

FOR IMMEDIATE RELEASE

PJM Files Reserve Pricing Reforms for the Future of a Flexible, Reliable Power System
Proposal Before FERC Seeks Proper Pricing for Valuable Reserves

(Valley Forge, Pa.– March 29, 2019) – PJM Interconnection today proposed energy and reserve market reforms to fairly value the crucial energy reserves that support a reliable electrical grid with the flexibility required for the continued evolution of the resource mix in the nation's largest bulk power system.

Reserves play a central role in the reliability of the grid, helping to keep generation and demand in balance in the face of unexpected loss of generators, increase in electricity use, or variable output of generation resources.

PJM's [filing](#) today with the Federal Energy Regulatory Commission (FERC) addresses well-documented issues with the pricing of reserves in PJM's markets – that PJM's current reserve market rules do not accurately value reserves for their reliability value or drive consistent response when those resources are called upon.

PJM is asking FERC to change PJM's reserve pricing rules to adopt key concepts, each of which individually has been proven successful by other independent system operators and regional transmission organizations. PJM intends to ensure that prices in the reserve market reflect the value of operator actions that can then flow through to the energy market. This benefits electricity users because accurately pricing these operational actions will provide opportunities for those customers to hedge these costs. The pricing reform would also provide financial incentive to attract investment in new capacity that can provide these reserves.

“Proper price formation is critical to ensuring that prices reflect the value of the reserves required to operate the system; PJM's proposal represents a major step forward in the design of the market,” said Stu Bresler, senior vice president of Operations and Markets. “These resources are not just critical to reliability today and in the future, they will provide the backup flexibility needed so that the grid is prepared for the continued integration of alternative sources of energy.”

The increasing variability of electricity demand based on the deployment of home solar and other distributed energy resources also has increased the value of these reserves, which are needed when weather conditions or deviations from forecasts require the addition of resources to meet demand. State renewable portfolio standards at full implementation call for an additional 25,000 MW of wind and 12,000 MW of solar resources to supply energy in the PJM region by 2034.

The 2019 cold spell provided the latest examples of the mismatch between the price and value of needed reserves during stressed times on the PJM grid, and in particular synchronized reserves. Synchronized reserves are the most valuable on the system, providing power to the grid or quickly removing electricity demand within 10 minutes. On Jan. 31, the peak day of the winter season, the Synchronized Reserve Market prices were at or near zero for 19 of 24 hours, suggesting that these important reserves have little or no value. As the system becomes more dependent on renewable resources, the need for flexibility from all types of resources will increase due to the uncertainties



involved in forecasting actual wind conditions and cloud cover on a given day. More effectively valuing this flexibility will allow for the ongoing seamless integration of these resources in the future.

PJM filed its proposal under Section 206 of the Federal Power Act, after stakeholders could not reach the needed two-thirds sector consensus on a proposal over the course of the last year.

The PJM proposal addresses the following components:

- Consolidation of Tier 1 and Tier 2 Synchronized Reserve products
- Improved utilization of existing capability for locational reserve needs
- Alignment of market-based reserve products in Day-Ahead and Real-Time Markets
- Downward-sloping Operating Reserve Demand Curves (ORDCs) for all reserve products
- Increased penalty factors to ORDCs to ensure utilization of all supply prior to a reserve shortage

[PJM Interconnection](#), founded in 1927, ensures the reliability of the high-voltage electric power system serving 65 million people in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia. PJM coordinates and directs the operation of the region's transmission grid, which includes over 84,236 miles of transmission lines; administers a competitive wholesale electricity market; and plans regional transmission expansion improvements to maintain grid reliability and relieve congestion. PJM's regional grid and market operations produce annual savings of \$2.8 billion to \$3.1 billion. For the latest news about PJM, visit PJM Inside Lines at insidelines.pjm.com.

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