UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Independent Market Monitor for PJM	)	
v.	)	**Docket No. EL19-47-000**
PJM Interconnection, L.L.C.	)	
Office of the People's Counsel	)	**Docket No. EL19-63-000**
for District of Columbia	)	
Delaware Division of the Public Advocate	)	**Not Consolidated**
Citizens Utility Board	)	
Indiana Office of Utility Consumer Counselor	)	
Maryland Office of People's Counsel	)	
Pennsylvania Office of Consumer Advocate	)	
West Virginia Consumer Advocate Division	)	
PJM Industrial Customer Coalition	)	
v.	)	
PJM Interconnection, L.L.C.	)	

INITIAL BRIEF OF PJM INTERCONNECTION, L.L.C.

Pursuant to the Federal Energy Regulatory Commission's ("Commission") March 18, 2021 Order,[1] PJM Interconnection, L.L.C. ("PJM") submits this filing to propose a replacement rate for the default Market Seller Offer Cap ("MSOC").[2] Specifically, PJM is proposing to replace the existing MSOC calculation, which currently utilizes an estimated number of Performance Assessment Intervals ("PAIs"), with an alternative MSOC that is based on a reasonable estimate of the competitive clearing price for the relevant Base Residual Auction ("BRA").

As further explained below, PJM's proposed alternative default MSOC meets three primary objectives that the Commission recently considered in setting the default MSOC in ISO

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[1] *Independent Market Monitor for PJM v. PJM Interconnection, L.L.C., et al.*, 174 FERC ¶ 61,212 (2021) ("March 18 Order").

[2] For the purpose of this filing, capitalized terms not defined herein shall have the meaning as contained in the PJM Open Access Transmission Tariff, Amended and Restated Operating Agreement of PJM Interconnection, L.L.C., or the Reliability Assurance Agreement Among Load Serving Entities in the PJM Region.

New England.[3] First, the proposed MSOC reflects a value that is at a level that is below today's offer cap and which works to guard against the potential exercise of supply-side market power. Second, this proposed replacement will reduce unnecessary administrative interference and ease the significant burden to PJM and Capacity Market Sellers that would result from significantly increasing the number of unit specific reviews. Third, the proposed MSOC utilizes a transparent methodology with publicly available inputs to provide all Market Participants the benefit of having informed expectations of the MSOC well in advance of the actual BRA.

I. BACKGROUND

PJM's existing default MSOC calculation is intended to reflect the opportunity cost that a resource faces when choosing whether to become a committed Capacity Resource. Specifically, an uncommitted resource can earn Performance Bonus Payments on all energy and operating reserves it provides during Performance Assessment Intervals, or PAIs. By contrast, a committed Capacity Resource only earns Performance Bonus Payments on any energy and operating reserves it provides during Performance Assessment Intervals in excess of the Balancing Ratio times its committed capacity, and that bonus revenue is netted against any applicable Non-Performance Charges. Thus, the opportunity cost for a committed Capacity Resource under PJM's Capacity Performance construct is the expected reduction in Performance Bonus Payments and/or increased Non-Performance Charges that a committed Capacity Resource would experience compared with uncommitted resources.

It is this opportunity cost that the current default MSOC was originally designed to reflect as an estimate of a competitive offer. In other words, the Non-Performance Charge rate and the expected number of Performance Assessment Intervals were designed to be components of the

[3] *See ISO New England Inc., et al.*, 174 FERC ¶ 61,162 (2021).

default MSOC used to estimate the competitive cost of offering a resource into the Reliability Pricing Model ("RPM") Auction. While the underlying theory of this existing default MSOC is sound, it is difficult in practice to accurately estimate the expected number of PAIs three years in advance for purposes of the default MSOC calculation.

