

# DC-OPC Energy Price Formation Proposal

EPFSTF

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Office of the People's Counsel for the District of Columbia



## Sources of Stakeholder Uncertainty

- ❖ Significant uncertainty still exists and will continue to exist when stakeholders and the Board have to make a decision
  - ❖ Will all the modeling be complete?
  - ❖ Late additions/changes?
  - ❖ Timing pressure?
  - ❖ Effect of FERC decision on fast start pricing?
  - ❖ Other external events?
- ❖ Effort to reach a compromise proposal given the Board's timeline and direction

## Areas of Stakeholder Consensus

- ❖ Consolidation of Tier 1 and Tier 2 Synchronized Reserves with appropriate penalties to ensure resource responsiveness
- ❖ Reserve Locations using existing RTO reserve sub-zone structure with several possible reserve sub-zones
- ❖ ORDC proposed by PJM at the November 28 EPFSTF

## Areas Requiring Additional Stakeholder Input

- ❖ Penalty Factor
- ❖ Day-Ahead and Real-Time Market Alignment
- ❖ Transition Mechanism and “Circuit Breaker” Provision



# Comprehensive Reserve Pricing Reform

The PJM Board has determined that a comprehensive package inclusive of the components outlined below, is needed to meaningfully address the reserve procurement and pricing issues.

1. Consolidation of Tier 1 and Tier 2 Synchronized Reserve products
2. Improved utilization of existing capability for locational reserve needs
3. Alignment of market-based reserve products in Day-ahead and Real-time Energy Markets \*
4. Operating Reserve Demand Curves (ORDC) for all reserve products
5. Increased penalty factors to ORDCs to ensure utilization of all supply prior to a reserve shortage \*
6. Transitional mechanism to the RPM Energy and Ancillary Services (E&AS) Revenue Offset to reflect expected changes in revenues in the determination of the Net Cost of New Entry

\* Not previously discussed as part of short-term scope

## Penalty Factor

- ❖ Current penalty factor of \$850/MWh is the maximum appropriate value for most reserves' marginal reliability value
- ❖ Increases in the penalty factor must be linked to evidence that reserves are not being met at specific quantities

## Penalty Factor

- ❖ Two-step compromise: \$2,000/MWh penalty factor up to 500MW (extremely tight reserves), then an \$850/MWh penalty factor to the current primary reserve amount

## Day-Ahead and Real-Time Market Alignment

- ❖ Day-Ahead and Real-Time Markets serve different functions
- ❖ Market participants may hedge positions in the day-ahead market, making an over-administered ORDC unnecessary and costly
- ❖ Alignment of products and product definitions along with consistent concepts, not identical curves, should be the guiding principle



# Transition Mechanism

- ❖ Three year transition mechanism to align changes in the energy market with existing capacity market auction parameters
- ❖ Transition mechanism is necessary to ensure consumers are not paying twice
- ❖ Examine transition mechanism based on a forward looking E&AS offset

## Circuit Breaker Provision

- ❖ Even the best designed markets have flaws or are vulnerable to extreme conditions
- ❖ Extreme pricing could result in a loss of confidence in the market by stakeholders, consumers, and state commissions
- ❖ “Circuit Breaker” provision to protect markets and consumers