Refiling Certain Components of Docket No. ER24-98

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Background

In October 2023, PJM submitted two filings with FERC proposing enhancements to the capacity market rules stemming from the CIFP-RA stakeholder process (Docket Nos. ER24-99 and ER24-98)

ER24-99 Filing	ER24-98 Filing
Focused on enhancements to: • Resource adequacy risk modeling • Capacity accreditation • Generation testing requirements • Annual stop-loss of PAI charges	Focused on enhancements to: • Market power mitigation rules (offer caps) • Capacity performance rules • Energy and ancillary services (E&AS) revenue offset calculation used in offer caps and floor prices
Accepted by FERC (effective with the 2025/26 BRA)	**Rejected with guidance** in FERC's Feb. 2024 Order

Although the ER24-98 filing was rejected in its entirety, the Commission agreed in principle on certain fundamental aspects of the proposal and offered limited guidance to address certain deficiencies, while remaining silent on a number of other areas of proposed reform

Refiling Certain Components of ER24-98

PJM is currently planning to refile certain components of the ER24-98 CIFP filing, primarily those where FERC was supportive in principle and provided guidance, or was silent on the issue, with updates to account for FERC's guidance

Targeting implementation with the 2027/28 BRA scheduled to open in June 2025

Stakeholder Sessions:

- **June 5 MIC:** Introduction
- **June 28 MIC Special Session:** Review of scope for refiling and updates
- **July 18 MIC Special Session:** Review of Tariff redlines and further discussion

Plan to refile by September to allow for sufficient time for FERC proceeding and implementation ahead of the 2027/28 BRA pre-auction activities

Scope to Include in Refiling: Incremental Costs in MSOC

Topic	FERC Position	Refiling
Allow for the incremental costs of taking on a capacity obligation to be reflected in unit-specific offer caps for units that are expected to continue operating if not cleared in the capacity market (e.g. allow for a standalone CPQR)	Provided general agreement on the issue, but required greater specificity on the includable costs. "*We agree that, as a general matter, a competitive offer in the capacity market may reasonably reflect only incremental costs that are avoidable if the resource does not receive a capacity commitment*"	Include in refiling with updates to address the Commission's guidance on this topic for greater specificity.

Scope to Include in Refiling: Incremental Costs in MSOC (cont'd)

Supportive Comments in FERC Order	*"While a resource may not need revenues from the capacity market to support its continued operation, the resource would still incur the incremental risks, which are borne as costs, from taking on a capacity commitment, including, for example, costs to mitigate a risk of Non-Performance Charges (e.g., making arrangements for firm fuel supplies or winterization). Such a resource would have little to no incentive to incur the incremental costs of taking on a capacity commitment unless it was able to offer consistently with these incremental costs. To the extent the incremental costs of accepting a capacity commitment have been reviewed and accepted by PJM and the Market Monitor, offering consistently with these costs would not be an exercise of market power, as protestors allege, but rather a reflection of the resource's rational economic decision."*		
Concerns / Guidance in FERC Order	*"PJM has not sufficiently explained in the tariff or transmittal how it will distinguish a resource's incremental costs that are (or would be) incurred as a result of receiving a capacity commitment from those costs that are not"*	*"PJM does not include in its pleadings or proposed tariff provisions a defining principle to identify and differentiate costs incurred only in the absence of a capacity obligation compared to costs incurred in whole or in part for some other purpose, such as to enhance EAS revenues"*	*"PJM has not explained how it will review those proposed allocations, detailed what type of supporting documentation sellers would be required to submit, or provided any standardized criteria pursuant to which PJM would review such allocations"*

Scope to Include in Refiling:
Incremental Costs in MSOC (cont'd)

We see two potential approaches to address the Commission's concern that the incremental costs associated with taking on a capacity commitment may also be incurred, in part, for other reasons such as enhancing E&AS profits

Approach 1: Limit the incremental costs that sellers may include in their unit-specific MSOC to those that can be demonstrated to be done solely for reasons of taking on a capacity obligation and that have no impact on E&AS profits (e.g. cost of insurance for CP risk or the cost of retaining the risk)

MSOC = incremental costs of taking on a capacity obligation with no E&AS offset (as previously filed)

Approach 2 (PJM's proposed approach): Allow sellers to include any incremental cost that would only be incurred if taking on a capacity commitment and receiving capacity revenues, even if such costs may also be incurred, in part, to enhance E&AS profits (e.g. cost of firming up fuel arrangements may only be incurred and profitable with a capacity commitment and revenues, but the level of capacity revenues needed to make incurring such cost profitable may be partially offset by enhanced E&AS profits)

MSOC = incremental costs – incremental E&AS profits (i.e. **net** avoidable going-forward costs)

Scope to Include in Refiling: Incremental Costs in MSOC (cont'd)

Updated proposal under "Approach 2":

For sellers that indicate their unit will continue operating absent a capacity obligation, set the unit-specific MSOC to net avoidable going-forward costs of accepting a capacity obligation, where such costs reflect any incremental costs incurred as a result of accepting a capacity obligation, net of any estimated incremental E&AS profits enabled by incurring such costs