To that end, PJM acknowledges there have been fewer actual PAIs than anticipated when the Capacity Performance rules were first implemented. Specifically, since the underlying complaints were filed in 2019, there was one Pre-Emergency Load Management Reduction Action that was declared on October 2, 2019 in the Dominion, Potomac Electric Power, Baltimore Gas and Electric, and American Electric Power ("AEP") Zones to address capacity concerns and to manage transmission constraints. This action resulted in a total of 21 PAIs for all Zones mentioned above from 14:00-15:45, and an additional 3 PAIs for the AEP Zone from 15:45-16:00.[4]

While some parties have advocated the use of different estimated number of PAIs for the Non-Performance Charge rate and that used in the MSOC calculation, PJM has consistently maintained that the default MSOC should not use different expected numbers of PAIs for the Non-Performance Charge and that used in the MSOC calculation.[5] This is because the estimated number of PAIs is part of the current design of both the Non-Performance Charge rate and default MSOC; the use of two different estimates to represent the same parameter would not be reasonable.

II. PROPOSED REPLACEMENT DEFAULT MARKET SELLER OFFER CAP

Given the Commission's finding in the March 18 Order, PJM proposes to amend the existing default MSOC methodology by adopting an alternative approach that does not require estimating the number of annual expected PAIs. Adopting an alternative default MSOC

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[4] PJM provided detailed analysis on this event in its November 25, 2020 informational filing. *See PJM Interconnection, L.L.C.*, Informational filing on the use of 30 hours as the number of Performance Assessment Hours, Dockets Nos. ER15-623-000 and EL15-29-000 (Nov. 25, 2020).

[5] *See PJM Interconnection, L.L.C.*, PJM Answer to IMM Protest at 16, Docket No. ER19-511-001 (Apr. 9, 2019).

methodology is appropriate at this juncture given the difficulty of estimating an expected number of PAIs three years in advance.[6] Specifically, there are numerous variables, ranging from extreme weather to transmission outages, that can affect when and how long a PAI may be declared. Besides the inherent challenges of accurately estimating the expected annual number of PAIs, various Capacity Market Sellers may have different expectations of that estimate and therefore value risk, and the associated opportunity cost, differently. These considerations are particularly pronounced given that a relatively small change in the estimated number of PAIs can result in significant differences to the resulting opportunity cost represented by the default MSOC.

Furthermore, any changes to the expected number of PAIs must consider the impact to the Non-Performance Charge Rate. If the expected PAIs drop significantly, it may result in unduly high penalty rates that are considered beyond the amount needed to incentivize performance, thereby creating unnecessary and excessive risk for Capacity Market Sellers. Also, lowering the expected PAIs increases the speed at which a poor performing resource can hit its annual stop-loss, which is equal to 1.5 times the net Cost of New Entry ("Net CONE").[7] This is another factor to consider as resources have less financial incentive to perform once they arrive at the stop-loss but may still be needed for reliability.

Based on the aforementioned impediments, PJM believes an alternative MSOC is warranted, at least as an interim measure, to avoid refining and further attempting to estimate an expected number of future PAIs for purposes of the default MSOC calculation. PJM may seek to revise this alternative default MSOC as other aspects of PJM's capacity market, such as the triggers

[6] PJM acknowledges that the existing Non-Performance Charge rate currently assumes 360 PAIs annually and intends to review and explore potential revisions to the existing Non-Performance Charge rate with stakeholders in a timely and phased manner. Since this proceeding, and PJM's proposal, is focused on an alternative default MSOC that does not take into account the Non-Performance Charge rate, changes to the assumed number of PAIs in the Non-Performance Charge rate is outside the scope of this proceeding.

[7] *See* Tariff, Attachment DD, section 10A(f).

for PAIs and the Non-Performance Charge rate, are further reviewed and potentially enhanced in the near future as part of the capacity market reforms PJM has committed to exploring with stakeholders.[8] Given that the risk of incurring Non-Performance Charges is a non-trivial component in the development of competitive capacity market offers, it will be necessary to re-evaluate the default MSOC for compatibility with any proposed enhancements to the performance assessment rules and potentially propose additional enhancements to the default MSOC as needed.

