

## Energy Price Formation

### Problem Statement

See attached

### Issue Source

PJM

### Stakeholder Group Assignment

This work will be assigned to a new senior task force reporting to the Markets and Reliability Committee (MRC).

### Key Work Activities

The group is expected to:

1. Provide education on ~~topics including, but not limited to:~~
  - a. ~~How~~ How energy and reserve prices are currently determined in PJM.
  - b. ~~Provide education on factors~~ factors that impact price formation such as resource eligibility, offer levels, operating parameters, interchange, self-scheduling, congestion, losses, and others that are identified.
  - ~~b.c.~~ Alternative energy pricing frameworks that have been applied and/or discussed in other regions;
  - d. ~~Provide education on the~~ the current PJM shortage pricing mechanism and Operating Reserve Demand Curves (ORDC).
  - ~~c.e.~~ How hedging is used by participants to mitigate risk, the impact of uplift on hedging, and how changes to pricing rules impact forward and financial markets and existing bi-lateral contracts.
2. Identify additional design criteria ~~that should~~ guide the selection of energy market and shortage pricing design alternatives to ensure they are effective in achieving the price formation goal of ~~maximizing the social welfare objective (maximizing market surplus for consumers and suppliers)~~ Maximizing market surplus for consumers and suppliers or maximizing supplier revenues while minimizing consumer costs.
- 2.3. ~~Given the identified design criteria objective for energy prices to reflect as completely as possible the cost of serving load,~~ evaluate gaps and opportunities to enhance PJM's current energy market

~~and shortage pricing designs. energy price formation with the goal of ensuring that prices reflect, as much as possible, the cost of serving load.~~

- ~~3.4. Given the identified objectives, gaps and opportunities, develop alternatives for enhancing PJM's energy market and shortage pricing designs (which enhancements may include new products). ~~of reserve and shortage pricing, identify gaps and opportunities to enhance reserve pricing and PJM's ORDCs.~~~~
- ~~5. Identify whether any additional products that are needed to maintain reliability and therefore valuable to system operators are not currently valued in PJM's markets.~~
- ~~6. Provide an initial assessment of other changes to PJM market rules that while out of scope for this effort, may be relevant for further discussion in other forums, but not prerequisites, if recommended market design alternatives will be implemented.~~
- ~~7. Develop market rules as necessary to address any identified gaps and potential enhancements. implement any recommended enhancements.~~
- ~~8. Develop a transition mechanism for the Energy & Ancillary Service offset for time periods for which capacity auctions have already cleared prior to any proposals being implemented.~~

## Expected Deliverables

As necessary, deliverables include the following:

1. A recommendation to the MRC on proposed market rule changes to enhance PJM's energy and reserve price formation and/or, shortage pricing mechanism and/or ORDCs. This includes, but is not limited to revisions to rules on offers, offer limits and mitigation which are necessitated by the proposal, as needed.
2. Where feasible, analyses evaluating the likely potential impact of proposals ~~changes on the efficient operation of the PJM system.~~
3. Revisions to the Operating Agreement, Open Access Transmission Tariff, and manuals to implement the recommended enhancements.

## Out of Scope Items

The intent of this group is to focus on enhancements to how energy and reserve prices are formed. Therefore, the following items are out-of-scope beyond an initial assessment of whether changes may be warranted if the recommended energy market and/or shortage pricing design enhancements will be implemented.

1. The methodology used to determine the Energy and Ancillary Services offset used in the capacity market- (excluding a transition mechanism).
2. The methodology used to determine the Installed Reserve Margin.
3. The Regulation Market design, except for education and analysis on the impact of proposed changes to regulation pricing.
4. Fuel Cost and Variable Operating and Maintenance.
5. Changes to capacity market design.

### Expected Overall Duration of Work

The activities of the group are expected to be completed by the end of the 3rd quarter 2018. This timeline will be reviewed as necessary.

### Decision-Making Method

Tier 2 decision making will be used.