Market Suspension Procedures and Rules

We are concerned that the market suspension rules, as developed thus far, may not be adequate to address a longer-term market suspension – for example, a week or a month. While we agree this is an unlikely outcome, we think the rules nonetheless should be adequate to address such a situation.

The concern stems from the concept of compensating generators for an extended period of time based only on their cost-based offers, which are based solely on short-run marginal costs. Without disputing that cost-based offers are a reasonable replacement for generators' price-based offers when needed to mitigate market power, or as direct compensation for short-term market suspensions (as PJM has proposed), the prospect of longer-term compensation at only cost-based offers diverges from market dynamics and expectations.

In general, when a resource is mitigated to its cost-based offers, that does not mean the resource only receives its cost-based offers. Rather, the cost-based offer represents the resource's placement in the dispatch stack, but the mitigated resource is unlikely to be the marginal resource that sets LMP let alone the marginal resource across multiple hours. All units except one are receiving energy rents based on clearing price for a particular dispatch interval; put another way, the market dynamics imply that at any given point in time, most operating resources are inframarginal, and get compensated above their offers, regardless of whether they are cost-based or price-based.

Indeed, this is why in the capacity market setting, there is a net Energy and Ancillary Services revenue offset, which explicitly estimates how much net revenues, over and above their short-run marginal costs, that a resource should expect to make in the energy and ancillary services markets. By the time a market suspension happens, that net E&AS revenue offset has already been assumed and explicitly factored into capacity clearing prices, by having been deducted from Net CONE values for the reference resource and from resources' individual capacity offers. Thus, if a market suspension were to occur, the capacity price would have been set based on assumptions of energy revenues over and above resources' short-run marginal costs, but under the PJM proposal, there is no mechanism to compensate resources at more than their short-run marginal cost. Under a short-term market suspension, this does not rise to the level of a problem to be addressed, but under a longer-term market suspension, we think it does.

We would like to propose that to address this issue, we add another time-segmented solution that would kick in if a market suspension were to last for a longer period of time – one week. If that were to occur, we would suggest that compensation should include an adder above the short-run marginal cost represented by cost-based offers. We propose looking at the E&AS offset assumed in setting the capacity price for the Delivery Year when the market suspension occurs. We would propose to use the E&AS offset assumed for the reference resource to calculate a $/MWh adder to be paid to all resources in addition to their cost-based offers. Recall, there is no clearing price in this situation and generators are paid as bid. Below is an illustrative example where numbers would be updated for the subject delivery year. This example represents one of many possible solutions to the general concept and is not meant to jump to a solution.

E&AS Offset Calc (illustrative example)

Method 1: Calculated based on Ref Unit Run hours

1. NetE&AS for Reference Unit = $22,205 /MW-Year (From 2023/24 RPM Planning Parameters for RTO)
2. Reference Unit Expected Run Hours: 240 hours/year (From Brattle Report Last Quad Review)

3. Adder = NetE&AS/RunHours = $92.52 /MWh (for the CT Reference Unit)
4. Calculate E&AS Revenue for each resource Type
    - CTs would be paid E&AS of $92.52/ MWh.
    - CCs have an expected average capacity factor of 75% according to the Brattle Report. 75% of hours in year are 6570 hours.
        - 22205/6570 = $3.38/MWh.
    - Etc.