PJM Regulation Compensation Changes Cleared over Opposition

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By Rory D. Sweeney

WILMINGTON, Del. — The *PJM (/rto-pjm/)* Markets and Reliability Committee on Thursday endorsed a *plan (http://www.pjm.com/~/media/committees-groups/committees/mrc/20170622/20170622-item-04-regulation-market-issue-senior-task-force-presentation.ashx)* to change compensation in the RTO's regulation market, despite howls from some market participants that units would be shouldered with more work while receiving less pay.

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Hsia | © *RTO Insider*

PJM's Eric Hsia said the changes resulted from staff observation that the RegD, fast-responding signal would sometimes move in the opposite direction of the area control error, exacerbating the frequency regulation problem.

Additionally, many resources were self-scheduling into the market, which amplified the response to the signal, he said. Howard Haas, the Independent Market Monitor's chief economist, later added that the current market design incentivizes self-scheduling to receive surplus payments.

PJM and the Monitor developed a package of revisions to the market that received 75% approval from the Regulation Market Issues Senior Task Force. The package would, among other revisions, replace the "mileage ratio" portion of the regulation performance credit, which wasn't being captured in the market clearing price and was causing load to overpay for the service. Hsia noted that discrepancy also contributed to the oversupply issue.

The task force also produced a new regulation signal and requirements that were implemented on Jan. 9. (See "New Regulation Rules Improving ACE Control," *PJM Operating Committee Briefs (https://www.rtoinsider.com/pjm-operating-committee-38617/)*.)

Transitioning to the revised signals could drive the value of regulation compensation to zero, Hsia said, so the package includes a minimum "regulation rate of technical substitution" (RRTS) value of 0.65 for the first 12 months of implementation and 0.5 for the following 12 months. The RRTS would replace the previous "benefit factor."

"Really, what we're trying to do there is ensure that there is going to be compensation even though there will be oversupply," he said.

Tom Rutigliano, representing the Energy Storage Association, *argued (http://www.pjm.com/~/media/committees-groups/committees/mrc/20170622/20170622-item-04-rmistf-esa-presentation.ashx)* that PJM's plan omits necessary changes. He urged stakeholders to defer voting on the package until it includes greater detail on regulation providers' obligations, how resources' physical limitations will be incorporated into the signals and how the metric that replaces the mileage ratio will be calculated.

"We feel the Tariff language seeking endorsement today is unacceptably vague on several key market features," he said.

The proposed package will change longstanding market rules that make the RegD product energy-neutral, Rutigliano said. Ten unaffiliated organizations built about 285 MW of storage designed to charge and discharge equally in a 15-minute time frame, he said, but the new signal implemented on Jan. 9 has no firm energy limit and substantially changes performance requirements. Analysts at ICF *say (https://www.icf.com/-/media/files/icf/white-papers/2016/energy-der-energy-storage-pjm-regulation-market.pdf)* the neutrality requirement means that during steep ramp-up or ramp-down hours, RegD resources alone will not be adequate; thus RegA resources will set the market clearing price.

"This is an entire industry that received clear guidance [on] their performance obligations, invested hundreds of millions of dollars in single-purpose machines to meet those obligations and, frankly, had the rug pulled out from under them," he said. "We are asking that no participant in this market should have that happen to them without getting their day at *FERC*

(/ferc/)."

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Rutigliano © *RTO Insider*

Hsia had noted earlier that PJM has been working with market participants to address some issues created by the new signal. He said instances of resources being asked to follow a signal for more than 15 minutes dropped to just two in the first half of June. No resources were asked to follow a signal for more than 30 minutes.

The package of revisions will also change how regulation payments are calculated, all without being codified in the Tariff. Rutigliano called this an "unprecedented" situation "where you have what is essentially an administrative pricing curve, and that curve is left entirely to the RTO's discretion."

Speaking on behalf of client Beacon Power, Gabel Associates' Gabbi Hudis said the revisions "have those resources performing additional work while receiving significantly less compensation than the RegA resources."

