

Must-Offer Exception Process Issue

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- Issue brought forward by Exelon to investigate:
 - Possible reforms to the RPM Must-Offer Exception Process
 - Clear guidelines on documentation required by the IMM and PJM to grant a Must-Offer Exception
 - Improved efficiency of Must-Offer Exception requests
 - Process for resources with an existing must-offer requirement to become energy only resources
- Approved at the March MIC and assigned to the MIC group
 - 6 month expected work timeline (*April through September*)

1. Review the current Must-Offer Exception Process (April MIC)
2. Review documentation and investment requirements for CP offers
3. Discuss potential reforms to the Must-Offer Exception process and a process to become an energy only resource, including CIRs when moving from capacity to energy
4. If necessary, discuss associated changes to PJM Governing Documents and Manuals

- Obligated to deliver energy during the relevant Delivery Year as scheduled and/or dispatched by PJM during Performance Assessment Hours
 - PJM Tariff does *not* prescribe specific fuel arrangements or investment requirements needed to meet CP performance obligations

- Under Tariff, Attachment DD, section 6.6A
 - reasonably expected to be physically incapable of satisfying the requirements of a CP Resource
 - The review process and timeline is the same as under 6.6(g)
 - 120 days prior to auction for reasons other than deactivation
 - Intermittent and storage are categorically exempt

- “Physically incapable” includes...
 - Necessary capital improvements, or new fuel delivery infrastructure, that cannot be arranged, permitted, and completed in time for the relevant Delivery Year
- “Physically incapable” does *not* include...
 - Seller’s refusal to make investments, or allocate the operating budget, needed to bring the resource’s performance up to the necessary level
 - Economic feasibility tests

Appendix: Prior Education on the Must-Offer Exception Process

- When a new generator connects to PJM's system through the PJM Interconnection Process, it chooses request to be a Capacity Resource or an Energy Resource
 - If it chooses to be a Capacity Resource, it will be studied as such and will be granted Capacity Interconnection Rights (“CIRs”)
- A DR or EE resource is considered a Capacity Resource if it has been accredited as such under RAA Schedule 6.

- All available megawatts of an Existing Generation Capacity Resource must be offered in each RPM Auction for a Delivery Year (“DY”)
- Simplified example: 100 MW Existing Generation Capacity Resource -
 - Capacity Market Seller of that resource must offer 100 MW in BRA; clears 50 (thus 50 MWs still available)
 - Must offer 50 MWs in 1st Incremental Auction (“IA”); clears 25 (thus 25 MWs still available)
 - Must offer 25 MWs in 2nd IA; clears 0 (thus 25 MWs still available)
 - Must offer 25 MWs in 3rd IA; clears 0 (it is still a Capacity Resource, and must do this all again in the next DYs set of RPM Auctions)

- Currently, two Must-Offer Exception sections – one that is general and one that is specific to Capacity Performance
- General Must-Offer Exceptions in Tariff, Att. DD, sec. 6.6(g):
 - is reasonably expected to be physically unable to participate in the relevant Delivery Year;
 - has a financially and physically firm commitment to an external sale of its capacity, or
 - was interconnected an Energy Resource and not subsequently converted to a Capacity Resource.

- What does “physically unable to participate” mean?
 - Documented plan to retire during or prior to the DY and has submitted its Deactivation notice to PJM
 - Significant physical operational restrictions cause long term or permanent changes to the installed capacity value of the resource, or the resource is under major repair that will extend into the applicable DY
 - Involved in an ongoing regulatory proceeding specific to the resource (e.g., environmental) and has received an order...or other final directive that will result in the retirement of the resource
 - It is only considered “Existing” because it cleared an RPM Auction, but will not be in-service by the start of the applicable DY

- Under Tariff, Attachment DD, section 6.6A
 - Physically incapable of being a CP resource
 - The review process is the same as under 6.6(g)
 - Intermittents and storage are categorically exempt

