



PJM EGCSTF – Multi-Day Energy Reserve Product

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Multi-Day Energy Reserves Product

- New Market designed to:
 - Open to all resources that can provide energy reserve product
 - Create incentives for gas-fired gens to firm up weekend fuel supply that wouldn't otherwise, reducing the potential of (short-notice) scarcity events
 - Create incentives for gas-fired gens to firm up fuel supply in response to Cold Weather Alerts that wouldn't otherwise, reducing the potential of (short-notice) scarcity events
 - This product directly addresses some of the issues with fuel supply experienced in Winter Storm Elliott
 - Allow generators to still manage their fuel procurement and retain the risk of mispricing the market
 - Provide transparent and timely price discovery to mitigate potential abuse of market power by gas suppliers through substitution of alternative electric suppliers
 - Create residual benefits even if gas is not burned by enhancing pipeline operational flexibility -e.g., increases line pack
 - Protects load from having to pay for excessive fuel costs associated with real-time nominations and provides energy price reductions to load when activated
 - Strategically tied to CIFP implementation

Multi-Day Energy Reserves Product

- Financial call option product over duration of multi-day gas package to procure reserves backed by procured fuel.
- Temporal constraints would need to respect the FERC-mandated minimum requirements for pipeline nomination deadlines, flow schedules, and hourly take requirements – i.e., 4-6 hour notification+start-up times, if such conditions are imposed by the pipeline operator. Experience with the product may suggest procuring multiple products – i.e., 30-min and 4-6 hour reserves based on system operator need and availability of service from the pipelines.
- RTO-established LMP strike price at level to attract out-of-money generation to bid risk of gas procurement and loss at resale if generator not called for energy.
- Supply resources bid competitively to provide reserves over duration of option period at market-cleared option premium
- Successful offerors must show evidence of fuel procurement post-auction.
- Resource should have an obligation to offer energy at the strike price, similar to ISO-NE's FRM Threshold Price. This would dissuade more efficient units from taking on the weekend obligation, collecting option premiums, and offering at an economic price, collecting inframarginal rents in the process.
- If strike price not reached over option period, supply resources collect option premium but are not guaranteed recovery of losses for purchased fuel
- If strike price is exceeded for any interval, settlement in excess of the strike would occur with the refund inuring to load.
- LS Power also offers proposals for the other Design Components in the EGCSTF matrix