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ATTACHMENT DD.5.4, OATT ATTACHMENT DD.5.4 Reliability Pricing Model Auctions, 3.0.0			

5.4 Reliability Pricing Model Auctions for Delivery Years through the 2016-2017 Delivery Year

The Office of the Interconnection shall conduct the following Reliability Pricing Model Auctions for Delivery Years through the 2016-2017 Delivery Year:

a) Base Residual Auction.

PJM shall conduct for each Delivery Year a Base Residual Auction to secure commitments of Capacity Resources as needed to satisfy the portion of the RTO Unforced Capacity Obligation not satisfied through Self-Supply of Capacity Resources for such Delivery Year. All Self-Supply Capacity Resources must be offered in the Base Residual Auction. As set forth in section 6.6, all other Capacity Resources, and certain other existing generation resources, must be offered in the Base Residual Auction. The Base Residual Auction shall be conducted in the month of May that is three years prior to the start of such Delivery Year. The cost of payments to Capacity Market Sellers for Capacity Resources that clear such auction shall be paid by PJMSettlement from amounts collected by PJMSettlement from Load Serving Entities through the Locational Reliability Charge during such Delivery Year. PJMSettlement shall be the Counterparty to the sales that clear in such auction and to the obligations to pay, and the payments, by Load Serving Entities; provided, however, that PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.

b) Scheduled Incremental Auctions.

PJM shall conduct for each Delivery Year a First, a Second, and a Third Incremental Auction for the purposes set forth in section 2.34. The First Incremental Auction shall be conducted in the month of September that is twenty months prior to the start of the Delivery Year; the Second Incremental Auction shall be conducted in the month of July that is ten months prior to the start of the Delivery Year; and the Third Incremental Auction shall be conducted in the month of February that is three months prior to the start of the Delivery Year.

c) Adjustment through Scheduled Incremental Auctions of Capacity Previously Committed.

The Office of the Interconnection shall recalculate the PJM Region Reliability Requirement and each LDA Reliability Requirement prior to each Scheduled Incremental Auction, based on an updated peak load forecast, updated Installed Reserve Margin and an updated Capacity Emergency Transfer Objective; shall update such reliability requirements for the Third Incremental Auction to reflect any change from such recalculation; and shall update such reliability requirements for the First Incremental Auction or Second Incremental Auction only if the change is greater than or equal to the lesser of: (i) 500 MW or (ii) one percent of the applicable

prior reliability requirement. Based on such update, the Office of the Interconnection shall, under certain conditions, seek through the Scheduled Incremental Auction to secure additional commitments of capacity or release sellers from prior capacity commitments. Specifically, the Office of the Interconnection shall:

1) seek additional capacity commitments to serve the PJM Region or an LDA if the PJM Region Reliability Requirement or LDA Reliability Requirement utilized in the most recent prior auction conducted for the Delivery Year (including any reductions to such reliability requirements as a result of any Price Responsive Demand with a PRD Reservation Price equal to or lower than the clearing price in the Base Residual Auction for such Delivery Year) is less than, respectively, the updated PJM Region Reliability Requirement or updated LDA Reliability Requirement; provided, however, that in the First Incremental Auction or Second Incremental Auction the Office of the Interconnection shall seek such additional capacity commitments only if such shortfall is in an amount greater than or equal to the lesser of: (i) 500 MW or (ii) one percent of the applicable prior reliability requirement;

2) seek additional capacity commitments to serve the PJM Region or an LDA if:

i) the updated PJM Region Reliability Requirement less the PJM Region Short-Term Resource Procurement Target utilized in the most recent auction conducted for the Delivery Year, or if the LDA Reliability Requirement less the LDA Short Term Resource Procurement Target applicable to such auction, exceeds the total capacity committed in all prior auctions in such region or area, respectively, for such Delivery Year by an amount greater than or equal to the lesser of: (A) 500 MW or (B) one percent of the applicable prior reliability requirement; or

ii) PJM conducts a Conditional Incremental Auction for such Delivery Year and does not obtain all additional commitments of Capacity Resources sought in such Conditional Incremental Auction, in which case, PJM shall seek in the Incremental Auction the commitments that were sought in the Conditional Incremental Auction but not obtained.

