Capacity Choice

Proposed Solution for PJM CCPPSTF

September 11, 2017

Background for Proposal

- FRR has worked without creating any price distortion issues with RPM clearing price.
- FRR is FERC approved and in the PJM Tariff
- FRR was designed to prevent the mixing of revenues between non-market and market resources
- FRR has accepted rules to prevent gaming with requirements for minimum stays and stay out periods.

Capacity Choice Proposal

- Allow LSE’s to determine how to hedge their capacity obligation.
  - Fully – 100% with today’s FRR
  - Partially – any percentage, LSE choice, 1% to 99% using a combination of FRR and RPM.
  - Annual Auction – use RPM for full requirements just like today with no changes.
- Provide States a mechanism to manage interests that preserves market outcomes.

Requirements

- FRR election/exit/process requirements are respected for partial FRR.
- All current and future generation receiving ‘out of market’ revenues must choose a FRR option, full or partial depending on their supply/demand portfolio.
- State Subsidized generation is automatically placed in FRR with a load obligation as the default unless state provides billing details to PJM.

Benefits

- RPM Market prices form without any non-market offers.
- Eliminates the need to synthetically create equivalence between market and non-market offers. No additional administrative interventions.
- Allows each LSE to add or subtract hedged load annually.
- Fosters opportunity for bilateral contracts by utilizing the initial 5 yr lock requirement for FRR.
- MOPR changes are not required to implement.

PJM Questions

1. How do you define the problem that you are trying to solve with your proposal? Allow capacity market prices to form without interference from subsidies and allow LSEs greater choice with self supply.
2. Does your proposal accommodate resources with state government preferences on a non-discriminatory basis? How? Yes. All subsidized resources are removed from market price formation and access to market revenues.
3. Will your proposal encourage or frustrate state policy objectives or other subsidies? It is neutral and non-discriminatory. It establishes a path to accommodate state energy policies for capacity resources solely at the states option.

PJM Questions

4. What is your definition of an actionable subsidy (you may include specific factors such as MW or economic thresholds, timing of payment, rate and reasons for the subsidy, etc.)? Out of market capacity payments including; State approved subsidy, rate treatment, and or captive customers.
5. What impact does your proposal have on energy markets? No different than today.
6. Will your proposal result in or mitigate long term price suppression in the capacity market and/or the energy market? Removes existing suppression and prevents future.
7. How do you think your proposal will impact bidding behavior? It should be better as upwards of 40,000mw of rate based non market capacity today will move to full or partial FRR option. Only market resources in market.

PJM Questions

8. Please address the effects of your proposal on potential market manipulation. IMM review is needed for potential ‘cherry picking’ high supply resources for partial FRR.
9. Please address the potential for “leakage” (the effects of one jurisdiction’s actions on other jurisdictions). Eliminates leakage as subsidies are managed state by state.
10. What is the preferred implementation timing? Stakeholder preference.
11. For repricing proposals, please explain your treatment for “in between” resources and why you believe it is the right approach (“in between” resources are those that did not clear in one stage of a repricing proposal but offered at a level less than the final clearing price determined in a second stage). Not necessary with Capacity Choice option.

Summary

- Concept is based on results of successful FRR separation from markets to establish RPM clearing price.
- Minor Tariff modifications required to implement.
- LSE's finally have choice to use their own generation, add multi-year contracts, or use RPM market for fulfilling and balancing their obligations.
- Resolves treatment of state subsidies. Everyone knows the rules upfront.
- Eliminates need for additional administrative intervention in markets.