

Summary of Commission Order on Market Seller Offer Cap

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- The current Market Seller Offer Cap (MSOC) was introduced as part of Capacity Performance in 2015
- Offers below cap are deemed competitive while offers above are subject to unit-specific review.
- Based on data at the time, 30 hours was an appropriate estimate of the expected number of annual Performance Assessment Intervals (PAIs)
- Existing MSOC is equal to:

$$\frac{\text{Net CONE}}{\text{Expected Number of PAIs}} \times \text{Expected Number of PAIs} \times \text{Average Expected Balancing Ratio}$$

- FERC explained that the assumption of 30 hours of expected PAIs each year is too high given the actual number of PAIs in recent years.
- Further, FERC found that Net CONE times Balancing Ratio has not been lower than the competitive offer estimate for a resource with a high avoidable cost rate.
- As a result, FERC found that the current MSOC is too high and inappropriate

FERC Order: 174 FERC ¶61,212 (Mar. 18, 2021)

- FERC found the existing MSOC to be unjust and unreasonable but required additional evidence to set a replacement rate
- FERC invited parties to submit briefs on an appropriate replacement rate including a revised assumption on the number of PAIs, as well as consider alternative approaches to address market power mitigation in the capacity market (initial briefs due May 3, 2021)
- PJM intends to review and consult with stakeholders on a potential replacement rate at upcoming meetings in advance of submitting its initial brief.
- In light of the imminent start of the 2022/2023 Delivery Year and the two year delay that the auction already has encountered, FERC concluded that the upcoming Base Residual Auction should go forward as scheduled under the existing MSOC rules.
- “Any anticompetitive conduct observed during the May 2021 auction may be referred to the Commission’s Office of Enforcement and the Commission may take all measures necessary and appropriate to address anticompetitive conduct in the May 2021 auction.”

- Address the appropriateness of using different values for Penalty PAI and Expected PAI in the default Capacity Performance market seller offer cap calculation and the appropriate method for setting each value, including for updating one or both over time.
- Address whether revisions to the default offer cap can be made without revision to the unit-specific offer cap review process outlined in section 6 of Attachment DD of the Tariff, including whether and how that process should account for the risk of Capacity Performance penalties.
- Address whether an alternative method for market power mitigation in the PJM capacity market would better address the concern that the current methodology precludes the Market Monitor from reviewing offers that raise market power concerns and mitigating offers where appropriate.
- Address whether it would be just and reasonable to remove the market-wide default market seller offer cap and instead employ unit-specific offer caps for all resources that fail the Market Structure Test,
- Provide an update on any PAIs that have occurred since the complaints were first filed.

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