

Energy Price Formation

Problem Statement

See attached

Issue Source

PJM

Stakeholder Group Assignment

This work will be assigned to a new senior task force reporting to the Markets and Reliability Committee (MRC).

Key Work Activities

The group is expected to:

1. Provide education on how energy and reserve prices are currently determined in PJM.
2. Provide education on factors that impact price formation such as resource eligibility, offer levels, operating parameters, interchange, self-scheduling, congestion, losses, and others that are identified.
3. Provide education on the current PJM shortage pricing mechanism and Operating Reserve Demand Curves (ORDC).
4. Given the objective for energy prices to reflect as completely as possible the cost of serving load, evaluate gaps and opportunities to enhance energy price formation with the goal of ensuring that prices reflect, as much as possible, the cost of serving load.
5. Given the objectives of reserve and shortage pricing, identify gaps and opportunities to enhance reserve pricing and PJM's ORDCs.
6. Identify whether any additional products that are needed to maintain reliability and therefore valuable to system operators are not currently valued in PJM's markets.
7. Develop market rules as necessary to address any identified gaps and potential enhancements.

Expected Deliverables

As necessary, deliverables include the following:

1. A recommendation to the MRC on proposed market rule changes to enhance PJM's energy and reserve price formation, shortage pricing and/or ORDCs.

2. Where feasible, analyses evaluating the likely impact of proposed changes on the efficient operation of the PJM system.
3. Revisions to the Operating Agreement, Open Access Transmission Tariff, and manuals to implement the recommended enhancements.

Out of Scope Items

The intent of this group is to focus on how energy and reserve prices are formed. Therefore, the following items are out-of-scope.

1. The methodology used to determine the Energy and Ancillary Services offset used in the capacity market.
2. The methodology used to determine the Installed Reserve Margin.
3. The Regulation Market design.
4. Fuel Cost and Variable Operating and Maintenance.
5. Changes to capacity market design.

Expected Overall Duration of Work

The activities of the group are expected to be completed by the end of the 3rd quarter 2018.

Decision-Making Method

Tier 2 decision making will be used.