PJM recognizes that this proposed alternative MSOC is different than narrowly attempting to estimate the expected number of PAIs and notes that in a Section 206 proceeding, the Commission's authority to craft a remedy is at its zenith.[9] Given the Commission's findings that the existing MSOC is unjust and unreasonable, the Commission should craft a remedy such as PJM's proposal below, which parallels a similar mechanism that the Commission recently approved for ISO-New England. This alternative approach to the MSOC will cease to embroil the Commission in making judgments on the expected number of PAIs, which could be vulnerable on appeal. For this reason, PJM believes that its proposed solution is warranted, at least as an interim solution, while other capacity market reforms are being considered.

A. *PJM's Proposed Alternative MSOC Methodology Utilizes Publicly Available Information and is Transparent to All Market Participants.*

PJM proposes to adopt an alternative MSOC that is designed to reflect a reasonable estimate of the competitive clearing price for the relevant RPM Auction in place of the existing default MSOC calculation. A competitive clearing price can be appropriately used as the default MSOC because it represents a competitive market price, which naturally accounts for market-

[8] *See* April 6, 2021 PJM Board Letter, available at: https://www.pjm.com/-/media/about-pjm/who-we-are/publicdisclosures/20210406-board-letter-regarding-capacity-market-minimum-offer-price-rule-and-initiation-of-thecritical-issue-fast-path-process.ashx

[9] *Pub. Utils. Comm'n of Cal. v. FERC*, 988 F.2d 154, 163 (D.C. Cir. 1993) (quoting *Towns of Concord, Norwood, & Wellesley v. FERC*, 955 F.2d 67, 76 (D.C. Cir. 1992)).

based opportunity costs that the existing MSOC was originally designed to capture. In addition, a Capacity Market Seller could only exert market power (*i.e.*, raise the auction clearing price above its competitive level) if its costs are at or below the competitive auction's clearing price but attempts to offer above the competitive auction clearing price. By contrast, Capacity Market Sellers that submit a Sell Offer below the competitive auction clearing price cannot increase the clearing price even if the offer is higher than the resource's true costs because the offer remains inframarginal. In such cases, it is unnecessary and administratively burdensome to review the true costs of the unit by virtue of the fact that such Sell Offers would not have an adverse impact on the auction outcomes so no market power can be exerted in those scenarios.

To calculate the alternative MSOC,[10] PJM proposes to adopt a default MSOC that is largely based on the approach that ISO New England Inc. developed, and the Commission recently accepted,[11] for calculating the Dynamic De-List Bid threshold.[12] Under this approach, an initial estimated competitive clearing price for the next BRA is calculated based on three publicly-available inputs: (1) the total quantity of capacity that cleared in the last BRA, (2) the capacity clearing price in the last BRA, and (3) the projected change in demand for the next BRA. The general concept underlying this method is to utilize actual market conditions (based on the last BRA results) in estimating the intersection of supply and demand curve for the following BRA, considering the projected change in demand and assuming that the market supply curve will have an upward slope. This is accomplished by first taking the total cleared quantity of committed

[10] PJM proposes to apply this approach and calculate separate default MSOCs for the RTO, as well as the three global LDAs (MAAC, EMAAC, and SWMAAC).
[11] *See ISO New England Inc., et al.*, 174 FERC ¶ 61,162 (2021).
[12] *See ISO New England Inc.et al.,* ISO New England Inc.'s Market Rule 1 Change to Implement New Methodology for Calculating Forward Capacity Market Dynamic De-List Bid Threshold, Docket No. ER21-782-000 (Dec. 31, 2020).

Capacity Resources from the last BRA results and determining the corresponding clearing price associated with such quantity on the Variable Resource Requirement curve for the next BRA.

This is appropriate because both the direction and magnitude of the change in the next auction's clearing price can be expected to relate directly to the change in auction demand from year-to-year. Thus, when demand decreases, it is reasonable to expect the competitive clearing price to decrease, and vice versa. In addition, the magnitude of the expected change in the auction-clearing price should relate to how significantly the auction demand changes from year-to-year. More particularly, when demand increases significantly, the market clearing quantity and competitive clearing price is also expected to increase significantly. However, when demand increases modestly, the expected increases in the market clearing quantity and competitive clearing price would be comparatively smaller.

