

# Market Monitor Report

MC Webinar  
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# EPA Exemption for Backup Generators in DR

- In 2010, EPA promulgated rules for hazardous air pollutants emissions from backup generators, which allowed operation for up to 15 hours in DR during “emergency conditions that could lead to a potential electrical blackout.”
- In 2015, EPA raised the hour limit from 15 to 100 hours, when Reliability Coordinator (e.g. PJM) has declared an Energy Emergency Alert Level 2 or there is a five percent voltage/frequency deviation from standard.
- EPA raised the cap based because resources must be available 60 hours/year to participate in the PJM Emergency Load Response Program.



# Court Strikes Exemption

- In 2015, the U.S. Court of Appeals for the D.C. Circuit overruled the 100 hour exemption for DR because EPA:
  - Failed to consider comments from the IMM and others arguing that the exemption damages market efficiency and system reliability
  - Relied on faulty evidence that the rule was needed for backup generators to be DR (ignored aggregation);
  - Failed to explain why the exemption was not limited to areas outside organized energy markets (some argued backup generators are needed for reliability in rural communities and small municipal systems); and
  - Does not have responsibility for reliability or rely on evidence from FERC or NERC, which do.

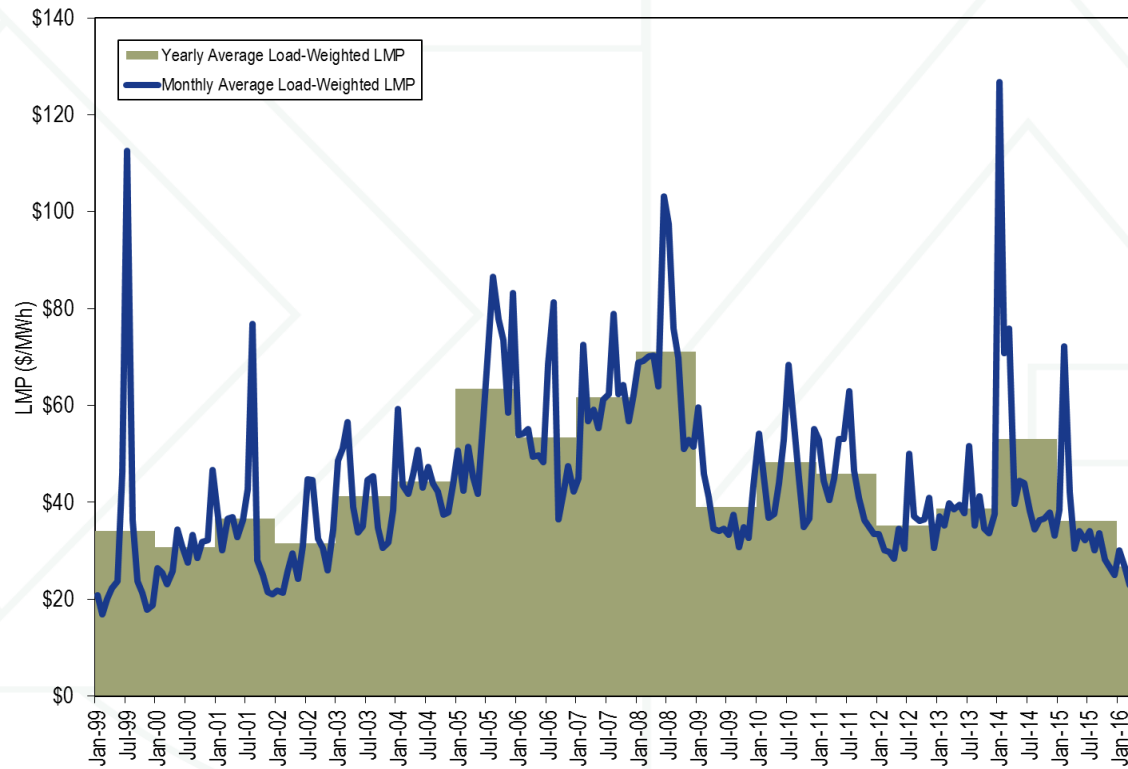


# Compliance

- EPA's 100-hour exemption for DR will be revoked upon lift of the stay of the mandate for the 2015 order.
- The stay will lift May 1, 2016 (unless unexpectedly extended).
- To comply, CSP must reorganize their portfolios as necessary to meet their DR obligations without violating the rule.
- The IMM will take steps to verify compliance.
- No need to continue PJM Emergency Load Response Program to facilitate use of revoked EPA 100-hour exemption (issue pending in Docket No. ER14-822). Pre-Emergency should be the standard.



