-term scope

Consolidation of Tier 1 and Tier 2 Synchronized Reserves

- ❖ Consolidation of Tier 1 and Tier 2 Synchronized Reserves similar to PJM and IMM proposals
- ❖ Offer Price – same as PJM proposal
- ❖ Must Offer Penalty and Consequence of Non-Performance – same as IMM proposal

Reserve Locations

- ❖ Reserve Locations using existing RTO reserve sub-zone structure with several possible reserve sub-zones
- ❖ Same as PJM proposal

ORDC

- ❖ ORDC slope proposed by PJM at the November 28 EPFSTF and based on an \$850 penalty factor

Penalty Factor

- ❖ Penalty factor of \$850/MWh
- ❖ Increases over \$850 must be cost-of-service based for specific times and quantities
- ❖ Under periods of extreme stress the Penalty Factor can be lifted to its cost-based level up to \$2,000

Day-Ahead and Real-Time Market Alignment

- ❖ Alignment of products and product definitions along with consistent concepts, not identical curves, should be the guiding principle
- ❖ Application of ORDC concept consistently to DA; DA PBMRR reflects estimated likelihood of real-time reserve shortage as function of incremental DA reserve purchase

Transition Mechanism

- ❖ True up transition mechanism as proposed by the IMM at the January 17 EPFSTF
- ❖ True up for the first four delivery years should return excess capacity revenues to customers
- ❖ True up for the following years should also return scarcity revenues to customers unless a resource's scarcity revenues exceed the scarcity revenues of the reference unit

Circuit Breaker Provision

- ❖ Trigger of 20 hours at the Penalty Factor over a two week period
- ❖ ORDC under Circuit Breaker provision based on PBMRR per PJM but with 80% of load uncertainty; sloped portion begins from \$6000/MWH at 200 MW; ORDC is capped at \$2000/MWh

Shortage Pricing Transparency and Notification

- ❖ Trigger of \$300/MWh shortage pricing component in LMP or the implementation of any extreme pricing mechanism
- ❖ Notification would state that supplies are short, request to public to conserve, warning that prices have been very high, estimate of time period affected
- ❖ Notification would be made to transmission owners, media outlets, state commissions, consumer advocate offices