

Market Monitor Report

Members Committee
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Reasons Cited by PJM for Pricing Reform

- **Need to recognize contribution of baseload**
- **Negative offers have pernicious effects on baseload retirement**
- **Falling energy net revenues for baseload**
- **Desire to shift revenue from capacity to energy**
- **Flattening supply curve decreases net revenue**
- **Reducing uplift**
- **PJM's reasons amount to administratively picking winners and losers in the market.**

PJM Price Formation Proposal

- **Allow all inflexible units to set the energy price**
 - Extending concept to must run baseload units
- **Inflexible units are not marginal in the efficient market solution.**
- **The design would require two market solutions:**
 1. **Efficient dispatch solution**
 2. **Pricing solution**
- **Uplift required for the true (dispatch solution) marginal units to follow dispatch instructions.**

Theoretical Points

- **Valuing inflexibility is at odds with valuing flexibility.**
- **A direct increase in consumer costs results from PJM's proposal to have inflexible units set price.**
- **Pricing nonconvex offers as if they were convex is not necessary for market efficiency.**
- **PJM's proposal is not consistent with ELMP design in other markets.**
- **Difficult to predict behavioral responses.**

Improving Energy Price Formation

- **Better alternatives to improving price formation**
 - **Pricing transmission scarcity**
 - **Improve scarcity pricing**
 - **Evaluation of reserve products**
 - **Pay uplift using parameters of efficient technology**
 - **Improve CC modeling**



Fuel Cost Policy Update

- **Fuel cost policies require a detailed review and discussions with Market Sellers.**
- **The IMM will continue to review FCPs, provide feedback to Market Sellers and provide input to PJM before and after the November 1 deadline.**
- **Blanket approval of currently effective FCPs is not consistent with the introduction of hourly offers even for units opting out.**

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