

Capacity Transfer Rights in RPM

Problem / Opportunity Statement

Within the context of PJM's current Reliability Pricing Model ("RPM"), capacity market congestion revenues occur when there is a difference between clearing prices paid by load for capacity and the market revenue received by cleared capacity market resources.

Capacity Transfer Rights ("CTRs") return such RPM congestion revenues to load serving entities ("LSEs"). Across a constrained Locational Delivery Area ("LDA") or zone, CTRs permit LSEs to receive a credit for the importation of capacity from a lower-priced region such as the RTO LDA to the constrained LDA.

PJM allocates CTR transfer capability amongst LSEs in the Capacity Emergency Transfer Objective/Capacity Emergency Transfer Limit ("CETO/CETL") calculation. The MW-quantity of allocable CTRs are equal to the capacity, in UCAP terms, imported into the LDA, based on the results of the Base Residual Auction ("BRA") and Incremental Auctions, less any MW of CETL paid for directly by market participants in the form of Qualifying Transmission Upgrades ("QTUs") and Incremental CTRs ("ICTRs") cleared in an RPM Auction¹

Under current PJM rules, an LSE with CTRs is entitled to a payment or charge equal to the Locational Price Adder multiplied by the MW of the LSEs' CTR. PJM rules allocate CTRs *pro-rata* to each LSE serving load in the LDA or zone based on the LSE's share of the zonal UCAP Obligation.

PJM's current capacity market rules do not have a mechanism to allocate CTRs to an LSE that correspond to the network load identified in a LSE's Network Integration Transmission Service Agreement ("NITSA"). An LSE's NITSA includes Network Resources deemed deliverable to an LSE's Network Load inside the constrained LDA, but PJM's RPM rules do not award the LSE a corresponding MW-quantity of CTRs. This mismatch exposes LSEs serving load in a constrained LDA to price-separation between resources that are deemed, in the NITSA, deliverable to load inside the constrained LDA, but do not receive a commensurate MW-allocation of CTRs in RPM settlements.

Related issues include the 2014 IMEA Problem Statement/Issue Charge (Capacity Transfer Rights For Entities with Firm Transmission Rights to Serve Network Load in a Constrained Locational Deliverability Area)² and MISO's Historical Unit Considerations filing approved by FERC in 2018.

¹ There are two types of ICTRs; ICTRs associated with funding a transmission facility or upgrade and those associated with an "Incremental Rights Eligible Required Transmission Enhancement".

² <https://pjm.com/-/media/committees-groups/committees/mic/20150108/20150108-item-04b-capacity-transfer-rights-problem-statement.ashx>