

Explanation of PJM Proposals
Energy Market Uplift Senior Task Force

April 8, 2014

Abbreviations:

DAOR = Day Ahead Operating Reserves

BOR = Balancing Operating Reserves

DAM = Day Ahead Market

DA = Day Ahead

CT LOC = Combustion Turbine Lost Opportunity Cost

Proposal A:

This proposal seeks to make some minor changes to the current credit methodology to address issues that PJM feels are important. In general, the changes by themselves will likely not greatly reduce or increase the amount of uplift being paid in PJM. PJM feels that the most appropriate vehicles to reduce uplift costs is to continue to ensure that scheduling protocols for resources are as efficient as possible and to implement pricing solutions to recognize the need for specific resources either locally or across the footprint. These changes will however address what PJM feels are inconsistencies in the way the current rules are applied today, unintended consequences of the rules that are currently in place and/or shortcomings where PJM has had to deny credits to a resource that may have legitimately expended costs at PJM's request due to limitations of the current language.

In PJM's opinion, the three most significant changes proposed in Proposal A are:

1. Clear definition on the handling of revenues and shortfalls for the hours in a segment where a pool scheduled resource is not following PJM's dispatch and therefore ineligible to receive a BOR payment in that hour (Design Component 4a).
2. Inclusion of startup and no load in the DA Offer term for the CT LOC equation (Design Component 5a).
3. Consistently handling hourly make whole payments to generators whose output is manually raised for a reliability reason (Design Components 5 and 6).

Proposal A assumes the preservation of the current methodology of having a DAOR uplift payment for the cost of scheduling a resource in the DAM and a BOR uplift payment for the actual expended costs in real-time.

Proposal A allows for a more granular allocation of uplift charges based on whether they were “incurred” in the DAM or in real-time operations due to the preservation of the separate uplift payments should that be desired. However, should a single allocation methodology be desired, the two buckets can be summed.

Proposal B:

Like Proposal A, Proposal B seeks to address some concerns that PJM has brought up with the current rules used to calculate DAOR, BOR and reactive uplift payments. In Proposal B PJM is also proposing an additional change which is to make whole pool scheduled resources based on real-time operating costs, only (Design Component 4). This change would result in the removal of the DAOR payment and associated cost allocation. Removing DAOR does not impact whether or not a resource is made whole to its operating costs. The existence of the BOR mechanism guarantees that a resource will be made whole to the cost it expends in real-time. What this change will do is shift a majority of the DAOR costs that are incurred today into real-time while eliminating scenarios where resources that receive a DAOR credit end up profiting from that credit in real-time. As stated above, this proposal contains many of the solutions that are contained in Proposal A but with conforming changes for the proposal to remove DAOR.

In PJM’s opinion, the three most significant changes proposed in Proposal B are:

1. A change in make whole methodology to make resources whole to real-time operating costs only. This proposal would remove the calculation of DAOR and resources would be made whole to actual operating costs (Design Component 4).
2. Clear definition on the handling of revenues and shortfalls for the hours in a segment where a pool scheduled resource is not following PJM’s dispatch and therefore ineligible to receive a BOR payment in that hour (Design Component 4a).
3. Inclusion of startup and no load in the DA Offer term for the CT LOC equation (Design Component 5a).

Proposal B would result in one bucket of uplift dollars that will require rules for cost allocation. Should there be a desire to continue to allocate uplift credits associated with the DAM solution differently from those in real-time, additional rules would be required to determine the appropriate apportionment of such credits into each bucket. This could be accomplished if desired.

