

Fixed Resource Requirement Entities
Percentage Internal Resource Requirements
Alternative Proposal

Markets Implementation Committee
July 8, 2015

Quick Review of Problem

- To serve the capacity needs of their internal network load, some PJM Load Service Entities (“LSEs”) procured on a long-term basis external capacity resources and the associated firm transmission service necessary to deliver the resource to the zonal location of the LSE load; these commitments were made and continue to be in-place since the initial RPM delivery year of 2007-08.
- Current RPM procedures do not have a mechanism to allocate and maintain the benefits of these historical resource and transmission service commitments that were utilized to serve the capacity needs of the LSE’s internal network load.

Quick Review of Problem (cont.)

- Lack of such a mechanism has significant consequences for an LSE having such historic commitments especially if the zone in which the LSE's load is located becomes modeled as a separate Locational Deliverability Area ("LDA")
 - In RPM, an LSE with such commitments is exposed to locational capacity price differences if the zone in which the load resides becomes a modeled LDA and the LDA binds in an auction
 - In FRR, an LSE is subject to an Percentage Internal Resource Requirement ("PIRR") as soon as the zone in which the load resides becomes a modeled LDA; the historical resource and transmission commitments immediately become ineffective to the FRR LSE even if the newly modeled LDA never actually binds in an auction

- PJM's initial proposed solution reflected historic resource and transmission service commitments by allocation of Capacity Transfer Rights ("CTRs") to LSEs that made commitments in or prior to the RPM reference year to construct or acquire external Capacity Resources and associated transmission service to serve the capacity needs of their Network Load
 - As a parallel to a historic CTR allocation, the PIRR for an affected FRR LSE would be reduced by a quantity corresponding to the historic CTR value
- The proposal was a more generalized solution to the issue and was based on existing mechanisms used to reflect historic transmission system usage in transmission right allocations

Reason for an Alternative Solution

- The IMM expressed concern that PJM's initial proposed solution too broadly addressed the specific issue at hand
- IMEA, PJM and the IMM subsequently discussed possible alternative approaches that would address the IMM desire to have a more narrowly focused solution
- The alternative solution achieves this objective and has endorsement of IMEA, the IMM and PJM

Highlights of Alternative Solution

- The alternative solution is more narrowly focused on issue at hand:
 - Exclusively focused on LSEs using the FRR Alternative
 - Focused on application of the PIRR to an FRR Entity located in a Modeled LDA as determined by triggering of the Modeled LDA

Highlights of Alternative Solution (cont.)

- The alternative solution has three areas that would require change to existing rules:
 - The LDA-applicable PIRR would be enforced on FRR Capacity Plans only if the LDA in which the FRR load is located has been separately modeled due to certain triggers
 - An FRR Entity would be permitted to terminate its FRR Alternative election prior to meeting the minimum 5-year commitment period requirement under certain conditions
 - First-time elections of the FRR alternative would be due by no later than 4 months prior to a BRA instead of current deadline of 2 month prior to a BRA

Application of PIRR Relative to Trigger of Modeled LDA

- Current rule: The FRR Capacity Plan that an FRR Entity submits one-month prior to the BRA for a given Delivery Year ("DY") is subject to the LDA-applicable PIRR if the FRR load is located in a LDA that is being separately modeled in the BRA for that DY
- Proposed Rule Change: The FRR Capacity Plan that an FRR Entity submits prior to the BRA for a given DY is subject to the LDA-applicable PIRR if the FRR load is located in an LDA, **other than MAAC, EMAAC or SWMAAC**, that is being separately modeled in the BRA for the that DY **because (1) the LDA CETL/CETO ratio is < 1.15, or (2) the LDA had a non-zero Locational Price Adder in any one of the three preceding BRAs**

Application of PIRR relative to LDA Model Trigger (cont.)

- These proposed changes apply the LDA-applicable PIRR on FRR Capacity Plans when the LDA in which the FRR load is located is being separately modeled in upcoming BRA due to bright-line test triggers
- The LDA-applicable PIRR is always enforced on the FRR Capacity Plans for a given DY if the FRR load is located in:
 - MAR, EMAR or SWMAR LDAs
 - An LDA with CETL/CETO ratio < 1.15 for that DY
 - An LDA with a non-zero Locational Price Adder in any one of the three preceding BRAs

Alternative Solution Early Termination of FRR Alternative Election

- When an LDA binds in a BRA, the LDA-applicable PIRR is enforced on any FRR Entity located in that LDA for the next three immediate DYs
- When an LDA binds for the first time in a BRA, an FRR entity located in that LDA that was otherwise exempt from the PIRR for that BRA DY may terminate its FRR Alternative election in the following year even if the minimum 5-year commitment period requirement has not yet been satisfied

Revised Deadline for First-time Election of FRR Alternative

- Currently, first-time elections of FRR Alternative are due no later than 2 months prior to each BRA, about 5 weeks after planning parameters are posted for the BRA
- To prevent participants from electing the FRR Alternative only for purpose of avoiding the LDA-applicable PIRR (and potential locational price impact) of an LDA being separately-modeled for the first time for reasons other than bright-line triggers, the deadline for first-time election is revised to 4 months prior to each BRA (i.e. prior to posting of planning parameters for the BRA)