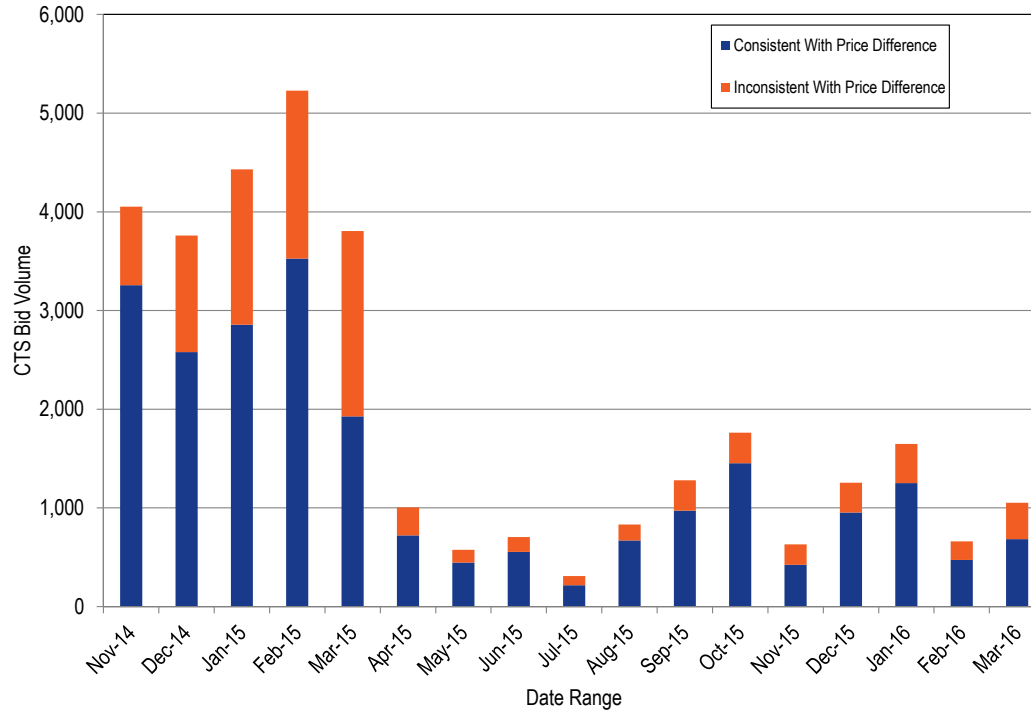
# PJM real-time, monthly and annual, load-weighted, average LMP: 1999 through March 2016



