

## Balancing Ratio Determination

*Includes Problem/Opportunity Statement*

### **Issue Source**

PJM raised the issue regarding the Balancing Ratio used in the calculation of the default Market Seller Offer Cap (“MSOC”).

During discussion of the initial problem/opportunity statement, some members indicated a desire to discuss the number of Performance Assessment Hours assumed to occur in an average year as well. It was indicated that there may be a benefit to using the same estimate of the number of Performance Assessment Hours for both the default MSOC and the Non-Performance Charge Rate.

### **Stakeholder Group Assignment**

This issue is assigned to the Market Implementation Committee for development of a long-term solution that would become effective for the 2022/2023 BRA. Such a solution would need to be filed by October of 2018.

### **Key Work Activities**

1. Provide education on the calculation of the MSOC and the Balancing Ratio.
2. Provide education on the determination of the Non-Performance Charge Rate.
3. Develop and discuss alternative Balancing Ratio calculation methodologies for use in the determination of the default MSOC.
4. Develop and discuss alternative methods to determine the Non-Performance Charge Rate.

### **Expected Deliverables**

1. A more comprehensive methodology to determine the Balancing Ratio used in the calculation of the default MSOC.
2. A recommendation to the MRC on the methodology used to determine the Non-Performance Charge Rate, and corresponding changes to the default MSOC.
3. Proposed revisions to Governing Agreements and PJM Manuals, as necessary.

### **Out of Scope Items**

1. The general ~~determination-underlying logic~~ of the default Market Seller Offer Cap<sup>1</sup> ~~as Net CONE<sub>ELDA</sub>~~  
~~\* Balancing Ratio.~~
2. The methodology and process used to determine unit-specific Avoidable Cost Rates.
3. The determination and applicability of the Balancing Ratio as described in Section 10A of Attachment DD of the PJM OATT. This includes:
  - a. The calculation of the Balancing Ratio as it applies to any Performance Assessment Hour/Interval.
  - b. The determination of Expected Performance for a Market Seller.
  - c. The determination of Actual Performance for a Market Seller.
  - d. The determination of Performance Shortfall for a Market Seller.
4. The level of the annual stop-loss.
5. The development of any additional stop-loss provisions.

#### **Expected Overall Duration of Work**

Approximately one year (to facilitate implementation prior to the 2022/2023 Base Residual Auction).

#### **Decision-Making Method**

Tier 1 consensus (unanimity) on a single proposal is preferred.

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<sup>1</sup> The calculation of the MSOC will remain the same as derived in equations 1-7 on page 5 of Appendix 1 of PJM's April 10, 2015 filed response in Docket No. ER15-623-000. The calculation shall reflect appropriate values as determined by the working group and as updated on a regular basis.