



S&P 500	2,171	+25	+1.09%
GlobalDow	1,104	+13	+1.14%
Gold	1,965	+30	+1.53%
Oil	1,165	+18	+1.56%
	77.56	0.09	0.12%



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## **REVISED:** Modifications to RPM to Accommodate State Public Policy Initiatives

August 2-3, 2017 PJM CAPPSTF



# Perspective

- RPM is an administrative resource adequacy construct
  - Not a market and actually is “threatened” by organic market events
- Understand and support the need for some type of construct for capacity
- But, we have strong empirical evidence RPM is not “working” in its current form
- Yet we continue to do the same thing (tweak the construct) and expect different results

# Perspective

“In theory there is no difference between theory and practice. In practice there is.”

# Perspective

- In practice, there are a lot more considerations and drivers for resource adequacy decisions than a one year price, three years in the future
- In practice, states are going to make decisions from their perspective of what is best for their voters
- In practice, there are successful markets that have no need to control the actions of its participants
- In practice, the capacity market is much bigger than the construct PJM has created
- In practice, resource decisions and consumer choice will drive even more changes that will not “fit”

# Result

- Simpler construct
- Accommodates state policy decisions (Merriam-Webster)
  - to provide with something desired, needed, or suited
  - to make room for
  - to hold without crowding or inconvenience
- Reflects the reality of our “market”
- Control the things we can, accept the things we can't, and have the wisdom to know the difference

# Long-term, Bilateral Contracts in RPM

- Current construct does not incent long-term bilateral transactions
  - Buyer and seller expectations are not aligned
- We believe this is because Suppliers have an alternative to a long-term bilateral via an administratively determined result that could be higher for the short-term and has the hope of continued modification to ensure price is maintained
- Need to stop focusing on administratively determined price and let a market actually handle that component

# Changes to Proposal since the July 18 Meeting

- Calendar (timing) for the BRA
- Removal of LSE penalty

# Proposal

- **RPM Components Unchanged from Current Construct**

- Unit performance (CP) and penalties remains the same for resources that receive a capacity obligation from the PJM auction
- Unit specific procurement
- No economic withholding
- RTO reliability requirement (IRM process)
- Locational
- Demand Response Participation
- Determination of CONE and Net CONE for reference unit

# Proposal

- **Modified Design Components**

- Capacity Procurement Term: Equal to or greater than 1 year
  - Procurement via self-supply or bilateral contract
- Replacement of the Base Residual Auction conducted three years prior to the delivery year with a regional and constrained (if and as determined by PJM) Backstop Residual Auction (BRA) held **one year** before the delivery year
  - Would negate need for multiple, if any, incremental auctions
    - Existing design has been subject to discussion for possible revisions multiple times, including within the current IASTF
  - Could negate need for MOPR due to timing of auction and the delivery year for which the auction is conducted
    - New supply would require bilateral contracts to enter market preventing manipulation of the BRA clearing price
    - Much uncertainty about current MOPR, including comments by former FERC Chairman N. Bay

# Proposal

- **Other Possible Feature – For CCPPSTF Discussion:**
  - Transition: Implement new process for 2021/22 Delivery Year
    - BRA's already conducted for DY 2018/19, 2019/20, and 2020/21
  - Potential alternative to the VRR Curve
    - Depending on design, modify IRM?

# Proposal

- **Example Calendar:**
- PJM determination of LSE local and regional capacity obligations 17 months before the delivery year (January 1 of the year before the start of the DY on June 1)
  - IRM determined by PJM by January 1 the year before the start of Delivery Year
    - Example: January 1, 2018 for Delivery Year 2019/20 (June 1, 2019 – May 31, 2020)
  - PJM identifies any location constraints and LDAs by February 1
    - LSEs within constrained LDA's cannot exceed their pro rata share of capacity from within that LDA
  - Next year of need is DY 2021/22 (June 1 – May 31)
  - February 2020: [One year out] Planning Parameters for May 2020 BRA
  - May 2020: Backstop Residual Auction for DY 2021/22

# Proposal

- These modifications will enable RPM to meet its primary reliability responsibility by ensuring adequate resources to meet the 1 in 10 year reliability target, as well as address locational capacity delivery issues
- The Backstop Residual Auction (BRA) will provide the necessary last resort for uncommitted supply and load with remaining obligations
- Transparency and price discovery will be maintained via the BRA, the IMM compilation of masked bilateral costs and durations, as well as PJM's triannual determination of relevant reference units
- Market power concerns will be addressed via a continuation of the must offer requirement for supply and for areas that fail the TPS Test market mitigation for resources participating in the BRA.
- States will be able to pursue any public policy initiative with resources that meet PJM established performance requirements

# Proposal

- Still evolving
- Need feedback
- Suggested improvements