

MOPR Exception Process – 10/25-26/2011 Meeting

Package 3 – Details on Design Component #5 Standards for exception*

Item	Matrix Exception	Details
1	Allow self supply if economic on a multi-year view to offer so it clears	<ul style="list-style-type: none"> See attached suggested tariff language
2	Allow for exceptions based on a pre-determined high percentage of the entity's obligation being fulfilled with its own generation or under contract	<ul style="list-style-type: none"> Two frameworks for LSEs that could be used: <ul style="list-style-type: none"> Net short <u>historically</u> under threshold as function of LDA size, where exception if net short under 10% of LDA Reliability Requirement if less than 10,000 MWs or under 5% net short if larger LDA Existing resources <u>historically</u> exceed certain [___%] of total obligation Limitations on allowable long resulting from new resource Linkages possible to business model or duration of load obligation
Item	Matrix Exemptions	Details
3	Allow for upgrades, such as a process upgrade, at existing units without limitation	<ul style="list-style-type: none"> Restore under language in Attachment DD, 5.14(h)(1) All upgrades at existing units allowed
4	Allow for unit additions at existing plant up to a pre-defined threshold	<ul style="list-style-type: none"> Restore under language in Attachment DD, 5.14(h)(1) Single unit allowed, not to exceed greater of 200 MW or 25% existing plant
5	Allow all renewable projects (e.g. landfill, biomass, etc)	<ul style="list-style-type: none"> Expand language in Attachment DD, 5.14(h)(1)(ii) to include all renewable projects
6	Allow for unit replacement generation at existing site	<ul style="list-style-type: none"> Add to language in Attachment DD, 5.14(h)(1) Replacement generation at existing site not subject to MOPR up to Capacity Injection Rights (CIR) of the existing unit being repowered or replaced
7	Allow exception for certain MW amount tied to the size of the LDA	<ul style="list-style-type: none"> Calculated allowed MW for each LDA with separate VRR in each BRA (varies with LDA by planning year) MW UCAP quantity corresponds to equivalent price impact on VRR curve equal to price change of 100% less MOPR proxy screen (%), see 2014-15 example below

**Above based on MOPR only applying to areas with separate VRR curve and not applying to Rest of Market*

MOPR hurdle	90.0%							
	RTO	MAAC	EMAAC	SWMAAC	PS	PS NORTH	DPL SOUTH	PEPCO
Price impact (\$/MW-day)	-\$34.22	-\$24.19	-\$27.50	-\$24.19	-\$27.50	-\$27.50	-\$27.50	-\$24.19
VRR slope to right IRM+1	-\$0.05	-\$0.08	-\$0.16	-\$0.32	-\$0.48	-\$1.02	-\$2.10	-\$0.62
MW UCAP	643.0	313.0	173.0	75.0	57.0	27.0	13.0	39.0

ATTACHMENT

Proposed revisions to Tariff language submitted in PJM's May 12, 2011
Compliance Filing in Docket No. ER11-2875

Proposed Revisions to PJM Compliance filing Tariff language, filed on May 12, 2011 in Docket No. ER11-2875, to allow for a multi-year view in the exception process

(4) Any Sell Offer that is based on a Planned Generation Capacity Resource submitted in an RPM Auction for the first Delivery Year in which such resource qualifies as a Planned Generation Capacity Resource, or submitted in any RPM Auction for that or any subsequent Delivery Year until the offer first clears an RPM Auction, in any LDA for which a separate VRR Curve is established for use in the Base Residual Auction for the Delivery Year relevant to the RPM Auction in which such offer is submitted, and that is less than 90 percent of the applicable Net Asset Class Cost of New Entry or, if there is no applicable Net Asset Class Cost of New Entry, less than 70 percent of the Net Asset Class Cost of New Entry for a combustion turbine generator as provided in subsection (h)(1) above shall be set to equal 90 percent of the applicable Net Asset Class Cost of New Entry (or set equal to 70 percent of such cost for a combustion turbine, where there is no otherwise applicable net asset class figure), unless the Capacity Market Seller obtains the prior determination from the Office of the Interconnection described in subsection (5) hereof. This provision applies to Sell Offers submitted in Incremental Auctions for Delivery Years beginning on or after June 1, 2014.

(5) A Sell Offer meeting the criteria in subsection (4) shall be permitted and shall not be reset to the price level specified in that subsection if the Capacity Market Seller obtains a determination from the Office of the Interconnection prior to the RPM Auction in which it seeks to submit the Sell Offer, that such Sell Offer is permissible because it is consistent with the competitive, cost-based, fixed, nominal levelized, net cost of new entry were the resource to rely solely on revenues from PJM-administered markets . The following process and requirements shall apply to requests for such determinations:

(i) The Capacity Market Seller may request such a determination at any time, but no later than 60 days prior to the auction in which it seeks to submit its Sell Offer, by submitting simultaneously to the Office of the Interconnection and the Market Monitoring Unit a request with full documentation as described below and in the PJM Manuals. A Capacity Market Seller may request such a determination before the minimum offer level specified in subsection (4) is established for the relevant Delivery Year, based on the minimum offer level established for the prior Delivery Year or other reasonable estimate of the minimum offer level expected for the relevant Delivery Year. In such event, if the minimum offer level subsequently established for the relevant Delivery Year is less than the Sell Offer, the Sell Offer shall be permitted and no exception shall be required.