3) seek agreements to release prior capacity commitments to the PJM Region or to an LDA if:

i) the PJM Region Reliability Requirement or LDA Reliability Requirement utilized in the most recent prior auction conducted for the Delivery Year (including any reductions to such reliability requirements as a result of any Price Responsive Demand with a PRD Reservation Price equal to or lower than the clearing price in the Base Residual Auction for such Delivery Year) exceeds, respectively, the updated PJM Region Reliability Requirement or updated LDA Reliability Requirement; provided, however, that in the First Incremental Auction or Second Incremental Auction the Office of the Interconnection shall seek such agreements only if such excess is in an amount greater than or equal to the lesser of: (A) 500

MW or (B) one percent of the applicable prior reliability requirement; or

ii) PJM obtains additional commitments of Capacity Resources in a Conditional Incremental Auction, in which case PJM shall seek release of an equal number of megawatts (comparing the total purchase amount for all LDAs and the PJM Region related to the delay in Backbone Transmission with the total sell amount for all LDAs and the PJM Region related to the delay in Backbone Transmission) of prior committed capacity that would not have been committed had the delayed Backbone Transmission upgrade that prompted the Conditional Incremental Auction not been assumed, at the time of the Base Residual Auction, to be in service for the relevant Delivery Year; and if PJM obtains additional commitments of capacity in an incremental auction pursuant to subsection c.2.ii above, PJM shall seek in such Incremental Auction to release an equal amount of capacity (in total for all LDAs and the PJM Region related to the delay in Backbone Transmission) previously committed that would not have been committed absent the Backbone Transmission upgrade.

4) The cost of payments to Market Sellers for additional Capacity Resources cleared in such auctions, and the credits from payments from Market Sellers for the release of previously committed Capacity Resources, shall be apportioned to Load Serving Entities in the PJM Region or LDA, as applicable, through adjustments to the Locational Reliability Charge for such Delivery Year.

5) PJMSettlement shall be the Counterparty to the sales (including releases) of Capacity Resources that clear in such auctions and to the obligations to pay, and the payments, by Load Serving Entities, provided, however, that PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.

d) Commitment of Replacement Capacity through Scheduled Incremental Auctions.

Each Scheduled Incremental Auction for each Delivery Year shall allow Capacity Market Sellers that committed Capacity Resources in any prior Reliability Pricing Model Auction for such Delivery Year to submit Buy Bids for replacement Capacity Resources. Capacity Market Sellers that submit Buy Bids into an Incremental Auction must specify the type of Unforced Capacity desired, i.e., Annual Resource, Extended Summer Demand Resource, or Limited Demand Resource. The need to purchase replacement Capacity Resources may arise for any reason, including but not limited to resource retirement, resource cancellation or construction delay, resource derating, EFORD increase, a decrease in the Nominated Demand Resource Value of a Planned Demand Resource, delay or cancellation of a Qualifying Transmission Upgrade, or similar occurrences. The cost of payments to Capacity Market Sellers for Capacity Resources that clear such auction shall be paid by PJMSettlement from amounts collected by PJMSettlement from Capacity Market Buyers that purchase replacement Capacity Resources in such auction. PJMSettlement shall be the Counterparty to the sales and purchases that clear in such auction, provided, however, PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.

e) Backbone Transmission Conditional Incremental Auction.

PJM shall conduct for any Delivery Year a Backbone Transmission Conditional Incremental Auction if the in service date of a Backbone Transmission Upgrade that was modeled in the Base Residual Auction is announced as delayed by the Office of the Interconnection beyond July 1 of the Delivery Year for which it was modeled and if such delay causes a reliability criteria violation. If conducted, the Backbone Transmission Conditional Incremental Auction shall be for the purpose of securing commitments of additional capacity for the PJM Region or for any LDA to address the identified reliability criteria violation. If PJM determines to conduct a Backbone Transmission Conditional Incremental Auction, PJM shall post on its website the date and parameters for such auction (including whether such auction is for the PJM Region or for an LDA) at least one month prior to the start of such auction. The cost of payments to Market Sellers for Capacity Resources cleared in such auction shall be collected by PJMSettlement from Load Serving Entities in the PJM Region or LDA, as applicable, through an adjustment to the Locational Reliability Charge for such Delivery Year. PJMSettlement shall be the Counterparty to the sales that clear in such auction and to the obligations to pay, and payments, by Load Serving Entities, provided, however, that PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.

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5.4A Reliability Pricing Model Auctions for the 2017-2018 Delivery Year and subsequent Delivery Years

The Office of the Interconnection shall conduct the following Reliability Pricing Model Auctions for the 2017-2018 Delivery Year and subsequent Delivery Years:

a) Base Residual Auction.

