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PMT webinar panel describes markets at crossroads

Brownell not surprised when old models fail to keep up

Wholesale power markets seem to be at a crossroads with some of the legacy markets experiencing jurisdictional frictions while they are expanding, in the West especially. *Power Markets Today* yesterday hosted a webinar looking into those trends and what they mean for the future of markets.

Markets were first set up to create more transparency, cut market power, and help lower costs and they were able to do the job they were designed for, former FERC Commissioner Nora Meade Brownell said on the webinar. But over time, more and more authority has been granted to the organized markets.

“The odd thing about this is, we’re always surprised when old market models and old business models fail to address rapidly changing conditions,” Brownell said. “One of the problems with that is we rely, I think too much on regulatory solutions that take too long and stakeholder solutions that take too long. We need to get better at that.”

Given that most of the world is effectively on pause now, Brownell sees a chance for this slice of the electric industry to consider what it wants from markets 2.0. Texas has charted one path, which has opened up lots of innovation and had less regulatory involvement and more buyers and sellers interacting.

The Energy Imbalance Market in the West is also tapping into a huge market opportunity, though its overall impact is limited by Cal-ISO’s current governance model that favors that state alone.

Low average energy prices caused lots of the issues that are bubbling up to FERC and the states now, with many baseload power plants facing retirement due to those cheap prices and some looking to the states for a lifeline, University of California Davis Professor James Bushnell said.

In part, those lower wholesale prices have been driven by the growth of renewables, which have had the opposite effect on retail prices especially in states like California that have gone farther than most so far as the renewable growth has had to come with significant investment in T&D.

FERC responded to state efforts to bail out baseload plants and

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back new renewables with the minimum offer price rule (MOPR) in PJM, but Bushnell said the rule would likely not have any impact on such plants.

“The problem here is we’re risking exacerbating the original inefficiency,” Bushnell said. “Maybe it is economically inefficient – we can debate that – to support a specific type of generation resource, but conditioned on the fact that the subsidy is real.

“To pretend that the plant is not being subsidized and really, in a way, pretend that the plant is about to be retired and then go procure capacity as if that plant will be retired – is just layering another inefficiency on top of the original inefficiency.”

The MOPR would work if the aim of a subsidy was to cut capacity prices (as some states tried to 10 years ago), but now states are either backing plants for their clean energy goals or more local economic interests so the plants are unlikely to close even with the rule, he added.

FERC and other regulators set up a system that is too complex for them to understand, McCullough Research’s Robert McCullough argued. His firm tried to count the number of pages in regulatory orders that influence the capacity market and they stopped at 100,000.

The market’s logic fails when it comes to the seam that PJM has with MISO in the Midwest, where the Chicago area capacity prices in PJM are around $200/KW-month. But in the Chicago-suburbs in Indiana, they drop significantly as MISO runs the grid and then ramp back up again in PJM’s territory in Ohio.

The seams of the markets there are not smooth at all, with PJM plants in what is MISO’s territory and vice versa, McCullough noted.

PJM prices seem strange

Another strange thing about PJM’s market is the price seems divorced from the reserve margin. Generally, prices should be low when the reserve margin is high and high when reserves are tight, but reserves have been fat for years and prices have stayed elevated, McCullough said.

NERC, which is the legal arbiter of reliability in this country, projected a very big reserve margin for 2024 in PJM. “Hold your breath. It’s 70%,” McCullough said. “Now traditionally, under regulation, a capacity margin of 10% would be accepted. Fifteen percent would be excessive. Twenty to 25% would lead to the commission rejecting some baseload plants. We’ve never seen 70% before.”

There is a question as to whether NERC is forecasting the right amount of generation that year, or whether PJM’s construct is really that broken, McCullough said.

But Advanced Energy Economy has seen in the MOPR case that reserve margins in PJM are quite healthy and argued that was one reason FERC should not ramp up the rule as much as it did, AEE General Counsel Jeff Dennis said.

FERC urged to rule on case from California Energy Crisis

FERC received calls this week from generators to issue a ruling on a case that stems from the 2000/2001 California Energy Crisis. Cases from that crisis have stretched decades due to lengthy litigation that reached the Supreme Court, but as parties pointed out, this one has been waiting for a final FERC order since 2016.

EPSA and the Western Power Trading Forum (WPTF) wrote a letter to all four commissioners urging action yesterday, which followed a similar epistle from Shell Energy North America earlier this week. The case is "Public Utilities Commission of the State of California v Sellers of Long-Term Contracts to the California Dept of Water Resources."

The water department stepped in and entered into long-term contracts for power after the state's utilities went bankrupt but did so at a time when power prices were high due to manipulation.

EPSA and WPTF want to see final action on the case since it involves the Mobile-Sierra standard, which holds that contracts negotiated by sophisticated parties can only be overturned if they are against public interest. An initial decision held that standard – which underpins power contracting generally – in limbo, EPSA and WPTF said.

The ALJ's decision found contracts entered into "during periods of market disruption" are not protected by Mobile-Sierra, they said. The Supreme Court found it is precisely at such times when the certainty of contracts is most important.

"As FERC knows, the Mobile-Sierra doctrine is the bedrock for electric market participants' confidence in long-term contracts," EPSA and WPTF said. "It has been almost four years since the initial decision was issued.

"Therefore, EPSA and WPTF respectfully request that the commission promptly take action to clarify and reaffirm its interpretation supporting contract integrity under the Mobile-Sierra doctrine in resolving this proceeding."

Shell Energy was a counterparty to one of the contracts at issue and it noted the Supreme Court remanded the case to FERC.

"Not only is the matter ripe for resolution as it is close to entering its third decade of litigation, more importantly, it raises the important regulatory issue of the proper application of the Mobile-Sierra doctrine to wholesale power contracts that are subject to market-based rates – the very issue that was the subject of the Supreme Court decision in Morgan Stanley," Shell said.

Shell noted the California parties on the other side of the complaint would like see FERC take action as they wrote in their own letters in 2016 and 2018. At those times, Shell thought FERC was still inside its normal process in terms of acting on such cases, but as time has passed, it wants to see action now.

1 story in 20 seconds

Gas futures grow again on cold, less production: NYMEX May natural gas futures settled lower in trading yesterday, amid near-term expectations for colder weather in most of the country in the near-term, analyst Jackson Mueller reported. The contract added 6.9¢ to close at $1.783/MMBTU. Gas prices surged this week due to a combination of near-term cold energy and expected production cuts forecasted by the EIA due to the drop in oil prices. With production projected to decline, the market is looking at the potential for the month's old gas surplus to decline, Mueller said.

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