

XO Energy

## Red Wolf Energy Trading

This proposal seeks to fundamentally redesign uplift as it currently exists in PJM. Starting from the inception of the PJM market, uplift has been socialized across broad regions of the RTO and across all hours of the operating day. The consequences of socialization have become increasingly apparent. When the basis of uplift cost allocation is “everyone pays,” the incentive to minimize uplift is lost.

The basis for this proposal is cost causation. This proposal seeks to allocate uplift cost to the portfolios that cause the cost to be incurred and credit portfolios that decrease uplift. These concepts are not based in theory, but already exist in another RTO market: MISO. The MISO Revenue Sufficiency Guarantee (RSG) rate structure is the result of years of litigation at FERC. By implementing this construct PJM can avoid years of contentious litigation and adopt a rate structure that is already FERC approved.

In order to assign cost to the causing parties PJM will be required to tag generator commitments for:

- Capacity (to support load)
- To a specific constraint
- For voltage or local reliability issues

Portfolios are charged uplift based on:

- Their impact on required RT capacity
- Their impact on flows over a RT constraint
- Their RT load

Four uplift buckets are created:

- **Constraint Management Charge.** Only portfolios that exacerbate a constraint are charged. CMC charges have a rate cap. Units committed for CMC or VLR impact capacity, therefore a percentage is charged to DDC.
- **Voltage and Local Reliability.** Commercially significant uplift is charged locally otherwise pro-rata to all LBAs.
- **Day-Ahead Deviation Charge.** Charged based on net additional capacity required. All deviations net. Only net short portfolios are charged. DDC charge has a rate cap.
- **2<sup>nd</sup> Pass Distribution.** Any make whole payments not collected through the three other buckets are charged to 2<sup>nd</sup> pass. Charged pro-rata to real-time load.