

Capacity Market Enhancements – ELCC Accreditation Methodology

Issue Source

This Issue Charge is presented by LS Power, [OTHERS]

Issue Content

The accreditation methodology enacted under ER24-99 and subsequently described by PJM through additional education sessions changed the long-term incentives investors previously faced under the prior accreditation methodology. Moving to the marginal ELCC accreditation methodology from the EFORd methodology previously used by PJM for dispatchable resources, dulled the market signals that investors can respond to through capital investment and business practice modification. While the marginal ELCC approach to more closely align the value of capacity with the performance of resources during critical periods is a necessary step in the evolution of the capacity market, an unintended consequence of the new methodology is uncertainty about what investors can do to improve unit resource accreditation or efficiently invest in resources that will improve overall resource adequacy.

As the PJM region faces challenges with unexpectedly robust load growth and faster than expected resource retirements, it is becoming increasingly important that the incentives investors are facing align with the pressing need to maintain resource adequacy. With sustained investment needed in new and existing resources in relatively short order to maintain reliability, an examination of the incentives that are facing current and new assets in the capacity market because of the marginal ELCC accreditation methodology is timely. Because of that pressing need, many methodological choices in implementing the ELCC design require immediate review to align the incentives they create with the system's long-term needs. Those include:

1. The use of the historical look-back period that extends to 2012 for unit performance and 1994 for historical load and weather patterns.
2. The unit-specific performance adjustment methodology and the use of a class-based ELCC approach vs. unit-specific ELCC accreditation with consideration of the pros and cons of each.
3. The accreditation of new resources using their respective class average values.
4. The use of transmission system headroom in calculating ELCC accreditations.

Key Work Activities and Scope

1. Education and comparison of PJM's historical look-back period and alternate historical periods / methodologies used by other RTOs/ISOs as part of their accreditation analyses.
2. Development of key design principles / criteria for accreditation assessments that promote efficient capital investment in the PJM markets.
3. Identification and review of potential other methodologies and input assumptions for accrediting resources under the marginal ELCC methodology that improve long-term investment signals.
4. Education and scenario analysis of proposed solutions using alternative methodologies and/or input assumptions that can be performed using PJM's marginal ELCC model, have sufficient stakeholder support and can be completed within the relevant timeframe.
5. Develop proposal package(s) for vote, as appropriate, based on the above analysis, discussion, and findings.

Out of Scope

- Changes to capacity accreditation that do not fit within the marginal ELCC framework recently approved by the Commission in Docket No. ER24-99 (i.e. proposals for accreditation methodologies alternative to marginal ELCC are not within the scope of this issue charge).
- Changes that require a sub-annual market.

Expected Deliverables

1. Education and analysis as needed concerning items identified in the scope of work.
2. Proposed solution(s), partial acceptable if appropriate, and corresponding revisions to PJM's governing documents and manuals, as appropriate.

Decision-Making Method

Tier 1, consensus (unanimity) on a single proposal (preferred default option).

Stakeholder Group Assignment

This issue will be considered in a newly formed ELCC Senior Task Force.

Expected Duration of Work Timeline

This effort should be completed to support any necessary FERC filing by the end of Q1, 2025..

| Start Date | Priority Level | Timing | Meeting Frequency |
|-----------------------------|---|--|---|
| Click here to enter a date. | <input checked="" type="checkbox"/> High <input type="checkbox"/> Medium <input type="checkbox"/> Low | <input checked="" type="checkbox"/> Immediate <input type="checkbox"/> Near Term <input type="checkbox"/> Far Term | <input type="checkbox"/> Weekly <input type="checkbox"/> Monthly <input type="checkbox"/> Quarterly |

Charter

(check one box)

| | |
|-------------------------------------|--|
| <input checked="" type="checkbox"/> | This document will serve as the Charter for a new group created by its approval. |
| <input type="checkbox"/> | This work will be handled in an existing group with its own Charter (and applicable amendments). |