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PJM, ISO-NE answers to vortex probed at NEM event

Executives crunch numbers in possible loss of DR

After spiking wholesale prices led to significant pain for retail customers and their suppliers last winter, representatives from the federal side of the market faced some tough questions at the National Energy Marketers Assn's (NEM) Mid Atlantic Energy Summit in Baltimore yesterday. PJM was hit hard by the polar vortex effect and is working on major revisions to its capacity market in response.

Those proposed changes will put generators capacity payments at risk to ensure they are around. Generators will reflect those risks in their bids, which will mean higher prices to pay for NEM's retailer members and others on the load side.

On the first day the vortex effect hit PJM, the RTO was without 22% of its generation, but those unit owners only paid a collective $35 million in penalties over the entire 2013/2014 delivery year, said PJM VP of Market Operations Stu Bresler at the event. That needs to change going forward, he added.

PJM's long-term response to the situation was similar to ISO-NE's, though the reasons behind the reforms were different as on that worst day, about a quarter of all the outages in the ISO's territory were due to natural gas shortages.

Throughout the vortex effect, coal and gas outages were about equal in MWHs, noted PJM's Independent Market Monitor Joseph Bowring of Monitoring Analytics. The capacity performance incentives would tend to push gas plants to get firmer pipeline contracts, he added.

But they will also improve the incentive for plants that simply were not ready for the extreme cold to prepare in the future.

One problem with reforming the capacity market in PJM is that it is run three years forward to give new development a chance to compete, so the capacity performance incentives cannot be in place until 2018/2019 at the earliest.

That means the RTO is working on a transition to ensure reliability between now and then, Bresler said. Unlike ISO-NE, it will not be paying generators to keep stores of backup fuel for when the pipeline system is peaking because PJM has a much more ample supply of gas from the Marcellus Shale.

The latest capacity-performance proposal said the RTO could procure up to 10,000 MWs of extra generation under the transition mechanism, but Bresler told us after his panel that it is still looking into how much uncommitted generation is out there. Some of it could be in the form of coal-fired power plants that are slated to retire to comply with EPA's Mercury & Air Toxics Standard, he added.

PJM cannot bring those coal plants back, but it could work with the owners to try to get an extension to the MATS deadline. "We don't know how much of that is actually realistic, or how many of those resources would even want to take on trying to get an extension," Bresler told us.

Order 745 affects retailers

Earlier this year another wrench was thrown into PJM's planning by the appeals court decision that vacated Order 745 on broad jurisdictional grounds. That order initially applied to the energy markets, but its broad jurisdictional reach could impact capacity, so the RTO crafted a straw-man proposal to end DR's direct participation in that market.

Ideally, nothing will change given the ongoing litigation in

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the case, but PJM's proposal is designed to minimize added litigation should the EPSA v FERC decision stand, he added.

The proposal is relevant to NEM members because instead of DR bidding into capacity auctions as supply, load-serving entities (such as retailers) would bid cuts to their future demand into the markets, lowering the demand curve so that less capacity has to be procured. Any incentives to get more of that activity would be left up to the states.

Bowring sticks up for DR

Bowring made it clear for years in his firm's State of the Market Reports that DR, when it is limited by its maximum runtime and is seasonal, is inferior to generation. But yesterday he argued that it is vital to have an active demand side in wholesale markets.

Even though Bowring believes DR that runs just 60 hours/year is an inferior product, it is not without value, he told the event. But it has prevented combined-cycle power plants from clearing in the capacity auctions and it even forced the retirement of a coal plant – and both of those would have made operations easier this winter.

Annual DR, which has no limits on when or how often it can be called on by PJM operators, is just as valuable to the market as generation, Bowring said. Cutting out everything-but annual DR would have pushed the last capacity auction's costs from $7.5 billion to $9.7 billion, which is far from insignificant.

But taking out all DR and efficiency would have pushed the price up to $16.8 billion, he added.