

IMM Position on Hourly Offer Capping, IDO Opt In, and Offer Cap Verification

MRC

August 24, 2017

Joe Bowring



Monitoring Analytics

IMM Position on Mitigation of Hourly Offers

- **Market power mitigation should keep up with intraday offer changes.**
- **The current rules are appropriate for daily offers.**
- **The current rules are not appropriate for intraday offers.**

Real-Time Market Power Mitigation

Current daily offer implementation

- **Units committed in real time owned by Market Sellers that failed the TPS test are committed on the offer with the lowest dispatch cost as defined in the Operating Agreement Section 6.4.1(g). The determination of the cheaper offer is made at the time of commitment.**
- **Market Sellers do not update offers intraday, the determination of the cheapest offer does not change intraday.**

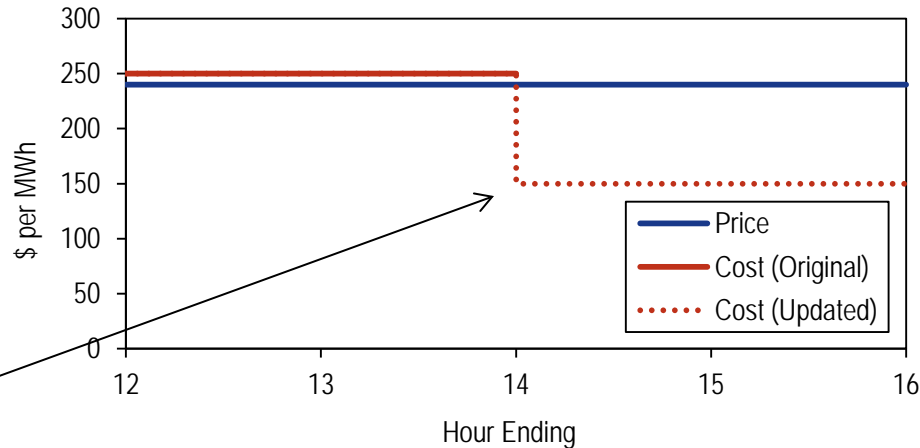
Real-Time Market Power Mitigation

With intraday offer updates

- The determination of the cheaper offer should be verified hourly and updated if the units' cost-based or price-based offer are updated.
- Market power mitigation should keep up with generator intraday offer updates.

Scenario

The unit will be committed on its price-based offer for HE 13 and 14 because it is lower than the cost-based offer and it will be dispatched on its cost-based offer for HE 15 and 16 because it is lower than the price-based offer. Market power mitigation will keep up with intraday updates.



By 1255, cost-based offer is updated for HE15 and 16.

Fuel Cost Policies and Intraday Updates

As described in section 1.10.9A(b) of the PJM tariff. Market Sellers have to update cost-based offers if:

- **Required by fuel cost policies.**
- **Market Sellers update price-based offers.**

Fuel Cost Policies and Intraday Updates

- **Market Sellers that wish to update offers (price and/or cost) intraday, have to specify in their fuel cost policies when both will be updated and how the cost-based offer will be updated.**

Price Update Timing in Fuel Cost Policies

Rationale for tying price update frequency (not price level) to cost update frequency:

- **Cost offers should be required to be reduced, and have the option to increase, with fuel prices, regardless of whether the price offer changes.**
- **Market Sellers that want to limit the obligation to check the fuel market, should also limit the frequency of price changes.**
- **Without tying the two offers, Market Sellers could make only upward offer updates.**

System Offer Caps and Market Power

- **Efficient markets require prices to reflect the short run marginal cost of production.**
- **Offer caps and market power mitigation provide protections against inefficiently high prices when a supplier's generation is necessary to reliably serve load.**
- **The goal is to have the right price. Not too high or too low.**

Order 831

FERC requires RTOs to develop a new process

- **RTO or MMU verified cost-based offers**
 - **\$1,000/MWh to \$2,000/MWh prior to market clearing**
 - **Over \$2,000/MWh for make whole payments**
- **Verification also applies to demand response**
- **Build on existing market power mitigation practices**

Existing Practices for Cost Verification

- **Fuel Cost Policies**
- **MMU after the fact verification**
- **MMU cost input data collection (MIRA)**

Issues to Be Resolved by FERC

The MMU raised concerns with the PJM compliance filing on Order 831:

- **Not building on existing practices:**
 - **Not including MMU/not using MMU resources**
 - **Not using most accurate data available:**
 - **MIRA and Fuel Cost Policies**
- **Inaccurate automated screening of offers**
- **No PJM or MMU ex ante verification for demand response**

M11 Revisions Lack Needed Clarity

- **M11 needs added clarity on:**
 - **Data sources (MIRA)**
 - **Documentation standards**
 - **Prior deadlines or requirements for static cost inputs, like heat rates**
 - **Market Sellers should be notified of the offer PJM uses to clear the market.**
 - **The MMU verifies cost-based offers.**

M11 Attachment D

Verification and eligibility standards for uplift payments for offers > \$1,000/MWh:

- **Only eligible if the unit operates during the hours applicable to the offer**
 - **No uplift for day-ahead market only**
 - **No opportunity cost if no real time operation**
- **Start up and no load costs also require verification.**
- **MMU also verifies.**

Implementation Concerns

- **PJM's screening process will result in inaccurate verification.**
- **Demand Response costs need to be addressed in the Cost Development Guidelines (M15).**
- **PJM compliance risk for Nov. 1, 2017, implementation without Markets Gateway functionality.**

Monitoring Analytics, LLC

2621 Van Buren Avenue

Suite 160

Eagleville, PA

19403

(610) 271-8050

MA@monitoringanalytics.com

www.MonitoringAnalytics.com

