



**Draft Minutes**  
**PJM Interconnection**  
**Shortage Pricing Working Group**  
**The Chase Center**  
**Wilmington, DE**  
**March 4, 2010**  
**9:30 AM – 3:30 PM**

**1. ADMINISTRATIVE ITEMS**

Monitoring Analytics proposed changes to items 4 and 5 of the February 18, 2010 meeting minutes. The proposed changes to item 4 were met without opposition while there was some disagreement on the proposed changes to item 5. PJM agreed to take the discussion regarding the minutes for item 5 offline and return to the March 22, 2010 meeting with redlined minutes.

There was also an additional change proposed by a stakeholder to item 6 that was not opposed.

**2. FINALIZATION OF EMERGENCY DR DISPATCH**

PJM reviewed the detailed business rules for DR dispatch which will be included in M-13 and associated operational reporting requirements which will be included in M-13 or M-18. There was some concern from stakeholders as to whether or not the level of dispatch would allow enough granularity for PJM dispatch. PJM indicated that it should provide the necessary level of granularity required. Further it was noted that if PJM does require additional level of granularity for dispatch in the future, PJM will initiate a proposal in the stakeholder process based on the work done at the SPWG. This will ensure that the work done at SPWG will be utilized if and when additional flexibility is required and will also allow PJM and its member to gain experience with the approach adopted. PJM also outlined the CSP reporting requirements where some concern over the frequency of reporting were expressed, but no one objected to the business rules. PJM intends to take the rules and incorporate into the appropriate manual and move forward to determine the



appropriate system to use to collect the operational reporting data. As previously discussed it is expected that these new rules will go into effect for the '11/'12 delivery year.

### **3. UPDATED BUSINESS RULES FOR SHORTAGE PRICING DESIGN**

Mr. Keech reviewed the high-level business rules for Ancillary Services and Locational Marginal Pricing. There were several clarifying questions on the business rules as they were posted but a general consensus that a more thorough review of the business rules would be needed once a complete redlined version of the rules were posted. PJM committed to providing a redlined version of the existing business rules at a future meeting.

### **4. REVENUE OFFSET MECHANISM – PJM PROPOSAL**

Dr. Sotkiewicz lead further discussion on the revenue offset mechanism proposed by PJM at the February 18, 2010 meeting. He provided examples showing how shortage revenues would flow through the generator net revenues for the given year potentially reducing long run capacity costs. Dr. Sotkiewicz commented that the result of the PJM-proposed offset mechanism for any particular year is highly dependent on the assumptions and market conditions. Suppliers or consumers may benefit from the PJM-proposed offset mechanism on a single-year basis but over the long term all participants will break even.

Monitoring Analytics expressed concern with the PJM-proposed mechanism citing that it will over- or under-compensate some resources on a single-year basis if the revenues are not retracted during the delivery as proposed in their model. Monitoring Analytics also expressed concern that a single year scarcity event would potentially depress forward capacity prices when shortage event suggests the need for more capacity.



## **5. DA HEDGING AND PRICE FORMATION – PJM PROPOSAL**

Mr. Ott provided some additional options concerning day ahead hedging. Specifically, were 1) change the definition of a fixed demand bid to essentially only be fixed at a price up to \$1,000/MWh at all times, and 2) change the definition of a fixed demand bid to essentially only be fixed at a price up to \$1,000/MWh only when there is a shortage of Day Ahead Scheduling Reserves (DASR). The intent of both proposals was to implement them in conjunction with the February 18, 2010 hedging proposal to provide load customers the certainty that they would only purchase load Day Ahead at up to the \$1,000/MWh even if Day Ahead LMPs rose higher than that quantity.

Some interested load parties questioned the need to have day ahead LMPs rise as high as they potentially could in real-time. They cited that other ISO/RTOs have not made similar changes and their shortage pricing mechanisms were approved by the FERC. It was also discussed that there would be implications on a revenue offsetting mechanism should day ahead LMPs be able to rise to shortage levels.

PJM agreed to go back a research the filings of neighboring ISO/RTOs using similar mechanisms and provide further information at a future meeting.

## **6. REAL-TIME EXPOSURE DURING RESERVE SHORTAGES**

Per request, Dr. Sotkiewicz provided data pertaining to the real-time load that was exposed to scarcity prices on August 8, 2007. The data showed the MW quantity and percentage of load that actually paid real-time LMP and also illustrated the use of demand response as a hedge against shortage prices in real-time.

## **7. FUTURE MEETINGS**

March 22, 2010

The Chase Center, Wilmington, DE



April 12, 2010  
April 30, 2010

The Chase Center, Wilmington, DE  
The Hub City Centre, Philadelphia, PA

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