After obtaining the price at which the prior quantity clears on the updated Variable Resource Requirement curve, the preliminary default MSOC is calculated by taking a simple average of (1) the most recent BRA auction clearing price and (2) the price at which the last RPM Auction's total cleared supply quantity intersects with the estimated RTO Variable Resource Requirement demand curve for the next BRA.[13] This simple average is appropriate as it produces an estimate of the change in the next BRA clearing price that is consistent with an upward sloping supply curve, rather than a horizontal or vertical supply curve. Further, this simple average of the two input prices further reflect that total amount of capacity acquired in the BRA will be responsive to changes in the capacity demand curve.[14]

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[13] PJM's proposed approach here is nearly identical to the one that the Commission recently accepted in the context of ISO New England's dynamic de-list bid threshold. *Id.*

[14] While PJM acknowledges that changes in the supply curve may also be a key driver of the expected market clearing prices, factoring in expectations of changing supply conditions would require PJM to speculate future supplier bidding behavior and may not be accurately predicted. Further, such an approach would require utilizing non-public supplier bidding information which would not be public or transparent. As a result, the use of updated

Finally, PJM also proposes to apply the same maximum ceiling and minimum floor for the default MSOC that was recently adopted in ISO New England. Specifically, the ceiling for the default MSOC will be equal to 75% of Net CONE while the default MSOC floor would be equal to 75% of the last BRA clearing price. These maximum and minimum limits help address the concern that the simple averaging approach may overstate the change in the competitive clearing price when there is a significant change in the auction demand. In addition, a maximum of 75% Net CONE is appropriate because PJM's demand curve slope is steeper above 75% Net CONE (between point 1 and point 2 of the demand curve).[15] Generally, as the supply and demand curves become steeper, the price impact of withholding supply increases. This is because a steeper demand curve indicates that if a supplier does not sell capacity (and as a result, the total cleared capacity decreases), then the increase in the clearing price will be greater. Thus, setting the maximum MSOC equal to 75% of Net CONE serves to reduce the likelihood that the offer cap is set above competitive clearing price and to prevent the exercise of market power when the risk is greatest. Conversely, the minimum limit applies to prevent the MSOC value from decreasing to less than 75 percent of the last BRA clearing price. This limit is relevant when there is a significant year-to-year reduction in demand. During such conditions where prices are generally expected to be lower and supply and demand curves become flatter, Capacity Market Sellers may be less likely to be in a position to exercise market power, and the effects of the exercise of market power would be less severe than under other market conditions.

The Commission recently accepted a similar methodology for ISO New England and agreed that updating the default MSOC "for each annual auction based on the most recently

demand conditions alone provides a reasonable estimate of changing conditions upon which to base the expected market clearing price.

[15] *See* Tariff, Attachment DD, section 5.10(a)(i).

available supply conditions and the most up-to-date projected demand conditions will allow each [default MSOC] value to reasonably indicate which suppliers" offers should be evaluated by the [Market Monitor]."[16] The Commission also found taking the simple average of the two prices by "using readily-available inputs in the [MSOC] formula will improve transparency."[17] Ultimately, the Commission explained that this approach "produce[s] a value that reasonably balances the objectives of protecting against the exercise of market power and minimizing interference with competitive bidding . . . ."[18] Finally, the Commission also accepted the minimum and maximum bounds because, *inter alia*, "there is a large amount of capacity with low (or zero) going forward costs such that the supply curve will be flatter at lower capacity prices . . . [and] the incentive for suppliers to exercise market power at times of capacity surplus is reduced due to the demand curve becoming flatter as the price decreases."[19] The same rationale and justification equally applies for adopting this methodology in setting the default MSOC for PJM's RPM Auctions.

