

Exelon CCPSTF Package Executive Summary

Overview

The PJM Capacity Construct/Public Policy Senior Task Force was created to conduct an assessment of RPM in an effort to harmonize state public policy initiatives and RPM objectives. Over the course of several months, stakeholders have identified the objectives and characteristics of a well-functioning capacity construct, identified current and potential public policy initiatives states could take regarding resource adequacy, fuel diversity, public, and environmental policies, and identified areas where state actions and RPM may not be aligned. Given the outcome of these activities and other analysis reviewed at the task force, it is Exelon's view that no modifications to RPM are required at this time to accommodate state actions. Specifically, Exelon noted during stakeholder deliberations that RPM outcomes have been competitive despite myriad so-called "market distortions" that have occurred over time and a continuous evolution of the market rules set to remedy design flaws. The capacity market has encouraged robust entry and exit over many years at prices well below Net CONE *B, overachieved resource adequacy standards since RPM inception, and allowed virtually all supply from resources to impact marginal clearing prices on a non-discriminatory basis. No evidence of an impending reliability problem was brought forward by PJM or other stakeholders to refute these views at the CCPSTF. As such, Exelon has put forward a proposal whose key feature is a price-based materiality screen (PBMS) that only enacts capacity repricing if market outcomes indicate a reliability issue.

Key Elements

1. Price-Based Materiality Screen
 - a. Ensures that capacity repricing is only applied when capacity with "actionable subsidies", in aggregate, results in a price at or above Net CONE *B.
 - b. Capacity repricing with auction results under Net CONE *B is unnecessary and serves only to needlessly inflate the prices paid by consumers.
2. Actionable Subsidies
 - a. Revenue or cost advantages greater than 1% of revenues regardless of the size of the unit, which applies mitigation on a non-discriminatory basis. Cost or revenue advantages for any unit affect market clearing outcomes equally.
 - b. Exception for state environmental programs. Federal courts recognize that states have an interest in environmental protection and that those choices may affect capacity outcomes. "The ZEC program is plainly related to a matter of legitimate state concern: the production of clean energy and the reduction of carbon emissions from the production of other energy." "Like the *Allco* contracts, ZECs have only an incidental effect on wholesale rates and thus do not intrude upon FERC jurisdiction." (7/25, U.S. District Court for the Southern District of New York)
3. Proposal Mechanics
 - a. Quantity Solution – Stage 1
 - i. Determines cleared resources from original market participant offers
 - b. Price-Based Materiality Screen

- i. Resources with “actionable subsidies” are initially repriced at Net CONE*B
 - ii. PJM develops a solution which indicates if clearing price is below or at/above Net CONE *B
 - c. Pricing Solution – Stage 2
 - i. Final market clearing run with offers from resources with “actionable subsidies” modified to Net CONE * B if Price-Based Materiality Screen results in clearing price at/above Net CONE *B
- 4. Settlement
 - a. All resources receiving a capacity commitment will receive the same clearing price, appropriate for location

Rationale

Exelon’s proposal toggles between the status quo and a modified PJM repricing structure by applying the price-based materiality screen. The PBMS is a test that assesses whether the impact of participation by units with “actionable subsidies” is affecting competitiveness between those resources and new entrants. The proposal maintains the integrity of RPM aims and mechanics, while minimizing impacts to customers and unwarranted administrative intervention by limiting the application of repricing to times when capacity with “actionable subsidies”, in aggregate, results in a price at or above Net CONE *B. The proposal accommodates state actions by not subjecting offers from resources with payments for unbundled environmental attributes to administrative repricing, and by allowing resources with “actionable subsidies” to receive a capacity commitment. The proposal maintains existing incentives for resources in the capacity market. Similar to PJM’s proposal, this treatment results in the commitment of the same quantity of resources that would have been committed absent capacity re-pricing, and does not “double procure” in the fashion of a single-stage Minimum Offer Price Rule. The proposal does not result in discriminatory prices for resources that are providing the same capacity performance commitment.