

**AEP Energy Supply**  
**Revised EMUSTF Proposal L**  
**Executive Summary**

*Disclaimer: AEP Energy Supply's views or opinions do not represent those of American Electric Power Service Corp. or its regulated operating companies.*

AEP Energy Supply believes it is appropriate to be cautious when dealing with the allocation of operating reserves, since drastic modifications could lead to inappropriate allocation amongst market participant classes. AEP Energy Supply has both generation and load within the PJM system and seeks a balanced approach to any modification of operating reserve cost allocations.

The AEP Energy Supply proposal relies on the continuation of both the day-ahead and balancing operating reserves concepts. Eliminating day-ahead operating reserve is inappropriate at this time. Other available packages that incorporate allocation concepts from other RTO or ISO markets may not be appropriate at this time without additional consideration of those relevant market's energy, capacity, and ancillary service market designs. AEP Energy suggests a balanced approach.

The previous version offered a fixed, yet variable monthly uplift cost for UTCs. This concept has been modified due to the inability to construct a convincing argument to achieve Commission approval. Treating uplift associated with this product dissimilarly from INCs and DEC is problematic because a UTC can be deconstructed into:  $UTC = \text{cleared INC} + \text{cleared DEC}$ . Other packages suggesting alternative treatment will likely have to address this same scrutiny - of why the parts should be treated differently than the sum.

There are the fundamental concepts within the proposal:

- 1) Up-to Congestion Transactions (UTCs) would be allocated operating reserves costs "consistent with INCs and DEC" - PJM's whitepaper- *Virtual Transactions in the PJM Energy Markets*, pg 48. It has been determined that UTC transactions cause transmission facilities to bind in the day-ahead market, affecting both unit commitment and awards/dispatch. In addition, they account for "80 percent of all virtual transaction activity and collect more than 81 percent of the total virtual

transaction revenues.” PJM states this will help “level the uneven playing field that exists today.” This may or may not be consistent with PJM package “S.”

- 2) A one-year transition time that includes larger reliability vs deviation re-classification hurdles. These hurdles will be dependent on the minimum run-time of the asset. Today only 4 intervals are required in which the LMP must be greater than the unit cost for PJM to reclassify a unit from reliability to running for economics (deviations). This package increases the current 4-interval hurdle to 6 intervals for units with a minimum run time of three hours or less and establishes an 18-interval hurdle for assets minimum run times greater than 3 hours. After the one-year transition period, a unit brought on for reliability will stay categorized as operating for reliability, which is consistent with PJM’s package “S” and market monitor recommendations.
- 3) Resources (generators) that have a must-offer requirement in the PJM Day-Ahead (DA) Market have no mechanism to achieve real-time prices other than to, 1) make their price-based offer higher than an anticipated price of the DA market or, 2) submit a DECrement bid. As a reminder, a DEC bid is allocated DA Operating Reserve associated with the virtual purchase, and then subsequently Balancing Operating Reserve allocation associated with the virtual sale in the real-time market. The primary reason for a generator wanting to receive real-time pricing for its output is to mitigate financial risk associated with operational contingencies. Since option #1 does not produce the most efficient outcome for the PJM system and may not be obtainable if PJM awards the unit based on its cost-based offer; PJM consumers and even generators should prefer option #2.

Loads, imports, exports and financial or virtual market participation is not mandatory in the day-ahead market, and those participants wanting to receive real-time pricing can simply do so by not submitting day-ahead transactional information. They can achieve real-time pricing and are allocated one operating reserve charge.

This package waives the balancing operating reserve charges for a generator that wants to achieve real-time pricing utilizing a DEC bid at its generator bus. This allows must-offer resources to achieve real-time prices, while not being charged two operating reserve costs. This would level the uneven playing field as loads and generators would now both enjoy the same privilege of receiving only a single operating reserve cost while when desiring to be assessed the real-time price.

If there is a concern of gaming, the balancing operating reserve charge associated with the DECrement bid tied to a must-offer resource could be waived

only if the resource's price-based offer is no greater than its cost-based offer. This achieves the generators goal while providing lower offer costs to consumers.

While some will rightfully say that a DEC for a generator with a must-offer requirement under this concept is treated differently from a DEC of other market participants, other market participants have a method of achieving real-time price without being penalized twice. The must-offer is unique to generators and we would appreciate your careful consideration of this suggested solution.

- 4) The allocation of the marginal loss overcollection should be to those who pay for the long-term costs and investments of the transmission system. The current allocation to temporary, non-firm exporting transmission transactions (including exports from PJM related to CTS transactions) is eliminated.