Energy and Reserve Pricing & Interchange Volatility Sub-Group Update

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Background

- Issue charge approved at November MRC
- MIC sub-group tasked with developing two sets of enhancements
  - Address capturing more operator actions into the market clearing prices
  - Address moderating interchange volatility to enhance system and price stability
- Solutions to be implemented prior to this summer

Problem Statement – Interchange Volatility

- Interchange is highly price responsive and volatile
  - The volume of interchange tends to increase during periods of high LMPs, but is difficult to forecast
- Dispatchers must often call resources in advance with imperfect knowledge of what interchange will be
- If generation or DR has already been called and cannot be cancelled, getting more interchange than forecasted leads to overall lower prices and increased uplift

Problem Statement – Market Price Formation

- Operational uncertainty leads operators to take conservative actions to maintain reliability
  - Creates additional reserves on the system, which results in lower energy and reserve pricing under the current market rules
  - Lower prices result in increased uplift payments

Progress to Date

- Short-term solutions are currently being developed for both areas
  - Summer implementation deadline rules out changes requiring FERC filing or significant stakeholder discussion or software changes in the short-term
  - Long-term solutions briefly discussed then tabled for later discussions
- Matrix posted on MIC web page

Proposed Interchange Volatility Solution

- Proposed solution is to adjust ramp limits as needed based on system conditions
  - Ability already available to dispatchers via Regional Practices manual, but not currently utilized
- Solution will establish guidelines for adjusting ramp limits to create transparency around the process
  - Updates to Regional Practices are being drafted

Interchange Volatility Solution Package

Design Component	Proposed Option
Scenarios under which ramp limit is adjusted	As needed to address operating conditions, typically after max or min generation emergency action is anticipated/declared or as a result of Demand Response decisions
Method for communicating ramp adjustment	• Banner notifications in ExSchedule tool, plus • Another real-time communication method, plus • Monthly reporting of when and why adjustments were made
Method for calculating ramp limit adjustment	Under discussion

Proposed Energy / Reserve Pricing Solution

- Proposed solutions focus on increasing primary and/or synchronized reserve requirements when additional resources are scheduled to cover operational uncertainty

Energy/Reserve Pricing Design Components

Design Component	Description
Scenarios under which reserve requirements are increased	Operational scenarios under which reserve requirements could be raised
Requirements to be increased (products and locations)	When would synch reserve vs. primary reserve requirement or MAD requirement vs. RTO requirement be raised
Method for communicating reserve requirement change and reason	Real-time communication method
Entry / Exit criteria	Measures to prevent transient increases
Method for calculating amount of reserve requirement increase	Guidelines for the amount by which the requirement is increased, including possible ceiling

Next Steps

- Upcoming meetings

Date	Time
Friday, March 7	1:00 pm – 4:00 pm
Monday, March17	9:00 am – 12:00 pm
Thursday, April 3	9:00 am – 12:00 pm

- Vote requested at April MIC