B. PJM's Proposed Alternative MSOC Does Not Result in Over Mitigation

This proposed replacement MSOC is just and reasonable resulting in an appropriate default offer cap that avoids the pitfall of unnecessary mitigation. PJM emphasizes that the risk of setting the default MSOC too low is not merely an administrative burden on Capacity Market Sellers to seek unit-specific offer cap values. Rather, the risk of the default MSOC being set too low results in over-mitigation and suppressed market clearing prices. In particular, while a unit-specific MSOC review generally approximates the true costs of a resource based on supporting documentation, it is possible that the unit-specific review produces a less accurate measure of the resource's true costs to supply capacity. This is especially true given that the unit-specific review

[16] *See ISO New England Inc., et al.*, 174 FERC ¶ 61,162, at P 18 (2021).
[17] *Id.*
[18] *Id*. at P 19.
[19] *Id.*

process includes certain inputs that may be relatively more difficult to quantify such as the risk of non-performance penalties for a committed Capacity Resource. This is because every Capacity Market Seller has different risk tolerances and factors in such risks differently. It is not efficient and is likely inaccurate for PJM and/or the Market Monitor to administratively determine the quantifiable risk that should be allowed for individual Capacity Market Sellers using rigid standards. Moreover, any of these determinations could well be challenged at the Commission and be vulnerable on appeal given the potential subjectivity of the determinations.

Moreover, the unit-specific review process can also result in an inaccurate unit-specific cost calculation given that financial inputs submitted during the unit-specific review process may become stale by the time of the actual RPM Auction. That is because the unit-specific MSOC deadline is four months prior to the conduct of the relevant RPM Auction. This advanced deadline, while necessary, may inhibit a Capacity Market Seller's ability to incorporate any updated resource-specific cost information developed after its unit-specific MSOC price is finalized because the Tariff requires PJM to make a final determination of the unit-specific MSOC level no later than 65 days prior to the conduct of the RPM Auction.[20] As a result, PJM would not be able to change the unit-specific MSOC level after this deadline, which effectively means that a Capacity Market Seller may not be unable to amend the unit-specific MSOC price to incorporate changed market conditions at the time of the auction that may affect the cost of a capacity obligation. Such examples have the real potential of limiting Capacity Market Sellers to submit Sell Offers at a price lower than the resource's true costs, even in scenarios where the Capacity Market Seller in question could not exercise market power.

[20] Tariff, Attachment DD, section 6.4(b).

In addition to the aforementioned concerns with over-reliance on the unit-specific MSOC reviews, Capacity Market Sellers may not be able to come to a timely agreement prior to the relevant auction with the Market Monitor and PJM on the appropriate level of the offer cap values given the potential volume of unit-specific offer cap reviews. This could effectively result in requiring Capacity Market Sellers to use a lower default MSOC simply because no resolution of the unit-specific offer cap could be reached prior to the relevant capacity market auction despite the fact that their actual costs may be greater. Such potential outcomes clearly demonstrates that the risk of setting a default MSOC too low is not merely an administrative burden on Capacity Market Sellers.

Lastly, the process of developing and analyzing the unit-specific cost information is time consuming (and therefore costly) both for the Capacity Market Seller as well as PJM. While the mitigation review and its associated costs are necessary when there is a concern that market power could be exercised, it is better to avoid these costs when appropriate, especially when a supplier's bid price is unlikely to reflect the exercise of market power. For these reasons, it would not be just or reasonable to remove a market-wide default MSOC and require all Capacity Market Sellers that fail the three pivotal supplier test to obtain a unit-specific offer cap as that would effectively require over a thousand unit-specific reviews given the total number of resources in PJM today.[21]

C. The Market Monitor's Proposed MSOC Will Result in Over Mitigation

PJM estimates that the Market Monitor's proposed approach[22] of using a default net Avoidable Cost Rate would result in hundreds of unit-specific MSOC reviews annually given the

[21] It is noted that every Capacity Market Seller fails the market structure test (also known as the Three Pivotal Supplier Test) in PJM so requiring a unit-specific review of any Market Seller that fails the test would effectively mean all resources would be subject to a unit-specific MSOC.
[22] *See PJM Interconnection*, Brief of the Independent Market Monitor for PJM, Docket Nos. EL19-47 and EL19-63 (Apr. 28, 2021).

low values associated with each resource type. This is because the default gross Avoidable Cost Rates for the different technology classes,[23] which do not include consideration of Capacity Performance risk, will likely result in a Net ACR of zero or very close to zero for most technology classes and resources. Based on historical RPM Auction clearing prices, such a default MSOC would clearly and unnecessarily increase administrative interference to competitive bidding in the auctions.

