



**CAPACITY REFORM WORKSHOP #3:
PJM INDUSTRIAL CUSTOMER COALITION**

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WHAT TO DO WITH THE MOPR?

- **Goal: Avoid customers paying twice for resource adequacy**
- **Consensus view at March 4 meeting favored an accommodative, rather than punitive, approach to state public policy decisions**
- **Proposed Approach: Recognize in PJM market design the contribution to resource adequacy associated with resources (supply and demand) supported by state public policy (i.e., State Project Resource Adequacy Value or “SPRAV”)**
 - SPRAV should reflect robust scenario analysis recognizing changing fuel mix

WHAT TO DO WITH THE MOPR?

- **Option 1: PJM could add constraints into RPM to price pre-identified state policy objectives**
- **Option 2: PJM could empirically assess the SPRAV of state-supported resources, remove MWs of supply associated with SPRAV, and remove a corresponding amount of load + reserve margin from BRA**
 - Quantity of MWs associated with SPRAV resources would receive no revenue from RPM
 - BRA cleared without MWs of supply from SRPAV and without associated demand
 - Will this require an RPM constraint that is state based?
- **PJMICC's preliminary view is that Option 2 is the preferred approach**

GIVING CUSTOMERS OPTIONS FOR PROCUREMENT OF RESOURCE ADEQUACY

- **To better align RPM with customer preferences and minimize overprocurement, customers in the PJM Region should have the right to self-select the amount of capacity they would like to purchase – Capacity Self-Selection (CSS).**
 - Option would be additive to existing DR options (DR as supply, PRD, and peak management)
- **Customers engaging in CSS would specify, in advance of each Delivery Year, the amount of capacity they need, at their retail meter, for the upcoming Delivery Year - their Firm Service Level (“FSL”).**
- **The FSL would be grossed up for losses, reserve margins, and scaling factors to produce that customer’s Capacity Obligation for that Delivery Year.**

CSS PROCESS AND IMPLEMENTATION CONCEPT

Customer Eligibility:

- Customers engaging in CSS must be interval-metered and have the necessary infrastructure established to be able to receive communications, through its Load-Serving Entity (“LSE”), from PJM regarding compliance with the obligations below.

FSL Designation:

- The customer or the customer’s LSE would designate the customer’s FSL at least [*eight (8)*]* months prior to the Delivery Year.
- PJM capacity procurement adjusted to procure only firm capacity required by customers.

** Bracketed/italics information offered as part of the concept for discussion/illustration purposes.*

CSS PROCESS AND IMPLEMENTATION CONCEPT

CSS and Capacity Obligation:

- **The Electric Distribution Company or other entity responsible for setting Capacity Obligations in the Zone would apply a gross-up to the FSL (to account for losses, reserve margin, and scaling factors) to calculate the customer's Capacity Obligation for the Delivery Year**
 - The CSS Capacity Obligation would be included in the setting of Capacity Obligations across the Zone.
 - CSS customers' Capacity Obligation would be subject to existing rules for intra-year modifications (*e.g.*, adjustments for new accounts, closed accounts, etc.)

CSS PROCESS AND IMPLEMENTATION CONCEPT

Obligations On Customer To Reduce Consumption To FSL:

- By engaging in CSS, the customer recognizes and agrees that it shall “consume” no more capacity than its FSL.
- Consequently, during periods when capacity is comparatively scarce, the customer will be required by PJM to reduce its consumption to no greater than its FSL.
- The rules regarding these reductions in consumption would include:
 - Trigger: PJM may require reductions in consumption to no greater than a customer’s FSL any time PJM implements a triggering event
 - *E.g., Maximum Emergency Generation Event, Performance Assessment Interval event, or Day-ahead Trigger Based on Primary Reserve Warning*

CSS PROCESS AND IMPLEMENTATION CONCEPT

- Frequency: PJM may require reductions in consumption to no greater than a customer's FSL [*at any time of the year*].* There is [*no restriction on the consecutive number of days*]* when PJM may require such reductions.
- Duration: PJM may require reductions in consumption to no greater than a customer's FSL for no greater than [*e.g., four (4), six (6), eight (8)*] hours each day.
- Notice: PJM shall give customers no less than [*one (1)*] hour notice prior to the time when the customer must implement such reductions.
- Penalties: Failure to reduce consumption levels to FSL during PJM-declared emergency circumstances will result in penalties to the consumer that are greater than capacity clearing price

BENEFITS OF CSS APPROACH

- **Realizes customer preferences in a meaningful way**
- **Adds another tool for customers to engage in the demand side of PJM markets**
- **Applies downward pressure on “over procurement”**
- **Provides a useful tool for PJM operators during times of system stress in addition to deploying supply-side DR**
- **Consistent with markets – customers should be able to determine how much of a reliability insurance product they require for their business**
- **Simple from a customer engagement perspective (*i.e.*, buy what you need)**

