Unit-Specific Exception Process

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Default 20 Year Asset Life

Default CONE calculations assume a 20-year asset life for all generation resources

> "We also agree with PJM that default MOPR values should maintain the same basic financial assumptions, **such as the 20-year asset life**, across resource types. The Commission has previously determined that standardized inputs are a simplifying tool appropriate for determining default offer price floors, and we reaffirm that it is reasonable to maintain these basic financial assumptions for default offer price floors in the capacity market to ensure resource offers are evaluated on a comparable basis. **Therefore, we find 20 years to be an appropriately conservative estimate.**" (P153)

- At the February 28, 2020 meeting, there was discussion about the use of an alternate asset life in the resource-specific process
  - Language governing the current process is in Tariff Attachment DD, Section 5.14(h)(5)
  - This language does not prohibit seeking alternatives for any parameters used in the calculation of a resource-specific MOPR floor price
- PJM is not aware of any Market Sellers that have requested an alternate asset life

Footnote 36 regarding the unit-specific process:

> “This assessment can be complex and must yield to some level of subjective judgment, but the financial modeling assumptions PJM proposed for calculating the Net CONE in proposed Tariff section 5.14(h)(iv)(B)(2) of its initial filing in the paper hearing **appear to present a reasonable objective basis for the analysis of new entrants.** These factors are: (i) nominal levelization of gross costs, **(ii) asset life of 20 years,** (iii) no residual value, (iv) all project costs included with no sunk costs excluded, (v) use first year revenues, and (vi) weighted average cost of capital based on the actual cost of capital for the entity proposing to build the capacity resource.”

Unit-Specific Process in the MOPR Order

“**We direct PJM to maintain the Unit-Specific Exemption, expanded to cover existing and new State-Subsidized Resources of all resource types, to permit any resource that can justify an offer lower than the default offer price floor to submit such bids to PJM for review.** This will operate as a unit-specific alternative to the default offer price floor, as discussed above, for both new and existing resources, and will be based on the resource’s expected costs and revenues, subject to approval by the Market Monitor. **PJM’s criteria, parameters, and evaluation processes, moreover, will largely track the Unit-Specific Exemption methodology set forth in PJM’s currently-effective Tariff.** We direct PJM to submit Tariff language on compliance to implement this directive. “

PJM's Proposal

- PJM proposes to clarify in its compliance filing that Market Sellers are able pursue an alternate asset life, up to 35 years, in the unit-specific exception process
  - Primary objective is to make sure MOPR floor prices reflect commercial reality
  - Footnote 301: "Rapid changes in market conditions and generation technology could make resources uneconomic in less than Clean Energy Industries' proposed 35 years."
  - Approval of a unit-specific MOPR floor price that uses an alternate asset life is subject to approval via the current process

- PJM's clarification will largely focus on providing guidance on the evidence that is acceptable to justify a different asset life than the default 20 years

Evidence for Alternate Asset Life

- Proposed examples of acceptable evidence subject to the review and approval of the IMM or PJM (including but not limited to):
  - Independently audited financial statements
  - Project financing documentation for the specified project
  - Project financing documentation for recent comparable projects (to the extent financing for the resource has not yet been executed)
    - Independent project engineer opinion
    - Manufacturer’s performance guarantee
  - Opinions of third party experts regarding the reasonableness of the financing assumptions used in the comparable projects
  - Information from federal filings by the Market Seller such as FERC Form No. 1 or SEC 10 Form 10-K

- Use of supporting information from comparable projects will also require a demonstration of comparability

Current Language in 5.14(h)(5)(ii)

PJM plans to retain this language regarding the ability to request additional information:

> "In addition to the documentation identified herein and in the PJM Manuals, the Capacity Market Seller shall provide any additional supporting information reasonably requested by the Office of the Interconnection or the Market Monitoring Unit to evaluate the Sell Offer. Requests for additional documentation will not extend the deadline by which the Office of the Interconnection or the Market Monitoring Unit must provide their determinations of the Minimum Offer Price Rule exception request."

DR Default MOPR Floor Prices from MOPR Order

Generator-backed DR	Load-backed DR
• New – Net CONE • Existing – Net ACR • Based on cost of backup generator	• New - 3 year weighted average offer price • Existing - $0

Generator-backed DR (“BtMG”) typically installed and operated for retail purposes

Paragraph 144:

"We direct PJM to establish appropriate default offer price floor values for demand side resources, including demand response and energy efficiency. As noted above, we disagree that it is infeasible for PJM to determine Net CONE or Net ACR values for demand-side resources that rely on various types of behind-the-meter generation as a substitute for purchasing wholesale power. **The fundamental elements of the analysis for behind-the-meter generation is the same as for other resources. We direct PJM to provide Net CONE values for such generation on compliance, noting that it may be appropriate to use resource-type specific values as for other types of generation resources.**"

Inclusion of Backup Generation in the Cost of Demand Response

The FERC order requires the cost of a backup generator used to enable DR be included in the default CONE and ACR but is silent on resource-specific process.

Arguments for flexibility:

- DR providers have indicated many backup generators are installed for resilience, not for provision of DR
- DR provider would need to demonstrate backup generation was not installed for purpose of DR

Arguments against flexibility:

- Results in a disconnect from the default assumptions
- Evaluation of evidence could be subjective
- Additional complication and resource-specific reviews

PJM plans to include flexibility for DR providers to provide evidence showing that the cost of a backup generator is not reflective of their cost to implement planned DR or their avoidable costs in its compliance filing.

What evidence can be used to demonstrate this?

Permitting Reduction in Demand Charges to Offset Cost for Demand Response

Participants have asked PJM whether a reduction in demand charges can be included as savings that offset costs.

Arguments for flexibility:

- These are real savings that offset actual costs
- Ignoring them would artificially inflate the net cost of providing DR

Arguments against flexibility:

- These savings could be difficult to quantify in some instances
- Additional complication and subjectivity in resource-specific reviews

PJM plans to include flexibility for DR providers to provide evidence showing reduced demand charges to offset the costs of a backup generator.

This will only be an option if the cost of the backup generator is included in the CONE/ACR for the DR.

What evidence can be used to demonstrate this?