



Illinois Commerce Commission

Brien J. Sheahan
Chairman

160 North LaSalle Street
Chicago, Illinois 60601

February 6, 2019

The PJM Board of Managers
c/o Mr. Ake Almgren, Chairman
PJM Interconnection
2750 Monroe Blvd.
Audubon, Pennsylvania 19408

Regarding: PJM Price Formation

Dear Mr. Almgren and the PJM Board of Managers,

The Illinois Commerce Commission appreciates the leadership shown by PJM in providing needed guidance to the stakeholder energy price formation discussion.

Stakeholders approved the creation of the Energy Price Formation Senior Task Force on December 21, 2017 and initially intended to complete all activities of the group by the third quarter of 2018. Since its initiation twenty-three meetings have been held by the task force. As reported yesterday by RTO insider, “[the] PJM stakeholders failed again to reach agreement on energy price formation rules Wednesday, as a last-ditch effort at compromise fell short in a 62% sector-weighted vote.” In light of PJM’s admirable, extensive, and thorough, but ultimately unsuccessful, effort to find consensus we fully support the Board’s intention to file its proposal with the FERC *via* a Section 206 filing.

We agree with the Board’s perspective that the current pricing paradigm fails to accurately price reserves and also fails to efficiently optimize reserve and energy prices. As a result, energy prices are suppressed especially in anticipation of and during periods of reserve depletion which is usually commensurate with high load conditions. This is compelling evidence that price formation rules require modification.

Inaccurate energy market prices put undue pressure on the capacity market and increases overall capacity prices. Indeed, we believe that much of the recent controversy surrounding capacity market reforms, which has distracted and monopolized collective stakeholder attention, was caused by improvements to price formation in PJM’s energy market as an efficient way to incentivize the right resource mix while respecting consumers interest. ¹

¹ Comments of the Illinois Commerce Commission in EL16-49, ER-1314, and EL18-178.

The ICC appreciates PJM's leadership on these topics, from the publication of the *Energy Price Formation and Valuing Flexibility* paper, the facilitation of a robust stakeholder process to examine these issues, and the release of analysis and simulations that help all members better understand the impacts of potential reform. The ICC supports PJM's efforts to improve the mechanics of price formation and believes that the proposal offered by PJM is a just and reasonable alternative to the current state, but does encourage PJM to implement a transition in a way that does not subject end use customers to double billing for the same services.

Not sending accurate price signals in the energy market has significant consequences. Inaccurate price signals undermine daily energy market dispatch and operation, undermine long-term investment signals, and affect efforts to ensure that we are investing in the necessary transmission to deliver energy in an efficient manner. Under the status quo, significant price risks during stressed conditions (which cannot be hedged) result in higher retail rates. This increases the cost of serving load which in turn gets reflected in retail rates for consumers.

PJM's proposed approach would fix the current reserve pricing paradigm. Its proposed downward sloping demand curve appropriately measures the value of reserves as the system approaches shortages based on the probabilities of going short reserves. PJM proposes to anchor the ORDC with a \$2,000/MWhr penalty factor which is appropriate as it reflects the maximum price at which PJM can dispatch internal supply. The ICC wants PJM operators to ensure that sufficient generation is available to serve Illinois consumers especially during extraordinary weather conditions like we experienced last week. It is critical that PJM's energy and reserve prices effectively and transparently signal the value of those supplies to assure continued investment that will benefit Illinois costumers in the future.

The ICC has been monitoring the stakeholder process closely and understands that this is a difficult issue. PJM's staff has done an excellent job of providing details and information to its members on this critical issue, and we appreciate the proactive outreach made to Illinois on these reforms. After a year of thoughtful deliberation with no consensus, it is the Board's obligation to act on this issue now. It is our view that additional time for stakeholders to deliberate on these issues will be unproductive as no compromise proposal has thus far garnered support. We encourage the PJM Board to proceed with its proposal to address these important price formation issues.

Sincerely,



Brien J. Sheahan
Chairman and CEO
Illinois Commerce Commission

cc: Andy Ott
Dave Anders (on behalf of the Board)