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Borgatti | © *RTO Insider*

"I can appreciate the desire to get this right," said Gabel Associates' Mike Borgatti, representing client NextEra Energy. The rule changes are "significant" for some market participants, he said, and set "an unhealthy precedent." Additionally, FERC's lack of quorum means it's unlikely that delaying the vote a few months will significantly impact how soon the commission will consider the issue, he said.

Haas said all of Rutigliano' s concerns were discussed by the RMISTF and that FERC orders established the RTO's authority to make changes to the regulation signal and payment calculations.

"What we're seeing here in terms of a proposal is the result of all of those discussions, and those discussions led to 'we need to fix this issue,'" he said. "We can hold off and continue to talk about this forever, or we can take this proposal to the commission. [ESA members] want this decision to be in front of the commission. This will allow [that] to happen. … I think that's the appropriate place to take this."

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Bruce | © *RTO Insider*

Susan Bruce, representing the PJM Industrial Customer Coalition, agreed that the decision should now be in FERC's hands. "These issues are now before FERC, and we would like to move the PJM/IMM package to allow that to occur because, in our view, currently customers are overpaying relative to the benefit that they're receiving, so we want to make sure that that doesn't continue," she said.

"Something isn't right about what we're paying for regulation right now," the PJM Public Power Coalition's Carl Johnson said in agreement. "If we do defer [a vote], we risk just taking even longer before we get to a solution on the market side."

Calpine's David "Scarp" Scarpignato added that the current processes also harm resources that provide the traditional, slower RegA service. Exelon's Jason Barker also voiced support for the revisions package.

Proponents of the deferral attempted to negotiate for a specific deadline for making a FERC filing, but Bruce and Johnson were skeptical that additional, more-focused debate — "this time, for reals," as Bruce put it, invoking youth slang — would produce any better results.

"It's hard to know whether or not there's the prospect of consensus," she said. "It seems like that conversation's happened, and there's not consensus. I'm not sure what more could be done to get there in the next two months."

Many other provisions that affect resources aren't included in the Tariff to that level of detail, Scarp said, but that's a separate conversation that goes beyond regulation rules.

"I don't think all stakeholders are in agreement that all of this should even go in the Tariff," Scarp said. "If we put every similar provision in the Tariff, instead of being 6-inches-thick, it would be 6-feet-thick."

Bob O'Connell of Panda Power Funds warned that moving the language into the Tariff instead of the Operating Agreement would shift control away from stakeholders to PJM. He later proposed developing a manual specific to the regulation market that aggregates in one place the market rules currently embedded in multiple manuals.

"If that is what the stakeholders want, I encourage you to move forward with the motion to defer," he said. "If you don't want that, if you want to continue to retain some voice in the process other than just an advisory voice, I recommend that you move forward with the RMISTF package and figure out a different way to address how to get the changes you'd like to see changed worked into the Tariff."

Borgatti made the motion to defer the vote, but it failed, receiving 1.61 in favor in a sector-weighted vote that had a threshold of 3.335 for passage.

John Horstmann of Dayton Power & Light reiterated disapproval with the revisions package that he's expressed previously, calling it "the final nail in the coffin" for anyone who built to the 15-minute standard.

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Horstmann | © *RTO Insider*

"It's very disappointing that this can occur basically unilaterally," he said. "If we build you [PJM] a one-hour battery today, could the same thing happen a year or two down the road that you want a two-hour battery? Unfortunately, the signal it sends … is that PJM's a pretty risky place to do business because you really don't have a lot of rights when it comes to rule changes. … I've heard an awful lot of reasons why this is such a wonderful process that got us to this point, but largely, the small number [of] owners that are hugely impacted have been pretty much stonewalled through the process."

Stakeholders approved the revisions package with a 3.89 sector-weighted vote.

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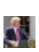 (https://www.rtoinsider.com/caiso-trump-congress-44285/) UPDATE: Trump Fights Congress, History with Tx Sale Bid (https://www.rtoinsider.com/caiso-trump-congress-44285/)

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