

Replacement Capacity

Problem

- Potential Reliability Problem associated with buying out of BRA supply commitments
 - 8,086.4 MW of 6/1/13 replacements from in service internal generation
 - 3,314.4 MW of 6/1/13 replacements from commitments and registrations of demand resources
- Profitable exit scenario driven by IA clearing prices and interaction between IA clearing prices and deficiency penalty

Physical Delivery Requirement

- Require all offers cleared in the BRA to go to physical delivery
- Assign PJM the irrevocable right of recall associated with any resource cleared in a BRA
 - Such right may be waived at PJM's sole discretion

OPTION #1

Default Capacity Resource Deficiency Rate (CRDR)

- Maintain the default CRDR at 1.2x
 - Default pre-auction financial assurance requirement at $1.5 \times (\text{Deficiency Rate Multiplier} - 1) \times \text{netCONE}$; Deficiency Rate Multiplier is currently 1.2
 - Default post-auction financial assurance requirement at $(\text{Deficiency Rate Multiplier} - 1) \times \text{BRA CP}$; Deficiency Rate Multiplier is currently 1.2

Increased CRDR

- For any market participant purchasing Replacement Capacity in an incremental auction in excess of 3% of the market participant's BRA supply commitments, that market participant's and its affiliates' pre-auction and/or post-auction Deficiency Rate Multiplier shall be as follows:

Increased CRDR (cont)

- In the BRA held in that same calendar year (“Replacement Year”), the market participant’s and its affiliates’ pre-auction and/or post-auction Deficiency Rate Multiplier shall be 2.0
- In the BRA held in the calendar year immediately following the calendar year in which the market participant purchases Replacement Capacity (“Replacement Year + 1”), the market participant’s and its affiliates’ pre-auction and/or post-auction Deficiency Rate Multiplier shall be 1.8

Increased CRDR (cont)

- In the BRA held in the second calendar year immediately following the calendar year in which the market participant purchases Replacement Capacity (“Replacement Year + 2”), the market participant’s and its affiliates’ pre-auction and/or post-auction Deficiency Rate Multiplier shall be 1.6
- In the BRA held in the third calendar year immediately following the calendar year in which the market participant purchases Replacement Capacity (“Replacement Year + 3”), the market participant’s and its affiliates’ pre-auction and/or post-auction Deficiency Rate Multiplier shall be 1.4

Increased CRDR (cont)

- treatment of Deficiency Rate Multiplier for incremental auctions in Replacement Year + 1, Replacement Year + 2, and Replacement Year + 3 open for discussion
- Increased CRDR provisions shall not apply if a market participant's resource experiences a force majeure event, as defined in the tariff, preventing that resource from achieving physical delivery

Increased CRDR (cont)

- Increased CRDR may be reduced for planned resources meeting the milestones described in the RC Cape May Holdings proposal

Financial Requirement for Existing Resources

- If a market participant replaces a resource, either planned or existing, with Replacement Capacity in order to retire that resource, any resource in that market participant's or its affiliates' portfolio that will have been in service for 40 or more years at the start of the delivery year shall be considered a planned resource for the purposes of determining financial assurance requirements unless the Deficiency Rate Multiplier for that market participant and its affiliates is 1.2

OPTION #2

Requirement to Bid and Clear in 3rd IA

- Fifteen days prior to the opening of any 3rd IA, each market participant having a resource that cleared in the respective BRA shall submit a notarized certification executed by an officer of the market participant identifying that (1) it will physically deliver that resource during the delivery year or (2) it will replace that resource in the upcoming Incremental Auction
- For any resource that the market participant does not expect to deliver, the market participant shall be required to submit a bid into the 3rd IA at the maximum price at which that auction can clear

Implications

- No defined exit cost prior to BRA
- 3rd IA could clear at 1.5 x netCONE
- If philosophy behind credit policy stays same:
 - Pre-auction (BRA) credit rate could be 1.5 x netCONE
 - \$120,450 per MW vs \$36,135 per MW today
 - Post-auction (BRA) credit rate could be 1.5 x netCONE
 - BRA CP
- Higher financial assurance requirements and associated costs along with potentially higher 3rd IA CP would substantially alter risk/reward scenario for speculators