

**Proposal to MIC– Deficiency Charges/Credit Requirements for QTUs in RPM**

- 1) A resource that clears an RPM auction is committing itself to provide capacity in three years.
- 2) In the event the resource does not perform it is subject to a deficiency charge for its failure to perform.
- 3) PJM intends the deficiency charge to cover the risk of non-performance. Hence the deficiency charge has been higher for resources that have not yet been built – including Planned Generation Capacity Resources, Planned Demand Resources or Energy Efficiency Resources, and Qualifying Transmission Upgrades.
- 4) However, Qualifying Transmission Upgrades do not carry the same risk of not being built as planned resources and therefore they should not be in the above category for deficiency charges. QTUs do not have a “materially increased risk of non-performance” because PJM certifies the QTU as expected to be in service, and the Transmission Owner(s) (with an established history of performance) is responsible for construction of the QTU. In any event, the credit requirement should not exceed the total QTU project cost because by definition this level of credit requirement covers the entire cost of construction of the project. Finally, the UCSA, Appendix III, Section 14.2.3 provides that PJM may compel completion of the upgrade to preserve system reliability or integrity.

Design Components	Priority	Status Quo for QTU	Filed at the FERC for non-QTU resources Docket ER 14-1461	A	B	CCC
Deficiency charge calculation	Medium	Greater of: [[2*(Sink LDA RCP – Source LDA RCP)]] Or (Sink LDA Net CONE – Source LDA RCP)	RCP plus greater of: \$50 per MW/day or 50% RCP	Same as prevailing tariff language for all other resources, based on Sink LDA	Function of the difference between source and sink LDA clearing prices	Function of the difference between source and sink LDA clearing prices
Credit Requirement Calculation: Pre-Auction	Medium	Greater of: \$20/ MW-day or (0.3 * RTO Net CONE)	Greater of: \$50/ MW-day or (0.75 * RTO Net CONE)	Same as prevailing tariff language for all other resources, based on Sink LDA	Cap at 100% of the cost of the upgrade	Same as prevailing tariff language for existing generation resources. Alternative: Cap at 100% of the

						upgrade cost
Credit Requirement Calculation: Post - Auction	Medium	Greater of: [[0.2 * Sink LDA RCP]  Or  \$20	Greater of: [[0.5 * LDA RCP] Or \$50	Function of the difference between source and sink LDA clearing prices	Same as prevailing tariff language for all other resources, based on Sink LDA	Cap at 100% of the upgrade cost (which can be met with UCSA security).
Eligible Replacement Capacity	High	Available Annual Capacity in Sink LDA - - Same as prevailing tariff language for all other resources, based on Sink LDA	Available capacity having same or better locational and temporal attributes	Incremental Auction: QTU should be able to buy in sink and sell in source (if TO cannot deliver QTU on time)		Incremental Auction: QTU should be able to buy in sink and sell in source (if TO cannot deliver QTU on time)