- Certain incremental costs would be includable by definition with no E&AS offset (e.g. CPQR: cost of insurance for CP risk or cost of retaining the risk)
- For other incremental costs that may impact expected E&AS revenues, such as fuel availability costs or other investments that are incurred to mitigate risk of non-performance charges, market seller would be required to quantify and support any estimated incremental E&AS profits that would result from incurring such cost (or provide support of why such incremental E&AS profits is expected to be zero)
- Supporting documentation for the incremental costs would follow the existing requirements of ACR components (e.g. AFAE for fuel availability or APIR for capital expenditures)
- Estimated incremental E&AS profits provided by seller in unit-specific MSOC request, where such estimate may consider past operational data or simulated dispatch models, and would be subject to review by IMM & PJM

Scope to Include in Refiling: Incremental Costs in MSOC (cont'd)

Example 1	Example 2
Seller plans to continue operating a 50 MW resource irrespective of clearing in the capacity market and has the following incremental costs that are avoidable if not cleared for capacity: • CPQR (insurance cost for coverage of PAI penalties for the resource): **$10/MW-day** • E&AS Offset (incremental E&AS profits of such cost): **N/A or $0**	Seller plans to continue operating a 800 MW resource irrespective of clearing in the capacity market and has the following incremental costs that are avoidable if not cleared for capacity: • AFAE (Firm fuel arrangements): **$8/MW-day** • CPQR (insurance cost for coverage of PAI penalties for the resource): **$5/MW-day** • E&AS Offset (incremental E&AS profits due to incurring such costs): **$2/MW-day**
MSOC = Net ACR (Incremental Costs – Incremental E&AS Profits) = $10 - $0 = **$10**	**MSOC =** Net ACR (Incremental Costs – Incremental E&AS Profits) = $8 + $5 - $2 = **$11/MW-day**

Additional Scope to Include in Refiling

Topic	FERC Position	Refiling
Clarifying revisions to CPQR definition (e.g. including costs of “managing the risk”, use of insurance quotes, etc.)	Largely silent on the proposed clarifying revisions	Include in refiling; Add a clarification that costs includable in other ACR components are not also includable in CPQR
Allow requests for segmented offer caps	Silent on the proposed revisions	Include in refiling
Updates to offer cap rules for Planned Generation Capacity Resources to better enable sellers to reflect their costs of new entry when applicable	Silent on the proposed revisions	Include in refiling

Additional Scope to Include in Refiling (cont'd)

Topic	FERC Position	Refiling
Proposed reforms to the Capacity Performance rules: • Clarifying updates and cleanup of outdated provisions • Revisions to the rules regarding excusals of offline generation resources • Allowing for transfers of PAI obligations on a more granular time interval • Revisions to the balancing ratio formula to account for excused MW	Silent on the proposed revisions	Include in refiling
Adopt a forward-looking E&AS offset calculation for purposes of market seller offer caps and minimum offer price rules	Silent on this topic in the ER24-98 Order, but the Commission has previously accepted a forward-looking approach multiple times for PJM in other dockets	Include in refiling

Scope to Exclude from Refiling

Topic	FERC Position	Refiling
Allow for PJM to approve an alternative offer cap level when reviewing unit-specific offer cap requests	Majority rejected noting that the IMM has exclusive authority to determine whether the level of an offer raises market power concerns (Clements dissented).	Exclude from refiling at this time. PJM requested rehearing on this issue.
Third-party CPQR review in unit-specific offer cap submissions	Generally agreed that sellers may submit documentation from third-party consultants supporting their proposed CPQR value (even today), but expressed concern that the language as proposed could bypass the IMM and PJM review, and that greater specificity was needed for accepting a third-party evaluation of CPQR.	Exclude from refiling. FERC acknowledged that third-party support can be acceptable today in providing documentation for CPQR. Rather than detailing specific criteria that any third-party consultant must meet in the Tariff, continue to evaluate any third-party support provided on a case-specific basis.
Standardized CPQR calculation in Tariff	Supported in principle but rejected for lack of clarity	Exclude from refiling given the concerns raised in the Order.

Scope to Exclude from Refiling (cont'd)

Topic	FERC Position	Refiling
Limiting the pool of PAI bonus revenues to only committed capacity resources	Rejected with concern that it removed real-time performance incentives for non-committed resources, which could harm reliability	Exclude from refiling: no new evidence or arguments to make on this issue at this time.
Treatment of PAI excusals when price-based offer exceeds cost-based offer	Rejected as the Commission found that the existing provision that relied on cost-based offers was still appropriate to preserve CP incentives	Exclude from refiling: no new evidence or arguments to make on this issue at this time.
Align RPM and FRR resource assessments during PAIs (removal of the "physical" penalty option that is currently allowed for FRR Entities)	Majority rejected noting that FRR Entities are uniquely situated in long-term planning processes and may have difficulty recovering penalty charges in retail rates (Clements dissented).	Exclude from refiling at this time. Other parties have requested rehearing on this issue.

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