

PJM Capacity Workshop Session #3

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Introduction



- Allan McDonald's 7 R's: "...do the right thing for the right reason at the right time with the right people. [And] you will have no regrets for the rest of your life."
- The right thing is for us all to work together now to develop a sustainable capacity construct that respects and accommodates the myriad of business models and goals of the PJM Members and member states.
- The following slides attempt to comport with PJM's request to "stay out of the weeds" while providing some guiding principles for a proposal to be further developed via the CBIR process.

Path Forward

- Standard CBIR stakeholder process
 - Allow for a fulsome discussion
 - No preconceived solutions as with the ELC or CIFP processes
 - Understanding that absent achieving consensus FERC could impose their solution upon us
- The “problem” is broader than just the MOPR
- The issue is one requiring an holistic review of RPM
- Once common principles are identified, prioritize work with MOPR being first up

Construct Design – Guiding Principles

- Reliability paramount for all hours of the year
 - “Capacity” should no longer be viewed as a fungible commodity
- Simple Construct
- Mandatory reliability requirements with flexibility to comply
 - PJM determines reliability requirement
 - All consumers and LSEs including states and public power should be permitted to procure desired capacity in accordance to the preferences of their constituents
- BRA = genuine residual auction
- Protect against supply side market power
- Timely transition
- Maintain relationship with E&AS markets (i.e., offset) and recognize changes to those markets (i.e., ORDC, fast-start pricing)
 - Ensure there are no in-actionable price signals (Texas)

Eliminate MOPR

- Late hour offering in original settlement to “Target intentional price suppression”
- Per the 2006 Settlement, Section J. Minimum Offer Price Rule for New Entry in Constrained LDAs
 - Applicable only to constrained LDAs
 - Recognized “net short position” for a capacity market seller and affiliates
 - Allowed for “Net Asset Class Cost of New Entry shall be zero for... any Planned Generation Capacity Resource being developed in response to a state regulatory or legislative mandate to resolve a projected capacity shortfall in the Delivery Year affecting that state....”
 - “PJM shall... accept Sell Offers to provide Capacity Resources in accordance with the following priority and criteria for allocation: (i) first, all Sell Offers in their entirety designated as self-supply;...”
 - Included provision to “terminate when there exists a positive net demand for new resources...”
- Current MOPR does not target intent, is over-reaching, and involves widescale application throughout the entire RTO

Construct Design: Going Forward Proposal (High Level)

Step 1: PJM calculates indicative locational resource reliability requirement

Step 2: LSEs procure capacity via self-supply, RFPs, bilateral transactions, exchanges, etc.

Step 3: LSEs certify their bilaterally contracted capacity to PJM

Step 4 – Residual Pool Calculation:

- PJM notifies capacity resources that do not have a pre-arranged capacity obligation with an LSE that any remaining capacity goes into the residual pool (i.e., ensures no physical withholdings).
- PJM notifies LSEs based on their reported supply arrangements whether they have additional capacity obligation based on reliability calculations (e.g., ELCC), which goes into the residual auction

Step 5: PJM conducts a BRA with the residual capacity to meet the remaining load taking into account reliability needs (e.g., ELCC).

Other Design Components for Discussion

1. How far forward to hold the auction?
 - Should we consider holding the auction fewer months in advance of the delivery year than today (36 months)?
 - Per the 2006 settlement, PJM (A. Ott affidavit) “the essential purpose of forward commitment... to provide a credible prospect of new entry.”
 - PJM’s witness, Raymond Pasteris, developed a timeline of 33 months between signing a FSA and COD for a new CT
 - What is the timeline in 2021?
 - If <36 months, should also improve accuracy of load forecast resulting in less over-procurement.
 - Fewer Incremental Auctions

Other Design Components for Discussion

2. Recognize value to multi-year bilateral commitments to provide economic certainty to capacity resources and load, reduce financing risk due to contractual certainty for periods >1 year as opposed to uncertain multi-year PJM commitments
 - Per the 2006 settlement, “the Settlement Agreement also provides an opportunity under certain circumstances for new entry units to receive their first-year clearing price for up to two additional years....”
 - Current PJM OATT Attachment DD, Section 16 (Reliability Backstop) allows under certain circumstances for a term of up to fifteen (15) Delivery Years for generation resources



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