



## Incremental Auction Senior Task Force

This Charter describes the objectives (mission) and responsibilities of this stakeholder group to complete the specific scope of work assigned by the Markets and Reliability Committee (MRC).

### Mission

This stakeholder group is chartered with completing a stakeholder process to recommend one or more proposed solution(s) for consideration to resolve the following issues:

- Incremental Auction Process
- Replacement Capacity

### Responsibilities

Specifically, this stakeholder group will conduct the following key work activities and produce the stated deliverables as described in the Issue Charge(s):

#### 1. Incremental Auction Process

The Problem Statement was brought forward by Direct Energy and approved by the MRC on November 17, 2016. The group is chartered with completing a stakeholder process to recommend one or more proposed solution(s) for consideration to resolve the following issues:

- PJM RPM Incremental Auction process and structure
- Excess capacity sale and Incremental Auction practices
- PJM participation in Incremental Auctions

#### Key Work Activities

1. Review PJM RPM Incremental Auction process and structure with specific focus on circumstances where PJM is a capacity seller. The review should look at the general structure of the RPM Incremental Auctions including but not limited to the number of incremental auctions, timing of incremental auctions, and PJM participation in incremental auctions. Nothing is intended to modify the rules regarding offers made by individual market sellers.
2. Review historic results of Incremental Auctions with specific focus on the impact of PJM capacity sales.
3. Review reliability value of excess capacity based on tail risk operational events or other drivers, as well as other benefits of retaining excess capacity.
4. Discuss the development of regularly reported metrics to reflect the profitability of buying back BRA capacity commitments in IAs.

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5. Review the excess capacity sale and Incremental Auction (or equivalent construct) practices of other RTOs/ISOs.
6. Discuss whether modifications are required to PJM Incremental Auction processes in consideration of items 1-5.

***Out of Scope Work Activities***

1. The proposed application of additional standards required for resources to offer in RPM Auctions.

~~2. Modification of replacement transaction business rules.~~

~~3-2. Modification of the peak load forecast methodology.~~

***Expected Deliverables***

- Review feasibility of implementing potential solutions
- If needed and as appropriate, revisions to PJM Tariff Attachment DD – Reliability Pricing Model, Capacity Market Manual

***Expected Duration of Work***

- The work on this issue is expected to be completed within 6 to 9 months.

**2. Replacement Capacity**

The Problem Statement was brought forward by NRG and approved by the MRC on March 23, 2017. The problem statement asserts there is potential for the purchase of replacement capacity to be priced lower than the applicable clearing price of the Base Residual Auction and provides a powerful profit motive that may encourage some market participants to take unneeded risks that may jeopardize reliability.

**Key Work Activities**

1. Educate stakeholders on the problems caused by speculative offers and buy-backs in capacity markets.
2. Identify and define parameters around what is considered to be a speculative behavior.
3. Educate stakeholders on the uses of replacement transactions and, if necessary, identify options for treatment of capacity that must be replaced.
4. Review current requirements and identify appropriate standards for resources to be deemed physical prior to the BRA. Identify changes, if necessary, to rules which determine eligibility to offer into the BRA.
5. Identify opportunities to streamline the replacement process.
6. Develop appropriate tariff revisions and manual revisions, if necessary, to implement preferable option.

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Comment [SMK1]: Removed due to endorsement of Replacement Capacity Problem Statement at March MRC.

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## Charter - DRAFT

### Expected Deliverables

- Possible Tariff, RAA and/or manual changes

### Expected Duration of Work

- The goal is to complete work and make recommendations to the MRC by the January 2018 MRC meeting.

### **Administration**

Group name: Incremental Auction Senior Task Force (IASTF)

Parent committee: Markets and Reliability Committee (MRC)

Facilitator/Chair: Brian Chmielewski

Secretary: Susan Kenney

Webpage: <http://www.pjm.com/committees-and-groups/task-forces/iastrf.aspx>

Meeting frequency: Approximately twice a month

- The Incremental Auction Senior Task Force (IASTF) shall base its activities by the rules and protocols found in the PJM Stakeholder Process Manual (M- 34).
- The group will accomplish the scope of work identified above, and only that work.
- Approval from the parent Standing Committee will be sought before engaging in any activity outside this scope.
- The group will periodically report progress on its chartered scope of work to its parent committee, the MRC.
- Meeting minutes and all meeting materials will be published on the PJM web site.
- The group will prepare a final report (the Consensus Proposal Report or Proposal Alternatives Report, whichever is applicable). This report will constitute its recommendation to the parent Standing Committee to resolve the issue.
- Membership in the group is open and will be identified by volunteerism. Group members are not required to sign a confidentiality agreement or non-disclosure agreement.

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