



Capacity Senior Task Force Status Report June 17, 2014

The Capacity Senior Task Force (CSTF) will analyze and evaluate PJM's capacity market as directed by the Markets and Reliability Committee. This status report documents progress made since last reported on the issue(s) charged to this PJM stakeholder group.

1. [RPM - Replacement Capacity](#) / [Prospective Capacity Resource Incentives](#)

A. Issue Description:

This issue concerns whether or not RPM rules should be changed to eliminate the unintended financial incentive identified by the IMM for participants to speculate or over-commit in the BRA, and then buy-out of their capacity commitments in the Incremental Auctions.

B. Issue Tracking Status: Complete

C. Target Completion: N/A

D. Progress Update: FERC rejected PJM's proposal in an Order on May 9, 2014; established a new Section 206 proceeding in FERC Docket No. EL14-48 to address PJM's concerns about speculative offers in RPM.

E. Action Requested: None.

2. [DR As An Operational Capacity Resource](#)

A. Issue Description:

The combination of the growing amount of committed capacity resources being DR and the increase in Generation retirements has resulted in a decrease in the installed generation reserve margin. As a result PJM expects more regular deployment of DR in system ops. Under current rules and procedures, deployment of large amounts of DR creates potential operational discontinuities which must be addressed to support ongoing reliable system operations. PJM expects that it will need to dispatch capacity DR on a much more operational basis going forward. Areas to be addressed: Consider enhancements to DR obligations that will address PJM's operational concerns. • Consider changes to notification time requirements for DR to provide greater operational flexibility. • Consider enhancements to DR rules to allow for demand-side resources to operate with a dispatchable range. Consider ways to prevent the volume of Limited DR clearing in RPM auctions from impacting the long-term investment signals needed to ensure reliability. Assess the potential for changes to assumptions and modeling practices regarding DR in PJM planning studies as a result of this investigation.

D. Issue Tracking Status: FERC issued an Order approving in part and rejecting in part PJM's filing and requiring a compliance filing. PJM submitted its compliance filing and is awaiting FERC order.



E. **Target Completion:** March 15, 2014

F. **Progress Update:**

G. **Action Requested:** None.

3. CONE Triennial Review Process

A. **Issue Description:**

The FERC accepted Offer of Settlement and Settlement Agreement among PJM and numerous other settling parties in FERC Docket No. ER12-513-000 required that a stakeholder process be conducted to identify any desired changes in the CONE triennial review process in light of lessons learned from the most recent triennial review process. Stakeholders will assess the current effective Tariff's Handy-Whitman Index adjustment method for Gross CONE and any other desired changes in the CONE review process such as the use of forward looking Energy and Ancillary Service Offset in the determination of Net CONE, timing of the Triennial Review process, or changes in the determination of other input parameters that govern the determination of Gross CONE.

B. **Issue Tracking Status:** Complete

C. **Target Completion:** June, 2014

D. **Progress Update:** Stakeholders addressed timing issues first which were filed and accepted by FERC on June 3. This issue will be closed. The Capacity Markets Triennial Review issue has been created to track the parameter review as a separate item.

E. **Action Requested:** None.

4. Minimum Offer Price Rule (MOPR) – Unit Specific Review Process

A. **Issue Description:**

The recent FERC order on the PJM MOPR filing (docket ELR13-535) required PJM to retain the unit specific review process in the MOPR to allow resources to request alternative minimum offer prices based on detailed review of project-specific costs and revenues. The FERC order also suggested that PJM conduct a stakeholder process to consider revisions to the unit-specific review process to make it more standardized. In paragraph 114 the order states: "While PJM asserts that, under its existing procedures, estimating certain costs and revenues is difficult, PJM can submit a section 205 filing to remedy these asserted deficiencies. We encourage PJM and its stakeholders to consider, for example, whether the unit-specific review process would be more effective if PJM requires the use of common modeling assumptions for establishing unit-specific offer floors while, at the same time, allowing sellers to provide support for objective, individual cost advantages. Moreover, we encourage PJM and its stakeholders to consider these modifications to the unit-specific review process together with possible enhancements to the calculation of Net CONE." PJM and the Independent Market Monitor (IMM) believe the current unit-specific review process is flawed, non-transparent and provides too much discretion to PJM and the IMM. The specific areas that PJM and the IMM believe should be addressed are: • Consider changes to financial modeling



assumptions to standardize them and make them more consistent with modeling assumptions utilized to establish NET CONE parameter. Areas to be considered include: Use of Nominal Levelized Gross CONE; Use of Residual Value; Exclusion of Sunk Costs; Calculation of Net Revenues; Historic vs. forecast revenue; First year vs. multiple year assumption; Calculation of Weight Average Cost of Capital (WACC); Asset Life • Consider changes to the process to provide more transparency

B. Issue Tracking Status: Complete

C. Target Completion: Complete

D. Progress Update: Two packages received >50% approval at CSTF and were reviewed as a first read at the May 29 MRC. The MRC will be asked to endorse the Main Motion package at the June 26 MRC. If endorsed, the proposal will be voted on at the August 21 MC.

E. Action Requested: None.

5. Capacity Market Triennial Review

B. Issue Description:

C. PJM is currently undergoing a review of key parameters in its Capacity Market as mandated by the PJM Open Access Transmission Tariff (Tariff). Section 5.10 a) of Attachment DD of the PJM Tariff contains requirements for a periodic, on-going assessment of the: Shape of the VRR Curve, which can affect price stability and the reflection of capacity value beyond the reliability requirement, Cost of New Entry (CONE) which provides pricing points along the VRR Curve based on resources procured, and the methodology for determining the Net Energy and Ancillary Services Revenue Offset (E&AS Offset), which is used in combination with CONE for providing pricing points on the VRR Curve. Following the development and presentation of PJM's preliminary parameter recommendations, through the CSTF, stakeholders will assess PJM's recommendations to maintain or change components of the VRR with a deadline for gaining consensus of August 31, 2014.

B. Issue Tracking Status: Evaluation in Progress

C. Target Completion: August 31, 2014

D. Progress Update: Education is underway. Additionally, the group is currently gathering component options for the matrix. PJM recommendations are included.

E. Action Requested: None.

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