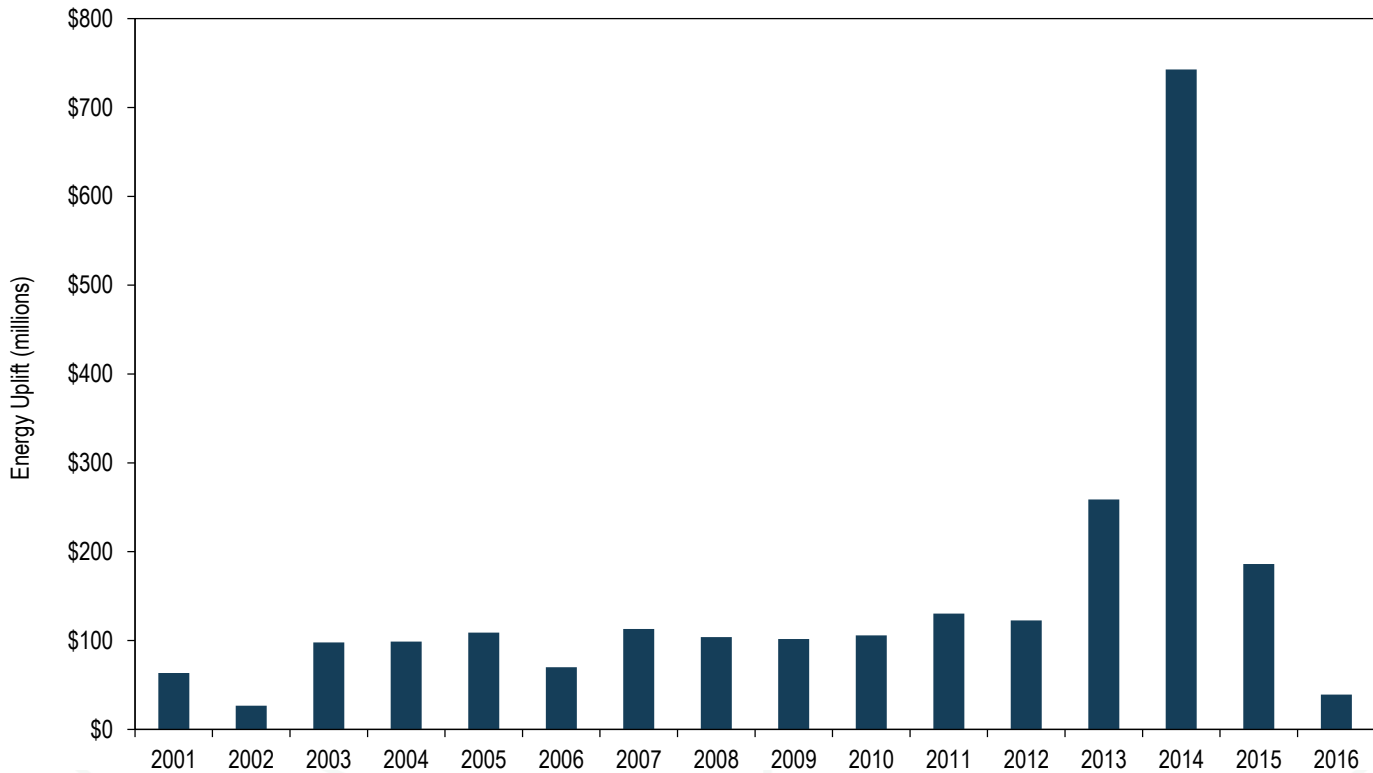
# CTS: Differences between forecast and actual PJM/NYIS interface prices

Interval	Range of Price	Jan-16	Feb-16	Mar-16	2016 YTD Avg	2015 YTD Avg	2015 Avg
	Differences						
~ 30 Minutes Prior to Real-Time	> \$20	3.8%	2.1%	1.5%	2.5%	16.3%	7.9%
	\$10 to \$20	4.7%	2.2%	1.9%	2.9%	6.1%	4.8%
	\$5 to \$10	5.7%	3.4%	6.4%	5.2%	6.3%	7.7%
	\$0 to \$5	42.2%	43.8%	47.5%	44.5%	26.0%	36.9%
	\$0 to -\$5	32.9%	38.9%	35.2%	35.6%	21.1%	29.5%
	-\$5 to -\$10	5.0%	5.1%	4.0%	4.7%	4.7%	4.5%
	-\$10 to -\$20	2.7%	2.5%	1.4%	2.2%	5.1%	2.9%
	< -\$20	3.0%	2.1%	2.1%	2.4%	14.3%	5.8%

# Monthly cleared PJM/NYIS CTS bid volume: November, 2014 through March, 2016



# Energy uplift payments: January through March (2001 – 2016)





# Variable Operation and Maintenance (VOM) Costs

- Only short run marginal costs are eligible for inclusion in the VOM adder. Short run marginal costs are incremental maintenance costs in Manual 15.
- Examples of eligible short run marginal costs are water, water chemistry, emission control reagents and lubricants.
- Most O&M expenses are avoidable costs, and not marginal costs, including repairs, inspections, overhauls, or routine maintenance.

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