

PJM CIFP-RA Capacity Accreditation – Tradable Performance Credits Initial Proposal

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A decorative graphic at the bottom of the slide consisting of a dark blue curved line above a green curved line, resembling a stylized horizon or landscape.

- PJM Board directive: **Align accreditation with reliability contribution.**
- PJM Proposal: **Multi-tiered framework of performance assessments and testing to help ensure delivery of the capacity that has been committed through forward auctions.**
 - ✓ Daily Commitment Deficiency Assessment
 - ✓ Generator Summer / Winter Rating Tests
 - ✓ Energy Market Must Offer Obligation Assessment
 - ✓ PAIs
- **How can Capacity Resources best deliver on reliability commitments while managing risk in a cost-efficient manner?**

- Performance credits initially allocated to resources that make certain qualifying facility investments.
 - Investments would enable resource performance above common performance baseline.
 - ✓ Dual Fuel
 - ✓ Storage
 - ✓ Winterization above required minimums

- Initial allocation of credits will be tied to EUE (MWhs) under scenario analysis performed after the Base Residual Auction
- PJM would run regular (weekly/biweekly/monthly) weather scenarios to assess event risks.
- The value of the performance credit would fluctuate as a function of the delta between updated risk versus the auction modeling assumption for EUE.
 - Similar in concept to how FTRs hedge transmission congestion
- Resources would trade performance credits to mitigate CP event risks.
 - Importantly: For the performance credits to have value, PJM would maintain a **strong** penalty framework.

- Only resources that plan to make or can demonstrate having made qualifying investments identified as reducing system risks can be allocated credits each delivery year (no banking) for fixed term associated with the type of investment
- All generating resources and load serving entities can purchase performance credits, but there will be time limits (e.g. 3 months) for holding onto the credits before selling back into the market

- Enables dynamic re-evaluation of capacity accreditation.
 - ✓ Provides increased visibility to PJM of both individual resource availability and correlated availability risk to manage system reliability.
 - ✓ Allows resources to balance their capacity risk in a transparent and efficient fashion.
 - ✓ Incentivizes cost-efficient resource investment to enhance reliability.
 - ✓ Provides more dynamic evaluation of risks than incremental auctions.
 - ✓ Maintains strong penalty structure that incentivizes performance, while allowing resources to appropriately hedge risk.
- Helps **ensure system reliability** while **minimizing costs and risks** to customers.

Questions?

Erik Heinle

Frederick.Heinle@vistracorp.com

Muhsin Abdur-Rahman

Muhsin.Abdur-Rahman@vistracorp.com