

Parameter Limit Implementation

MRC

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Market Monitoring Unit



Monitoring Analytics

Proposed OA Changes

- **PJM proposes to change the Operating Agreement to conform to its implementation of parameter limits.**
- **The OA is correct. The implementation is flawed.**
- **PJM's proposed changes should be rejected.**
- **The implementation of parameter limits should be corrected.**
- **The OA language was not introduced with Capacity Performance. It dates back to 2008.**

Issue Summary

- **The OA states that the most flexible parameters always apply to units that fail the TPS test or during emergency conditions.**
- **Instead, PJM chooses the schedule with the lowest cost regardless of parameters, creating two issues:**
 - 1. Market Power Mitigation: Parameter limits are not applied to units that fail the TPS test if the price schedule is lower than the cost schedule.**
 - 2. Emergency conditions and alerts: Parameter limits are not applied to units if the price schedule is lower than the price parameter limited schedule.**

Price PLS Schedule Implementation

- **Current offer practice is not consistent with the OA.**
- **Price PLS schedules do not always have the most flexible parameters. Price schedules are more flexible in some cases.**
- **Price PLS schedules have higher offer prices than price schedules in some cases.**
- **Result:**
 - **The most flexible unit parameters are not consistently applied when required by the OA.**
 - **Market Sellers can exercise market power by offering flexible parameters only at a higher price.**

Price PLS Schedule Implementation

- **To address the market power issue, PJM should modify its approach (based on the OA):**
 1. **Create the Price PLS schedule by combining the most flexible submitted parameters with the offers in the Price schedule;**
 2. **Never use a Price schedule for a unit that fails the TPS test;**
 3. **Never use a Price schedule during emergencies or Hot and Cold Weather Alerts.**
- **In the interim, Market Sellers should submit the same offer levels on Price and Price PLS schedules.**

Units that Fail the TPS Test

- **OA, Schedule 1, Section 6.6(a)(i)**
- **“The Market Seller fails the three pivotal supplier test. When this subsection applies, the parameter limited schedule shall be the less limiting, i.e. more flexible, of the defined parameter limited schedules or the submitted offer parameters.”**
- **Correct implementation would commit a unit that fails the TPS test on the lower cost of the Price PLS (no higher offer level than Price) or the Cost Schedule.**
 - **A mitigated unit should always be committed with the most flexible parameters.**

Emergency Conditions

- **OA, Schedule 1, Section 6.6(a)(ii-iv)**
- **OA, Schedule 1, Section 6.6(f)(iv) and (g)(iii)**
- **“when a Hot Weather Alert or Cold Weather Alert has been issued, parameters shall be based on the actual operational limitations of the [capacity resource] for both its market-based schedules and cost-based schedules”**
- **Correct implementation would only use the most flexible parameters, regardless of the offer level, for emergencies, Hot and Cold Weather alerts.**

Monitoring

- **The MMU monitors for offer behavior that results in commitment on less flexible schedules.**
- **Market Sellers advised to use the same offer values in Price and Price PLS schedules. Most do.**
- **Negative markups (price less than cost) lead to mitigation on less flexible parameters, creating uplift.**
- **Implementation of recommendations in the state of the market reports would eliminate the negative impact on competitive markets exposure from this behavior and eliminate compliance exposure for Market Sellers engaging in this behavior.**

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