



Offer Cap Review

Problem / Opportunity Statement

The Operating Agreement, at Schedule 1, section 1.10.1A(d), provides that Market Sellers owning or controlling the output of all Generation Capacity Resources in the PJM Region that have been committed as capacity for PJM shall submit offers into the Day-Ahead Energy Market for the available capacity of their resources. However, the Operating Agreement also provides that offers from Generation Capacity Resources into the Day Ahead Energy Market shall not exceed an energy offer price of \$1,000/MWh.

These two provisions have not come into conflict before January 2014. To PJM's knowledge, sellers with generation resources offering into PJM's energy market have not had marginal costs in excess of \$1,000/MWh - certainly not on any systemic basis or that they have brought to PJM's attention. In the PJM Region, for trades on January 21 and delivery on January 22, natural gas prices *averaged* over \$120/MMBtu, and included high prices for the day of up to \$140/MMBtu. These gas prices were record-setting for the PJM Region (if not for the nation), shattering even the records set just earlier in January. For generating units with a 10,000 Btu/kWh heat rate, roughly average for a combustion turbine in the PJM region, \$120/MMBtu translates to a \$1,200/MWh cost to produce energy, ignoring any additional cost elements such as operations and maintenance.

Consequently, a large amount of generation was offered into, and cleared, PJM's energy market at prices likely below the generators' costs of producing that energy. The Operating Agreement's "must-offer" and "offer-cap" provisions mean that the sellers were *required* to offer the available capacity of their generation resources below their marginal costs.