While the Market Monitor may have previously reviewed significant numbers of unit-specific requests prior to the implementation of the Capacity Performance construct, there are now other components of the unit-specific MSOC review such as avoidable fuel availability expenses and capacity resource quantifiable risk that were not previously included prior to the implementation of Capacity Performance. These additional components requires additional scrutiny of the unit-specific review process, particularly the risk component, which is inherently more subjective and may potentially result in increased disagreements and ultimately litigation at the Commission. The potential for additional disagreement is further increased given that the recently revised net energy and ancillary services methodology now requires a forward looking offset and allows Capacity Market Sellers to provide their own estimate of the projected market revenues.[24] Given these changes since the implementation of Capacity Performance, a unit-specific MSOC review for hundreds of units will likely be administratively more challenging and, ultimately, burden the Commission with resolving various disagreements that may arise.

By contrast, PJM's proposed approach appropriately "balances the objectives of protecting against the exercise of market power and minimizing interference with competitive bidding,"[25]

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[23] *See* Tariff, Attachment DD, section 5.14(h-1).
[24] *See* Tariff, Attachment DD, section 6.8(d).
[25] *See ISO New England Inc. et al.*, 174 FERC ¶ 61,162, at P 19 (2021).

which the Commission recently acknowledged in accepting ISO New England's offer cap approach. More particularly, as evidenced in the below table, PJM's proposed approach produces a default MSOC that is generally much closer to the actual clearing price based on historical BRA clearing price results. This effectively means that a significantly greater number of offers than there are today will likely need to be reviewed on a unit-specific basis to guard against the exercise of market power under the revised MSOC approach. At the same time, unlike the Market Monitor's proposal, this approach minimizes the administrative interference to competitive bidding in the BRA as it will not result in all or a majority of offers to be subject to a unit-specific MSOC review.[26]

Auction	RTO Clearing Price	Actual Offer Cap Net CONE x B	% Difference from Clearing Price	New Offer Cap under Proposed Method	% Difference from Clearing Price
18/19 BRA	$165	$239	+45%	$140	-15%
19/20 BRA	$100	$226	+126%	$139	+39%
20/21 BRA	$77	$215	+179%	$75	-2%
21/22 BRA	$140	$238	+70%	$94	-33%
22/23 BRA	-	$192	-	$105	-
Average Absolute % Difference			105%		22%

Note 1: RTO clearing price reflects Capacity Performance prices in 18/19 and 19/20

Note 2: Actual Offer Cap values reflect the default offer caps that were in place for the RTO

D. The Market Monitor Has Clear and Existing Authority to review All Offers that Raise Market Power Concerns.

Notwithstanding the foregoing, PJM maintains that the Market Monitor is able to review offers that are below the default MSOC given that the Market Monitor has clear authority to review all Sell Offers that it believes raises market power concerns pursuant to Tariff, Attachment M,

[26] Although the default MSOC values under the Market Monitor's approach are not shown in this table (they are technology specific and dependent on unit-specific E&AS offsets), the resulting default net ACR values would be zero or very close to zero for most technologies and resources, showing a significantly negative percentage difference from the actual competitive clearing prices. Therefore, the Market Monitor's proposed approach does not provide an appropriate balance of protecting against the exercise of market power and minimizing interference with competitive bidding.

section IV(E-1). In particular, the Tariff explicitly provides that "[d]eterminations about market power are the responsibility of the Market Monitoring Unit."[27] The Tariff further states that the Market Monitor "shall review all proposed sell offers for a determination of whether they raise market power concerns . . . [and] shall determine whether the level of offer or cost inputs raises market power concerns."[28] Thus, the Market Monitor is able to, and should, review any Sell Offer that raises market power concerns to proactively mitigate market power and prevent economic withholding, regardless of the default MSOC value.

