

Problem Statement/Issue Charge

Underperformance Risk Management in RPM/CP

Problem Statement

The current rules in RPM/CP may provide Generation Capacity Resources with ineffective and inefficient options to manage the risk of underperformance during CP Compliance Hours. For Generation Capacity Resources, shortfalls are identified and penalties are assessed during each CP Compliance Hour on a unit by unit basis. Market Sellers with Generation Capacity Resources that have bonus performance during the same CP Compliance Hour and in the same [emergency zone] as a Generation Capacity Resource with a shortfall are unable to offset the shortfall with the bonus performance.

Under current rules, capacity can be moved between accounts prospectively to be used in prospective Replacement Capacity transactions. In addition, capacity that meets narrow criteria including being in the same account on the day of a CP Compliance Hour as a Generation Capacity Resource with a shortfall may be used in a Replacement Capacity transaction after a CP Compliance Hour. There may be an inefficient missing link precluding the movement of capacity retrospectively between accounts to facilitate after CP Performance Assessment Hour(s) Replacement Capacity transactions amongst all market participants.

The current settlement and transaction mechanisms for capacity, shortfalls, and bonus performance values any shortfalls and Bonus Performance based on tariff rules, which do not reflect market conditions.

Key Work Activities

The following are some key work activities that should be undertaken in any stakeholder initiative to address the above stated problems.

1. Evaluate the opportunities for all Capacity Resources, including Capacity Generation Resources, Capacity Demand Resources, and FRR Resources, to manage the risk of underperformance during CP Performance Assessment Hours.
2. Evaluate opportunities for individual Market Participants with resources in separate accounts and corporate families to directly offset performance shortfalls with Bonus Performance within its own portfolio utilizing both committed and uncommitted resources.
3. Evaluate potential opportunities to enable valuation of capacity, shortfalls, and bonus performance at a market price and to facilitate bilateral cures of penalty exposure after a CP Compliance Hour.
4. Define or Redefine Available Capacity to reflect Actual Performance above a resource's Expected Performance in a Performance Assessment Hour as available to cure a CP

performance shortfall through a bilateral transaction. In the alternative, develop and define a new term to facilitate these transactions.

5. Evaluate the above with use of known, settlement accuracy values.
6. Develop a metric to identify the benefits of any proposal to PJM market participants, including customers.
7. Evaluate the benefits of any proposal developed under this Problem Statement using the metric developed above.

Stakeholder Group Assignment

A task force reporting to the MRC should undertake this work.

Expected Deliverables

Possible manual changes and potential Tariff/RAA and manual changes that establish key work activities.

Expected Overall Duration of Work

The goal is to complete work and make recommendations to the MRC by the November 2016 MRC meeting.

Decision-Making Method

Tier 1, consensus (unanimity) on a single proposal