Benefits Calculation

May 18, 2018
Energy Benefits Key Elements and Recent Updates

• Simulation Years*
  – Simulate benefits for RTEP year only
• Trend Extrapolation*
  – Fix benefits beyond RTEP year at RTEP year benefits
• Benefit Calculation Period*
  – 10 years after project in-service date, capped at RTEP+10
• Sensitivities*
  – Mandatory sensitivities
    • To be defined prior to the beginning of market efficiency window
    • Have a B/C ratio threshold of 1.00
  – Optional sensitivities
    • To be defined during market efficiency project evaluation process
    • Do not have to pass any B/C ratio threshold

* Updated since last MEPETF Meeting on 4/20/18
Energy Benefits Key Elements and Recent Updates (cont’d)

• Benefit Adjustment for In-Service Date*
  – It is PJM’s goal to address energy constraints by the RTEP year, and to incentivize projects that are designed and proposed to be in service by RTEP year
  – PJM will adjust energy benefits of projects that are proposed to be in service later than the RTEP year to account for any savings forgone due to later in-service date
  – Example:

  Proposal 1:
  Annual benefit = $10M
  Annual revenue requirements = $4M
  In-Service year = RTEP
  B/C Ratio = 2.50

  Proposal 2:
  Annual benefit = $10M
  Annual revenue requirements = $4M
  In-Service year = RTEP+1
  Lost savings in RTEP = $6M
  B/C Ratio = 2.27

* Updated since last MEPETF Meeting on 4/20/18
Capacity Benefits Key Elements and Recent Updates

- Simulation Years
  - RPM and RTEP years
- Benefit Calculation Period*
  - 2 years
- In-Service Date*
  - To be in service prior to establishing planning parameters for the next BRA planning period.
  - In the event a transmission expansion cannot be attained by the RPM year, PJM will consider capacity market solutions beyond RPM year, and before RTEP year.
- Benefit Adjustment for In-Service Date*
  - PJM will adjust capacity benefits of projects that are proposed to be in service later than the RPM year to account for any savings forgone due to later in-service date

* Updated since last MEPETF Meeting on 4/20/18
PJM does not include the zones which have an increase in total Net Load Payments (over project evaluation period) when calculating total energy benefits.

However, annual negative benefits for transmission zones with a positive total benefit are included in project benefit calculation.

Including zones with a total negative benefit in energy benefit calculation will
- penalize zones that are paying high LMPs by not addressing the congestion
- reduce the chance of approving market efficiency projects
- make benefit calculation inconsistent with cost allocation