

Exclusion of 10% Adder

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- While the 10% adder has been referred to as a “default mitigation” tool in Order No. 697 and elsewhere, and is also intended to reduce risks related to uncertainty, it is also designed to provide a reasonable rate of return to resources, as evidence by Order No. 697:
- “Although a number of commenters suggest that the Commission should adopt a different default cost-based ratemaking methodology for sales of one week or less, they have failed to persuade us that the existing default rate is inappropriate. As the Commission has previously stated, **an incremental cost rate that allows a fair recovery of the incremental cost of generating with a 10 percent adder to provide for a margin over incremental cost is reasonable. Incremental costs plus 10 percent represents a conservative proxy for a reasonable rate available in a competitive market.** On this basis, we find incremental cost plus 10 percent to be an appropriate default rate. Moreover, we allow sellers the opportunity to design, support, and propose other cost-based rates that they believe are more appropriate for their particular circumstances.” – P 621

- More importantly, the Order establishing the 206 proceeding, as well as the events that lead to it, demonstrate that the 10% is not appropriately within the scope of this proceeding.
- The Duke and ODEC situations were about Market Sellers not having the flexibility to update their offers to reflect their costs, not changing the manner in which those costs were calculated.
- This conclusion is supported by numerous statements in the Order establishing this proceeding:

- “While we deny Duke’s complaint, we have examined PJM’s OATT and Operating Agreement procedures and have concluded that aspects of PJM’s current tariffs may be unjust, unreasonable, unduly discriminatory or preferential because they **do not appear to allow market participants to submit day-ahead offers that vary by hour and do not appear to allow market participants to update their offers in real time, including during emergency situations.**” – P 69
- “As one example, PJM’s Operating Agreement and equivalent sections of OATT Attachment K-Appendix detail a number of obligations for Generation Capacity Resources, including the obligation to offer into the Day-ahead Energy Market, respond to PJM’s directives to start, shutdown or change output levels, and keep supply offers open throughout the operating day. However, PJM’s OATT and Operating Agreement do not appear to allow appropriate cost recovery for fulfilling those obligations in all circumstances. For example, in *NEPGA*, the Commission found that capacity generators in ISO-NE with generally the same obligations as those in PJM should be able **to update their supply offers in real time to reflect changes to their operating costs after the reoffer** . “–P 70
- Further, our review of the record established through the Commission’s recent technical conferences on price formation in organized energy and ancillary services markets demonstrates the importance of **supply offer flexibility** in day-ahead and real-time energy markets. In light of the potential for significant changes in costs between the time for submitting offers in the day-ahead market and real-time operation, ensuring market participants greater flexibility to structure and modify their offers in such markets will allow resources in PJM to better reflect their actual costs in their offers. . . [T]he ability to submit day-ahead offers that vary by hour and to update offers in real-time is especially critical in markets **with demands for more flexible and responsive generation resources.**
- “As noted above, we are concerned that PJM’s OATT and Operating Agreement do not provide adequate supply offer flexibility.”- P 72.

- ISO-NE, MISO and NYISO all have hourly offers, and each also includes the 10% adder in some form. For further information, see the following tariff revisions of each RTO/ISO:
 - ISO-NE: see section III.A.3.4. , Market Rule 1, Appendix A
 - MISO: see section 83.4.4.2 of Tariff
 - NYISO: see 23.3.1.2.3.3, Attachment H of Tariff

- The 10% adder is not an appropriate topic to be discussed in this proceeding, and PJM does not intend to address it.
- Concerns related to the appropriateness of the 10% may be directed to the Cost Development subcommittee.