



Overview of Compensation Mechanisms and Cost Allocation for Reliability Must Run (RMR) Units

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November 9, 2023

- PJM's rules governing compensation for RMR units arose from a complaint proceeding involving price caps for facilities in areas subject to chronic transmission constraints (EL03-236)
 - FERC denied the complaint but directed PJM to clarify its retirement policy
- In a Nov. 2004 compliance filing, PJM added Tariff, Part V to govern deactivations, including, among other things:
 - Compensation mechanisms for RMR units
 - Rules to allocate costs incurred to compensate owners of RMR units
- FERC accepted Part V in a January 2005 order (110 FERC ¶ 61,053)
 - The compensation mechanisms and cost allocation accepted in the January 2005 order are still effective today

- Tariff, Part V provides two (2) mechanisms by which a generator can seek to recover its costs as an RMR unit:
 - Sections 114 and 115. Deactivation Avoidable Cost Credit (DACCC) and Rate (DACR)
 - Section 119. Cost of Service Rate

- Section 114 DACC is determined per the following formula:

$$DACC = ((Deactivation Avoidable Cost Rate (DACR) + Applicable Adder) * MW capability of the unit * Number of days in the month) - Actual Net Revenues$$

- The Market Monitoring Unit (MMU) and generator owner must attempt to agree on the appropriate level of each component in the DACC
- If generator owner includes a cost component inconsistent with MMU's determination, MMU may petition FERC for an order requiring generator owner to include an appropriate cost component

- Section 115. DACR is determined per the following formula:
 - $DACR = ((AOML + AAE + AME + AVE + ATFI + ACC + ACLE) / 12) + APIR$
 - The avoidable cost components include: *O&M Labor, Administrative Expenses, Maintenance Expenses, Variable Expenses, Taxes, Fees & Insurance, Carrying Charges, Corporate Level Expenses and Avoidable Project Investment Recovery Rate*
 - $APIR = Project\ Investment / Number\ of\ Months\ beyond\ Deactivation\ Date$
- DACR is filed with FERC as an informational filing, along with applicable cost support and an officer certification attesting to the accuracy of the DACR

- PI recovered through APIR may not commence before the in-service date of the PI
- PI shall not exceed the actual amount of PI and in no event shall not exceed \$2 million*
- Avoidable expenses are incremental expenses directly required for the operation of RMR unit that generator owner would not incur if unit deactivated on its deactivation date
- All inquiries regarding avoidable expenses are directed to MMU
- In determining DACR, avoidable expenses shall exclude variable costs recoverable under cost-based offers to sell energy from operating capacity on the Interchange Energy Market

- Section 119. Generator may file a cost of service rate with FERC to recover the entire cost of operating the generating unit until such as the generating unit is deactivated
 - Most Generator Owners seek cost of service rates
 - Such rates are filed per Federal Power Act section 205
 - Generally, such filings are negotiated before an Administrative Law Judge via extensive settlement proceedings and result in a Settlement Agreement between the settling parties.

- Section 120. Part V costs incurred to compensate the RMR unit is an additional transmission charge allocated to the load in the Zone(s) of the Transmission Owner(s) designated financial responsibility for the reliability upgrades resulting from the generator deactivation
 - Such charge is collected monthly from such load(s) in addition to all other charges for transmission service to such loads
- Costs for the transmission upgrades needed to address reliability violations as a result of the generator deactivation are allocated consistent with Schedule 12 reliability cost allocation methodologies set forth in section (b)(i) and (ii)(A)

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**Overview of Compensation Mechanisms and Cost
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