

RPM – Prospective Capacity Resource Incentives

[AMENDED]

Offered by Exelon

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Problem / Opportunity Statement

PJM stakeholders should consider Reliability Pricing Model design modifications to assure that resource commitments obtained in an RPM auction (esp. the Base Residual Auction) will result in the physical delivery of capacity during the relevant delivery year. Some Members are concerned that in an environment of significant generation retirements and increased reliance upon prospective resources to meet resource adequacy targets, the current design encourages market participants to offer and clear prospective capacity resources in a Base Residual Auction with little recourse for failure to develop the prospective resource into a dispatchable physical resource for the delivery year, if needed. Such incentives undermine the goal of RPM and hinder its purpose.

Moreover, some Members believe that the current market design provides insufficient oversight of cleared, prospective resources to assure that development is on course. Current RPM rules provide minimal milestones for prospective resources that typically fail to assess the development of such resources until very close to expected delivery. Further, current rules provide no express authority for PJM to dismiss a speculative resource that is not or cannot be developed into physical capacity resource by the delivery year.

According to PJM, the RPM Capacity Market is designed to ensure the adequate availability of necessary resources that can be called upon to ensure the reliability of the grid. The goal of RPM is to align capacity pricing with system reliability requirements on a sufficiently forward basis to permit an actionable physical response to the reliability needs of the system through the use of competition. Stakeholder examination of the issues presented should be aimed at sustaining these purpose and goal.

PJM and its stakeholders should immediately review and address the policy considerations and market rules described below to improve the RPM market design prior to the May 2014 Base Residual Auction. The scope of the anticipated work includes both broad policy considerations as well specific market rule examinations.

Matters for consideration include:

- Reasons for prospective or “planned” resources either to purchase replacement capacity via Incremental Auctions or failure to deliver resources committed in a Base Residual Auction
- Current rules for the administration of Incremental Auctions and the opportunity for prospective resources to purchase replacement capacity in the Incremental Auctions to cover prior capacity commitments
- Capacity deficiency penalties for committed prospective resources that fail to deliver a physical resource in the relevant delivery year
- Credit requirements for prospective resources
- Milestones for assessing the progress of prospective resource development, including a comparative assessment of best practices from other RTOs
- PJM authority for removing or barring resources that fail to meet development milestones

Objective

The objective of this Problem Statement is to initiate PJM stakeholder assessment of the vitality of RPM in achieving its goal to align capacity pricing with system reliability requirements and to provide transparent

information to all market participants far enough in advance for actionable response to the information, consistent with the PJM Regional Transmission Expansion Planning Process (RTEPP). Such assessment must consider whether the current market design unreliable and inequitably promotes prospective resources by providing low-risk opportunities for financial gain inconsistent with PJM's resource adequacy requirements without sufficient assurance of physical delivery.

Timeliness

The matter should be addressed and resolved by November 2013 to assure that required tariff and manual revisions are approved prior to the 2017/18 RPM BRA.

Magnitude and Impacts

Some stakeholders believe that the current market design and rules provide insufficient assurance that resource adequacy targets will be met in the delivery year. Some resource developers have insufficient motivation to ultimately commit physical resources in the delivery year when low-risk options exist to purchase replacement capacity in Incremental Auctions or to default on their capacity obligation. Moreover, PJM has insufficient tools to track the development of prospective resources from the time of commitment through the delivery year.

While current reserve margins appear healthy, resource adequacy could be threatened if material volumes of prospective resources are not developed between the time of commitment and the delivery year. In each of the two most recent RPM Base Residual Auctions, PJM has cleared over 20 GW of prospective resources (i.e., planned generation, imported generation without firm transmission, undesignated demand response). If prospective resources are not developed consistent with PJM resource adequacy projections then PJM could have less committed capacity than its target reserve margin in future delivery years. Under extreme stress, if none of the prospective resources materialized, then PJM could have insufficient resources to meet forecasted peak load. Importantly, under the current rule set, PJM will not fully recognize whether or not there will be sufficient resources to meet the reliability requirements until after the 3rd Incremental Auction results have posted approximately 90 days to delivery.