

Problem/Opportunity Statement

Capital Recovery Factor for Avoidable Project Investment Rate Determinations

Problem / Opportunity Statement

As specified in section 6.8(a), Attachment DD of the PJM Tariff, a Capital Recovery Factor (“CRF”) is used to calculate the Avoidable Project Investment Rate (“APIR”) as a component of the Net Avoidable Cost Rate (“ACR”) of a resource that is seeking a resource-specific Market Seller Offer Cap or a resource-specific MOPR Floor Offer Price. The Net ACR of a given resource sets the Market Seller Offer Cap as well as the MOPR Floor Offer Price of the resource depending on which is applicable to the resource. This section of the PJM Tariff includes a table with a unique CRF value specified for each of eight different assumed capital recovery periods.

CRFs are calculated using a standard financial model that incorporates the weighted average cost of capital and its components, including the rate of return on equity and the interest rate on debt and the capital structure, in addition to depreciation and taxes. The CRF values of the table of section 6.8(a) of Attachment DD were established as part of the PJM Tariff in 2007 and therefore do not reflect the current federal tax laws that were enacted in 2017. PJM stakeholders are asked to consider the following proposal which is intended to bring the CRF values up-to-date and keep them up-to-date on a going forward basis.

PJM proposes to revise the values of the CRF table of section 6.8(a), Attachment DD of the PJM Tariff effective with the 2023/2024 Delivery Year to reflect the tax rates and depreciation provisions of current federal tax law. The revised CRF values shown in the table below use the current CRF values for Delivery Years up to and including the 2022/2023 Delivery Year. As the table shows, the revised values differ across the Delivery Years of 2023/2024 through 2025/2026 as the 100% bonus depreciation phases out by 20% per year starting with January 1, 2023 in accordance with the current federal tax law.

In order to keep the CRF values up-to-date on a going forward basis, PJM proposes to review the values on a schedule consistent with the quadrennial review of key auction parameters that share common input assumptions of weighted average cost of capital and state and federal tax provisions. The next quadrennial review is scheduled to commence in 2021 with any recommended changes that result from the review to be made effective with the 2026/2027 Delivery Year. In addition, the proposal permits PJM to review and file updated CRF values outside of the four-year quadrennial review schedule if determined to be appropriate.

Age of Unit	Remaining Life of Plant	Delivery Years Up to and Including 2022/23	2023/24 Delivery Year	2024/25 Delivery Year	2025/26 Delivery Year
1 to 5	30	0.107	0.087	0.091	0.095
6 to 10	25	0.114	0.092	0.096	0.100
11 to 15	20	0.125	0.101	0.105	0.110
16 to 20	15	0.146	0.116	0.121	0.126
21 to 25	10	0.198	0.151	0.158	0.165
25 Plus	5	0.363	0.259	0.273	0.286
Mandatory CapEx	4	0.450	0.314	0.331	0.349
40 Plus Alternative	1	1.1	1.1	1.1	1.1