

Operating Reserve Proposal - Highlights

AEP Energy

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Guiding Principles

- AEP Energy's recommendation is to minimize changes that result in the masking of operational inefficiencies in the day-ahead and real-time markets and to ensure the continuance of cost-causation principles.
- AEP Energy suggests there be no 'fixed-rate' for operating reserves, as the end result will be PJM holding membership money and no benefit due to the expected monthly variability of true-ups. Operating reserves are simply too variable to forecast.

Highlights - Operating Reserves - AEP Energy Proposal

- Day-ahead (DA) and Real-time (RT) Operating Reserves (OR) would be retained in their current form to ensure granularity of off-cost operations.
 - Proposals to eliminate DA OR may provide incentive for generation to simply follow their DA award.
- East, West, and RTO categories of operating reserve will be maintained, but with slightly larger hurdles to socialize local issues to the overall RTO.
 - This, along with PJM's assertions that operational issues will be corrected via RTEP, will promote fixes to local reliability issues.

Highlights - Operating Reserves - AEP Energy Proposal

- Day-ahead and then subsequent real-time netting of both physical and virtual awards allowed at same node (within a market participant's portfolio) to determine position associated with operating reserve exposure.
 - Will allow for greater price convergence.
- Day-ahead Scheduling Reserve (DASR) revenue not utilized as an offset in determining DA OR credit (status quo).
 - Concern: If a unit, that is commonly picked up for reliability (off-cost), receives a DASR award, a netting proposal of DASR revenues to the OR payment will result in the resource owner not being entirely made-whole for its operation.

Highlights - Operating Reserves - AEP Energy Proposal

- Imports, exports, and wheeled transactions subject to OR.
- Regulation Service not utilized as an offset in determining the calculation of RT OR credit
 - This is essentially status quo and will ensure adequate participation in regulation market.
- Internal Bilateral Transactions (IBTs) not subject to operating reserve allocation.
- Up-to-Congestion (UTCs) not subject to operating reserve allocation.

Highlights - Operating Reserves - AEP Energy Proposal

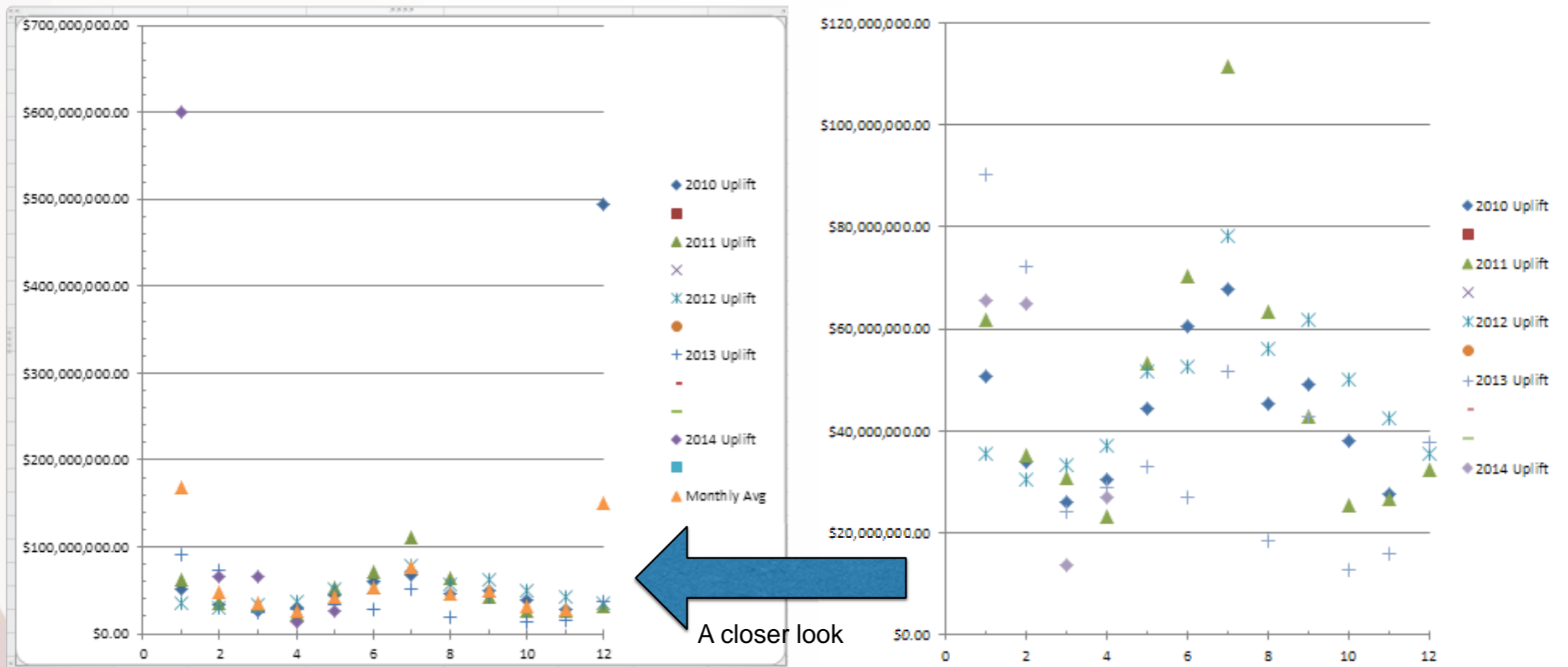
No 'fixed' monthly rate for Operating Reserves

AEP Energy believes a 'fixed' monthly operating reserve rate will have such a high magnitude of monthly true-up associated with it that any potential value of the concept will be significantly diminished. A concept of overcollection simply results in stakeholders giving PJM their money to hold prior to the true-up.

We do not recommend going forward with this concept.

See next slide for operating reserve variability.

Highlights - Operating Reserves - AEP Energy Proposal



Data represents DA&RT Operating Reserves taken from IMM's SOM documentation