PJM shall conduct for each Delivery Year a Base Residual Auction to secure commitments of Capacity Resources as needed to satisfy the portion of the RTO Unforced Capacity Obligation not satisfied through Self-Supply of Capacity Resources for such Delivery Year. All Self-Supply Capacity Resources must be offered in the Base Residual Auction. As set forth in section 6.6, all other Capacity Resources, and certain other existing generation resources, must be offered in the Base Residual Auction. The Base Residual Auction shall be conducted in the month of May that is three years prior to the start of such Delivery Year. The cost of payments to Capacity Market Sellers for Capacity Resources that clear such auction shall be paid by PJMSettlement from amounts collected by PJMSettlement from Load Serving Entities through the Locational Reliability Charge during such Delivery Year. PJMSettlement shall be the Counterparty to the sales that clear in such auction and to the obligations to pay, and the payments, by Load Serving Entities; provided, however, that PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.

b) Scheduled Incremental Auction.

PJM shall conduct for each Delivery Year a Scheduled Incremental Auction in the month of February that is three months prior to the start of the Delivery Year for the purposes set forth in section 2.34.

c) Adjustment through Scheduled Incremental Auction of Capacity Previously Committed.

The Office of the Interconnection shall recalculate the PJM Region Reliability Requirement and each LDA Reliability Requirement prior to the Scheduled Incremental Auction, based on an updated peak load forecast, updated Installed Reserve Margin and an updated Capacity Emergency Transfer Objective. Based on such update, the Office of the Interconnection shall, under certain conditions, seek through the Scheduled Incremental Auction to secure additional commitments of capacity or release sellers from prior capacity commitments. Specifically, the Office of the Interconnection shall:

1) seek additional capacity commitments to serve the PJM Region or an LDA if the PJM Region Reliability Requirement or LDA Reliability Requirement utilized in the most recent prior auction conducted for the Delivery Year (including any reductions to such reliability requirements as a result of any Price Responsive Demand with a PRD Reservation Price equal to or lower than the clearing price in the Base Residual Auction for such Delivery Year) is less than, respectively, the updated PJM Region Reliability Requirement or updated LDA Reliability Requirement;

2) seek additional capacity commitments to serve the PJM Region or an LDA if:

i) the updated PJM Region Reliability Requirement less the PJM Region Short-Term Resource Procurement Target utilized in the most recent auction conducted for the Delivery Year, or if the LDA Reliability Requirement less the LDA Short Term Resource Procurement Target applicable to such auction, exceeds the total capacity committed in all prior auctions in such region or area, respectively, for such Delivery Year by an amount greater than or equal to the lesser of: (A) 500 MW or (B) one percent of the applicable prior reliability requirement; or

ii) PJM conducts a Backbone Transmission Conditional Incremental Auction for such Delivery Year and does not obtain all additional commitments of Capacity Resources sought in such Backbone Transmission Conditional Incremental Auction, in which case, PJM shall seek in the Scheduled Incremental Auction the commitments that were sought in the Backbone Transmission Conditional Incremental Auction but not obtained.

3) seek agreements to release prior capacity commitments to the PJM Region or to an LDA if:

i) the PJM Region Reliability Requirement or LDA Reliability Requirement

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utilized in the most recent prior auction conducted for the Delivery Year (including any reductions to such reliability requirements as a result of any Price Responsive Demand with a PRD Reservation Price equal to or lower than the clearing price in the Base Residual Auction for such Delivery Year) exceeds, respectively, the updated PJM Region Reliability Requirement or updated LDA Reliability Requirement; or

ii) PJM obtains additional commitments of Capacity Resources in a Backbone Transmission Conditional Incremental Auction, in which case PJM shall seek release of an equal number of megawatts (comparing the total purchase amount for all LDAs and the PJM Region related to the delay in Backbone Transmission with the total sell amount for all LDAs and the PJM Region related to the delay in Backbone Transmission) of prior committed capacity that would not have been committed had the delayed Backbone Transmission upgrade that prompted the Backbone Transmission Conditional Incremental Auction not been assumed, at the time of the Base Residual Auction, to be in service for the relevant Delivery Year; and if PJM obtains additional commitments of capacity in an incremental auction pursuant to subsection c.2.ii above, PJM shall seek in such Incremental Auction to release an equal amount of capacity (in total for all LDAs and the PJM Region related to the delay in Backbone Transmission) previously committed that would not have been committed absent the Backbone Transmission upgrade.

4) The cost of payments to Market Sellers for additional Capacity Resources cleared in such Scheduled Incremental Auction, and the credits from payments from Market Sellers for the release of previously committed Capacity Resources, shall be apportioned to Load Serving Entities in the PJM Region or LDA, as applicable, through adjustments to the Locational Reliability Charge for such Delivery Year.

