CIFP – Stage 4 LS Power Proposal #1 Executive Summary

LS Power generally agrees with PJM's Package 2 Proposal (Annual Capacity Market) with the following differences. Note that LS Power may be supportive of a Seasonal Capacity Market that has been thoroughly vetted, modeled, back-casted, etc. but, as has been presented in the CIFP process, it is not ready to be approved.

Accreditation –

LS Power agrees with PJM to move to marginal ELCC for renewables and storage resources but not for thermal resources. LS Power does not believe that PJM's proposed accreditation methodology for thermal resources will provide the correct incentives for resources to improve their performance and availability during critical periods. Instead, LS Power proposes to use "Equivalent Unavailability Factor-weighted (EUFw)" for thermal resources. The basic design principals are:

Design Principal	Design Element
Measure/quantify system stress	Use Loss of Load Probability (LOLP) vs Operating Reserve curve or similar design to transparently and objectively quantify system risk
Weigh stressed hours more heavily	Create a weighted average, unit-specific performance metric that places more weight on system stressed intervals
Measure unit-specific (or non-) performance	Ensure performance metric is focused on unit-specific performance and minimizes class averaging
Create forward-looking market signals to incent investment in reliability	Ensure the revenues at risk are more than the investment cost to deliver expected reliability performance
Ensure price signal create sufficient exit signals	Create expectations of materially reduced revenues if poor performance persists
Use class-average approaches only when unit-specific metrics are inadequate	Ensure correlated outage risk is wholly within the seller's accredited values and not on the demand side quantity

Under EUFw, UCAP is the following:

$$UCAP = ICAP \times Max(EUFw, EFORd) - Adj_{Asym\ outages})$$

Where EUFw is the following:

$$EUF_W = \frac{\sum_{i=1}^{n} LOLP_i \times EUF_i}{\sum_{i=1}^{n} LOLP_i}$$

Where

i = actual interval
n = count of actual intervals for given delivery period
LOLP = Loss of Load Probability for given delivery period
EUFi = equivalent unplanned outage rate for given delivery period

Market Seller Offer Cap (MSOC) –

LS Power appreciates the motivation behind PJM's changes to determining the MSOC and allowing the risk of taking on a Capacity Obligation to be included in the MSOC. LS Power proposes to include additional changes that would enhance the MSOC and allowing Market Sellers to reflect the risk of taking on a capacity obligation as determined by the Market Seller and not by a third-party.

1. Conduct the Capacity Market similar to the Energy Market by requiring Market Sellers to provide a Market-Based offer and a Cost-Based offer. The marginal resource offer would be reviewed by the Market Monitor for market power using a method other than the current Three Pivotal Supplier (TPS) Test that is used throughout other commodity markets for determining market power. If the marginal offer fails the market power test, the Market-Based offer will be replaced by the Cost-Based offer and the auction re-run. The process continues until the marginal offer does not fail the market power test.
2. The Market-Based offer shall be accompanied by a certification similar to the certification used by Market Buyers (which is the only mitigation imposed on Market Buyers) certifying the offer is not an exercise of market power.
3. The Cost-Based Offer (MSOC) shall be determined as follows:

Gross ACR = [Adjustment Factor * (AOML + AAE + AFAE + AME + AVE + ATFI + ACC + ACLE) + ARPIR + APIR + CPQR]
MSOC = Net ACR = max(Gross ACR - E&AS Offset, CPQR, 0)

Synchronization Between the RPM and FRR

LS Power agrees with the changes to FRR proposed by PJM and puts forward the following additional changes:

1. Require the FRR Entities' Capacity Plans to include sufficient capacity to satisfy the FRR Entity's load plus an amount reflecting the average percentage points that RPM has cleared/procured above the IRM for the last 5 years.

This change will eliminate the "free rider" issue where FRR Entities rely on the BRA reserve margin above the IRM during times of system stress at the expense of customers in non-FRR Entity states.

PAI Stop Loss

LS Power is proposing to change the PAI Stop Loss to better align the risk of taking on a capacity obligation with the payments for taking on the capacity obligation (LS Power is not proposing changes to the PAI Penalty Rate) –

PAI Stop Loss = 2 x BRA Clearing Price

Transfers of PAI Obligations

LS Power does not support PJM's proposed "Transfers of PAI Obligations" and supports the status quo for retroactive Replacement Transactions

PAI Bonus Recipients

LS Power supports the status quo eligibility provisions for Bonus Recipients.