Must-Offer Exception Request Deadlines

Activity	Deadline
Preliminary must-offer exception for reason of deactivation	SEPT01 prior to BRA, 240 days prior to IA
Final must-offer exception for reason of deactivation	DEC01 prior to BRA, 120 Days prior to IA
Must-offer exception for other than deactivation	120 days prior to auction
IMM provides determination on must offer exception	90 days prior to auction
Capacity Market Sellers notify PJM/IMM of agreement with IMM determination on must offer exception	80 days prior to auction
PJM provides determination on must offer exception	65 days prior to auction
Capacity Market Seller notifies PJM/IMM of intent to exercise approved exception	65 days prior to auction

- Clear guidelines on the documentation required by the IMM and PJM to grant a Must-Offer Exception Request
- Must-offer exception process reforms for improved efficiency (e.g. one request can be made for a Base Residual Auction and related Incremental Auctions, etc.).
- Establishing a process for resources with an existing must-offer requirement to become energy only resources.

Tariff, sec. 36.1.1 Interconnection Services for Generation:

Generation Interconnection Customers **may request** either of two forms of Interconnection Service, i.e., **interconnection as a Capacity Resource or as an Energy Resource**. Energy Resource status allows the generator to participate in the PJM Interchange Energy Market pursuant to the PJM Operating Agreement. Capacity Resource status allows the generator to participate in the PJM Interchange Energy Market to be utilized by load-serving entities in the PJM Region to meet capacity obligations imposed under the Reliability Assurance Agreement and/or to be designated as a Network Resource under Part III. Capacity Resources also may participate in Reliability Pricing Model Auctions and in Ancillary Services markets pursuant to the PJM Tariff or the Operating Agreement. Capacity Resource status is based on providing sufficient transmission capability to ensure deliverability of generator output to the aggregate PJM Network Load and to satisfy the contingency criteria in the Applicable Standards. Specific tests performed during the Generation Interconnection Feasibility Study and later System Impact Study will identify those upgrades required to satisfy the contingency criteria applicable at the generator's location.

RAA, sec. 1 Capacity Resources Capacity Resources shall mean megawatts of (i) net capacity from Existing Generation Capacity Resources or Planned Generation Capacity Resources meeting the requirements of Schedules 9 and 10 that are or will be owned by or contracted to a Party and that are or will be committed to satisfy that Party's obligations under this agreement, or to satisfy the reliability requirements of the PJM Region, for a Delivery Year; (ii) net capacity from Existing Generation Capacity Resources or Planned Generation Capacity Resources not owned or contracted for by a Party which are accredited to the PJM Region pursuant to the procedures set forth in Schedules 9 and 10; and (iii) load reduction capability provided by Demand Resources or Energy Efficiency Resources that are accredited to the PJM Region pursuant to the procedures set forth in Schedule 6.

Tariff, sec. 1 Energy Resource:

A generating facility that is not a Capacity Resource.

Tariff, sec. 1 Capacity Interconnection Rights:

The rights to input generation as a Generation Capacity Resource into the Transmission System at the Point of Interconnection where the generating facilities connect to the Transmission System.

RAA, sec. 1 Existing Generation Capacity Resource:

“Existing Generation Capacity Resource” shall mean, for purposes of the must-offer requirement and mitigation of offers for any RPM Auction for a Delivery Year, a Generation Capacity Resource that, as of the date on which bidding commences for such auction: (a) is in service; or (b) is not yet in service, but has cleared any RPM Auction for any prior Delivery Year. A Generation Capacity Resource shall be deemed to be in service if interconnection service has ever commenced (for resources located in the PJM Region), or if it is physically and electrically interconnected to an external Control Area and is in full commercial operation (for resources not located in the PJM Region). The additional megawatts of a Generation Capacity Resource that is being, or has been, modified to increase the number of megawatts of available installed capacity thereof shall not be deemed to be an Existing Generation Capacity Resource until such time as those megawatts (a) are in service; or (b) are not yet in service, but have cleared any RPM Auction for any prior Delivery Year.