5) PJMSettlement shall be the Counterparty to the sales (including releases) of Capacity Resources that clear in such Scheduled Incremental Auction and to the obligations to pay, and the payments, by Load Serving Entities, provided, however, that PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.

d) Commitment of Replacement Capacity through Scheduled Incremental Auction.

The Scheduled Incremental Auction for each Delivery Year shall allow Capacity Market Sellers that committed Capacity Resources in any prior Reliability Pricing Model Auction for such Delivery Year to submit Buy Bids for replacement Capacity Resources. Capacity Market Sellers that submit Buy Bids into an Incremental Auction must specify the type of Unforced Capacity desired, i.e., Annual Resource, Extended Summer Demand Resource, or Limited Demand Resource. The need to purchase replacement Capacity Resources may arise for any reason, including but not limited to resource retirement, resource cancellation or construction delay, resource derating, EFORD increase, a decrease in the Nominated Demand Resource Value of a Planned Demand Resource, delay or cancellation of a Qualifying Transmission Upgrade, or similar occurrences. The cost of payments to Capacity Market Sellers for Capacity Resources that clear such auction shall be paid by PJMSettlement from amounts collected by PJMSettlement

from Capacity Market Buyers that purchase replacement Capacity Resources in such auction. PJMSettlement shall be the Counterparty to the sales and purchases that clear in such auction, provided, however, PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.

e) Conditional Incremental Auctions.

1) Supplemental Procurement Conditional Auctions. PJM shall conduct for any Delivery Year up to two Supplemental Procurement Conditional Auctions: a Twenty-Month Conditional Auction in the month of September that is twenty months prior to the start of the Delivery Year and/or a Ten-Month Conditional Auction in the month of July that is ten months prior to the start of the Delivery Year, if, based on updates to the peak load forecast, PJM Region Reliability Requirement and the LDA Reliability Requirements completed prior to the time that such Supplemental Procurement Conditional Incremental Auctions would be conducted, either of the following two conditions is met:

- (i) the updated PJM Region Reliability Requirement less the PJM Region Short-Term Resource Procurement Target utilized in the most recent auction conducted for the Delivery Year, or the LDA Reliability Requirement less the LDA Short Term Resource Procurement Target applicable to such auction, exceeds the total capacity committed in all prior auctions in such region or area, respectively, for such Delivery Year by an amount greater than or equal to the lesser of: (A) 500 MW or (B) one percent of the applicable prior reliability requirement; or
- (ii) the updated peak load forecast determined for the PJM Region in advance of the time for the Twenty-Month Auction exceeds, by two percent or more, the peak load forecast used for the PJM Region in the Base Residual Auction for such Delivery Year; or the updated peak load forecast determined for the PJM Region in advance of the time for the Ten-Month Auction exceeds, by one percent or more, the peak load forecast used for the PJM Region in the Base Residual Auction for such Delivery Year, or exceeds by one percent or more the peak load forecast used for the PJM Region in the Twenty-Month Auction (if held).

If conducted, a Supplemental Procurement Conditional Incremental Auction shall be for the purpose of seeking additional capacity commitments to serve the PJM Region or an LDA. The cost of payments to Market Sellers for additional Capacity Resources cleared in such auctions shall be apportioned to Load Serving Entities in the PJM Region or LDA, as applicable, through adjustments to the Locational Reliability Charge for such Delivery Year. PJMSettlement shall be the Counterparty to the sales of Capacity Resources that clear in such auctions and to the obligations to pay, and the payments, by Load Serving Entities, provided, however, that PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.

2) Backbone Transmission Conditional Incremental Auction. PJM shall conduct for any Delivery Year a Backbone Transmission Conditional Incremental Auction if the in service date of a Backbone Transmission Upgrade that was modeled in the Base Residual Auction is announced as delayed by the Office of the Interconnection beyond July 1 of the Delivery Year for which it was modeled and if such delay causes a reliability criteria violation. If conducted, the Backbone Transmission Conditional Incremental Auction shall be for the purpose of securing commitments of additional capacity for the PJM Region or for any LDA to address the identified reliability criteria violation. If PJM determines to conduct a Backbone Transmission Conditional Incremental Auction, PJM shall post on its website the date and parameters for such auction (including whether such auction is for the PJM Region or for an LDA) at least one month prior to the start of such auction. The cost of payments to Market Sellers for Capacity Resources cleared in such auction shall be collected by PJMSettlement from Load Serving Entities in the PJM Region or LDA, as applicable, through an adjustment to the Locational Reliability Charge for such Delivery Year. PJMSettlement shall be the Counterparty to the sales that clear in such auction and to the obligations to pay, and payments, by Load Serving Entities, provided, however, that PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.