



Draft Minutes
PJM Interconnection
Shortage Pricing Working Group
The Chase Center
Wilmington, DE
February 18, 2010
9:30 AM – 3:30 PM

1. ADMINISTRATIVE ITEMS

There were no comments on the Draft Minutes from the February 8, 2010 meeting.

2. PJM FUNDAMENTAL SHORTAGE PRICING CRITERIA

Mr. Ott presented the list of five items that PJM believes are fundamental to the shortage pricing design. The items included: 1) the explicit pricing of synchronized and primary reserves and the 5-minute co-optimization of energy and reserves; 2) two reserve zones which are RTO, and a subzone of Mid-Atlantic plus Dominion; 3) transparent 5-minute price calculations for energy, reserves, and regulation that reflect opportunity cost and product substitution within the operating reserve demand curve framework; 4) enhanced quality control and data validation for reserve data and demand response information for real-time operations; and 5) emergency purchases and demand response are eligible to set prices. There was general agreement among stakeholders to these principles and a request to PJM to begin developing business rules based on these principles for which there is agreement. PJM staff will create draft business rules for the group's consideration at its next meeting.

3. DISPATCH OF EMERGENCY DR

Mr. Langbein provided an updated set of options for the dispatch of emergency demand response (DR). The first option presented is to dispatch emergency DR by zone and by lead time which can be done under the current business rules. This option would not require any changes to measuring emergency DR compliance and all resources in the zone would be dispatched in their entirety. The second option is to dispatch by zone and lead time in 25 percent blocks which would require changes in how to measure compliance. The third option presented would have PJM breaking CSPs into pre-determined groups prior to the delivery year. After discussion, consensus formed around using the first option which would codify what PJM could do today for emergency DR dispatch.

4. PJM DETAILED TRANSITION PROPOSAL AND OFFSET MECHANISM

Dr. Sotkiewicz presented a PJM proposal for a shortage revenue offset mechanism that keeps in place the current tariff-defined three year historic offsets used to determine Net CONE for the reference resource, and used to determine the Projected Energy Market Revenues used to define



each resource's Market Seller Offer Cap into RPM. Benefits of the PJM proposal include administrative simplicity, increased opportunity to recover fixed costs in the energy market, symmetric risks to capacity resources, better incentives to provided emergency segments to the energy market during shortage conditions, stronger incentives for demand response during reserve shortages. Stakeholders requested examples to show how the PJM proposal would work.

Dr. Haas presented MA's offset proposal to allow capacity resources to keep shortage revenues only in the amount by which such shortage revenues over the delivery year exceed the RPM capacity payments payable to the capacity resource in question. The MA proposal contends that RPM revenues are equivalent to shortage revenues, and that not offsetting shortage revenues in the current year will lead to a disruption of the viability of the long-term RPM price signal. ~~in that future RPM prices would not be high enough. Dr. Haas clarified that the MA proposal would also apply to demand response.~~

5. PJM PROPOSAL FOR DAY AHEAD HEDGING AGAINST SHORTAGE PRICES

Dr. Sotkiewicz provided PJM's proposal for hedging against real-time shortage prices and price formation in the Day-ahead Market. The PJM proposal reiterated the ability to use virtual demand (DECs) for generators to hedge themselves against real-time risk, and also proposed that the offer cap on virtual bids and non-capacity resource demand response bids be raised to equal the maximum price in the Real-time Market under shortages of both Synchronized and Primary Reserves. Capacity resources would still be bound to the \$1000/MWh offer cap. The PJM proposal was designed to facilitate arbitrage and price convergence between Day-ahead and Real-time markets, enhanced demand response, and further hedging outside in other forward markets.

~~In the presentation titled "Potential to avoid offer capping via the use of virtual bids," the MMU noted the concern that, "[o]ffer caps in excess of \$1,000 on INCs and DECs could increase opportunities to exercise market power." Mr. O'Connell asked Dr. Haas if this concern exists in the market under today's structure. Dr. Haas responded that the concern did exist in the market today. Mr. O'Connell then asked if this concern has been documented in the State of the Market Report. Dr. Haas responded that it has not been documented in the State of the Market Report as the issue is still under study.~~

~~Dr. Haas presented MA's view of the use of DECs by generators as a way to circumvent offer capping and to exercise market power. Dr. Haas also expressed the MA opinion that this use of DECs to circumvent offer capping or exercising market power was happening today. Dr. Haas confirmed that this issue had not been addressed in any State of the Market Report to date.~~

6. RESERVE CALCULATIONS

PJM asked for information from stakeholders to form a future discussion on what is and is not included in reserve calculations. PJM committed to work with operations staff to develop a basic presentation including the internal measures PJM takes to ensure its calculations are as accurate as possible. One stakeholder mentioned the issue was being discussed at the Operating Committee (OC) and agreed that PJM needs good information from generators regarding what the

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units are actually capable of doing in addition to generation resources needing information from PJM on whether the unit is being relied on for energy and/or reserves.

7. MONITORING ANALYTICS PRESENTATION ON AN OFFSET MECHANISM

Dr. Haas made a presentation outlining why MA believes that its proposal for shortage pricing satisfies the six criteria for shortage pricing enumerated by FERC in Order 719 as well as MA's opinion that some of PJM's proposals may not satisfy the FERC criteria.

8. MONITORING ANALYTICS PRESENTATION ON DAY AHEAD HEDGING

Dr. Haas's presentation was made under Item 5.

9. FUTURE MEETINGS

March 4, 2010, The Chase Center, Wilmington, DE
March 22, 2010, The Chase Center, Wilmington, DE
April 12, 2010, The Chase Center, Wilmington, DE
April 30, 2010, The Hub City Centre, Philadelphia, PA

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