

News : US' PJM stakeholders work to address natural gas-fired power generator fuel-cost issues

By Jared Anderson

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- Can procure gas but not get dispatched
- Grappling with fuel cost risk management

PJM Interconnection stakeholders are working through measures to strengthen coordination between the natural gas and electric systems, with one issue being how to address circumstances where gas purchases are made due to a PJM directive, and then generators are not called on to operate in real time.

PJM's Electric Gas Coordination Senior Task Force is [developing potential solutions](#) that could address the misalignment between how the power and gas markets operate with the goal of increasing reliability.

Gas-fired generators do not want to get denied the cost of fuel they need to procure if their units are not called to supply power, one stakeholder said during May 16 task force meeting that was held remotely.

The stakeholder said there should be discussions regarding power market offer parameter limits so all relevant fuel procurement details can be reflected in the offers.

The stakeholder also suggested that PJM's operations team should have a gas desk staffed by someone who understands the gas market's intricacies and how it interfaces with the day-ahead and real-time power markets.

PJM needs to have a clear, concrete understanding of gas pipeline capability and gas availability, and the grid operator should be doing scenario planning for extreme weather days that stress the power system, Joe Bowring, president of PJM's independent market monitor Monitoring Analytics, said during the meeting.

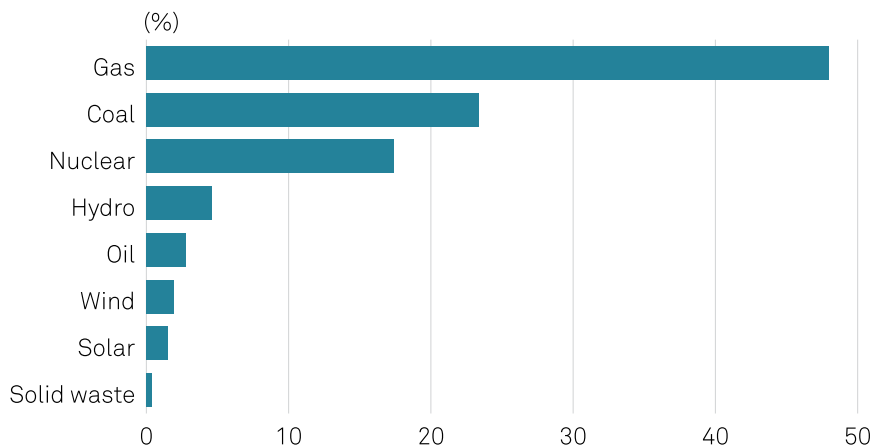
One of the more challenging issues that have emerged from the task force is the degree to which PJM should compensate gas-fired generators that procure fuel because PJM says they will be needed in the day-ahead power market but are not actually dispatched in the real-time market because demand is lower than forecast or because of other reasons.

Compensation concerns

One "underlying theme" from the discussions is that gas-fired power generators have information that is not available to PJM, like hedging strategies and their long-term and short-term positions in the gas markets, Bowring said.

"PJM should not compensate for lost revenue when they don't have all the details," he said, adding that there are "conflicting notions" around how compensation and risk should work, and the task force should move past high-level discussions of this issue and get into details around how the compensation structure could work better.

PJM installed capacity by fuel type as of March 31, 2023



Source: PJM IMM

The question of which part of the market should bear the risk associated with fuel procurement that is not used has become central to the discussion. Gas-fired generation owners argue they should be permitted to recover their fuel costs if they are not called on in real time because generators bear the risk of procuring large volumes of gas upon which they potentially face losses.

The market monitor, on the other hand, has taken the view that fuel purchases are based on generators' economic decisions, and this risk should not be borne by customers.

The goal is not to expose generators to massive risk, but manageable risk, and the generators are in a unique position to do that, Bowring said. The way to address this is to make the scheduling-dispatch process work in a way that reflects real-world circumstances, he added.

Another stakeholder said it is important to note that the circumstance here is gas bought due to a PJM directive and then the generator is not called to run. If a generator gets a dispatch directive from PJM it is going to get ready. Generators bear an extensive amount of risk, some of which is not allowed to be reflected in the power market offers they make, the stakeholder said.

Potential solutions and rule change packages to this and other electric-gas coordination issues will be brought forth in future task force meetings as specific proposals are refined.

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