(ii) As more fully set forth in the PJM Manuals, the Capacity Market Seller must include in its request for an exception under this subsection documentation to support the fixed development, construction, operation, and maintenance costs of the planned generation resource, as well as estimates of offsetting net revenues. Estimates of costs or revenues shall be supported at a level of detail comparable to the cost and revenue estimates used to support the Net Asset Class Cost of New Entry established under this section 5.14(h). As more fully set forth in the PJM Manuals, supporting documentation for project costs may include, as applicable and available, a complete project description; environmental permits; vendor quotes for plant or equipment; evidence of actual costs of recent comparable projects; bases for electric and gas interconnection costs and any cost contingencies; bases and support for property taxes,

insurance, operations and maintenance (“O&M”) contractor costs, and other fixed O&M and administrative or general costs; financing documents for construction–period and permanent financing or evidence of recent debt costs of the seller for comparable investments; and the bases and support for the claimed capitalization ratio, rate of return, cost-recovery period, inflation rate, or other parameters used in financial modeling. Such documentation also shall identify and support any sunk costs that the Capacity Market Seller has reflected as a reduction to its Sell Offer. The request shall include a certification, signed by an officer of the Capacity Market Seller, that the claimed costs accurately reflect, in all material respects, the seller’s reasonably expected costs of new entry and that the request satisfies all standards for an exception hereunder. The request also shall identify all revenue sources relied upon in the Sell Offer to offset the claimed fixed costs, including, without limitation, long-term power supply contracts, tolling agreements, or tariffs on file with state regulatory agencies, and shall demonstrate that such offsetting revenues are consistent, over a reasonable time period identified by the Capacity Market Seller, with the standard prescribed above. In making such demonstration, the Capacity Market Seller may rely upon forecasts of competitive electricity prices in the PJM Region based on well defined models that include fully documented estimates of future fuel prices, variable operation and maintenance expenses, energy demand, emissions allowance prices, and expected environmental or energy policies that affect the seller’s forecast of electricity prices in such region, employing input data from sources readily available to the Office of the Interconnection and the Market Monitoring Unit. Documentation for net revenues also may include, as available and applicable, plant performance and capability information, including heat rate, start-up times and costs, forced outage rates, planned outage schedules, maintenance cycle, fuel costs and other variable operations and maintenance expenses, and ancillary service capabilities. In addition to the documentation identified herein and in the PJM Manuals, the Capacity Market Seller shall provide any additional supporting information requested by the Office of the Interconnection or the Market Monitoring Unit to evaluate the Sell Offer.

(iii) A Sell Offer evaluated hereunder shall be permitted if the information provided reasonably demonstrates that the Sell Offer’s competitive, cost-based, fixed, nominal levelized, net cost of new entry is below the minimum offer level prescribed by subsection (4), based on competitive cost advantages relative to the costs estimated for subsection (4), including, without limitation, competitive cost advantages resulting from the Capacity Market Seller’s business model, financial condition, tax status, access to capital or other similar conditions affecting the applicant’s costs, or based on net revenues that are reasonably demonstrated hereunder to be higher than estimated for subsection (4). Capacity Market Sellers shall be asked to demonstrate that claimed cost advantages or sources of net revenue that are irregular or anomalous, that do not reflect arm’s-length transactions, or that are not in the ordinary course of the Capacity Market Seller’s business are consistent with the standards of this subsection. To the extent a Sell Offer is consistent with the Capacity Market Seller’s business model and is economic over a reasonable period of time identified by the Capacity Market Seller, which can include a multi-year view that is consistent with the duration of the investment in the planned generation resource, considering real or nominal levelized project specific non-sunk costs and forward looking energy, ancillary services, and capacity revenues, then, without limitation, such Sell Offer can be offered as self-supply or self-scheduled as a price taker (i.e., at \$0) and afforded clearing priority as described in (6). Failure to adequately support such costs or revenues so as to enable the Office of the Interconnection to make the determination required in this section will result in denial of an exception hereunder by the Office of the Interconnection.

(iv) the determination required under this subsection shall be provided to the Capacity Market Seller in writing by the Office of the Interconnection no later than 45 days after receipt of the request. The Market Monitoring Unit shall first review the information and documentation in support of the request and shall provide its findings in accordance with the standards and criteria hereunder in writing simultaneously to the Capacity Market Seller and the Office of the Interconnection no later than 30 days after receipt of such request. If the findings of the Market Monitoring Unit are adverse to the Capacity Market Seller, such Capacity Market Seller may request, through written notice within 5 days of its receipt of the Market Monitoring Unit's findings, review by the Office of the Interconnection, provided, however, that the Office of the Interconnection as Tariff administrator may elect to review any Market Monitoring Unit determination hereunder on its own initiative.

(6) Including all of the Sell Offers in a single Base Residual Auction that meet the criteria of 5.13(h)(4) above, PJM shall accept Sell Offers to provide Capacity Resources in accordance with the following priority and criteria for allocation: (i) first, all Sell Offers in their entirety designated as self-supply; (ii) then, all remaining Sell Offers of zero, prorating to the extent necessary; and (iii) then all remaining Sell Offers in order of the lowest price.