To facilitate the Market Monitor's responsibility of overseeing potential market power concerns, the language in Tariff, Attachment DD, section 6.7(a) requires all Capacity Market Sellers that intend to offer at or below the default MSOC to provide the associated offer cap and the MW to which the offer cap applies no later than 120 days prior to the conduct of an RPM Auction. In addition, Market Sellers are also required to provide a list of owned or controlled generation resources by PJM transmission zone for the specified Delivery Year, including the amount of gross capacity, the EFORd and the net capacity 120 days prior to each RPM Auction.[29] Taken together, these provisions allow the Market Monitor ample time to review and ensure that Capacity Market Sellers' intended Sell Offers are based on legitimate costs, unit-specific performance, and system parameters. If the Market Monitor suspects that a Capacity Market Seller may potentially exercise market power, it may request additional documentation or information to further examine the intended Sell Offers.[30] Based on these provisions, the Market Monitor has

[27] Tariff, Attachment M, section IV(E-1).
[28] *Id*.
[29] Tariff, Attachment DD, section 6.7(a).
[30] Tariff, Attachment M, section V(B)(1) provides: "If the Market Monitoring Unit determines that additional information is required to accomplish the objectives of the Plan, the Market Monitoring Unit may make reasonable requests of the entities possessing such information to provide the information."

ample time to review and, if necessary, refer a Capacity Market Seller that is believed to be at risk of exercising market power to the Commission *prior* to the conduct of the relevant RPM Auction.

E. PJM's Proposed Alternative MSOC Does Not Require Changes to the Existing Unit-Specific MSOC.

Under PJM's proposed alternative default MSOC, revisions to the existing unit-specific MSOC review process[31] are generally not necessary. That is because the existing unit-specific review reasonably captures most categories of costs that a Capacity Market Seller may seek to include in a capacity offer. However, there is one component of the existing rules that may require modification to ensure all costs are appropriately captured. Specifically, the calculation for the unit-specific Avoidable Cost Rate currently includes Capacity Performance Quantifiable Risk, which allows Capacity Market Sellers to include quantifiable and reasonably supportable costs of mitigating the risks of non-performance associated with submission of a Capacity Performance Resource offer.[32] To ensure that Capacity Market Sellers are given the opportunity to include all relevant risk costs in calculating a unit-specific Avoidable Cost Rate, the Capacity Performance Quantifiable Risk should also allow for the inclusion of other risks beyond the non-performance charges for committed Capacity Resources. For example, Market Sellers may also wish to factor in other risks such as high fuel cost hours associated with being required to participate in the Day-ahead and Real-time Energy Markets as well as unforeseen and significant changes in the underlying costs between the time of the RPM Auction and the actual Delivery Year just to name a few. Thus, amending the Capacity Performance Quantifiable Risk to account for all sources of risks, in addition to non-performance penalty, is appropriate to ensure that Market Seller can properly include all potential risk costs in a unit-specific MOSC review.

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[31] Tariff, Attachment DD, section 6.8(a).
[32] *Id.*

F. The Commission Should Expedite a Final Order on the Market Seller Offer Cap Replacement to Avoid Further Delay of the December Base Residual Auction Associated with the 2023/2024 Delivery Year.

The BRA associated with the 2023/2024 Delivery Year was originally scheduled to be conducted in May of 2020. However, this auction has been delayed by one and a half years to address other aspects of RPM relating to the floor price. As a result, the BRA associated with the 2023/2024 Delivery Year is now currently scheduled to begin in December of 2021. Under this already delayed auction schedule, the deadline for Capacity Market Sellers to request a unit-specific MSOC review is currently August 3, 2021. The reason that Capacity Market Sellers must seek a unit-specific MSOC review at least 120 days prior to the conduct of the auction is two-fold. First, it provides PJM and the Market Monitor with some time to review the unit-specific requests and seek additional information if necessary. Second, it provides time for Capacity Market Sellers to raise any disagreements on the unit-specific determinations with the Commission prior to the conduct of the RPM Auction.

To maintain the current auction schedule and existing deadline for the unit-specific MSOC reviews, a Commission order with no ambiguity of the replacement default MSOC calculation is needed by July 2, 2021. This is necessary so that PJM can post the default MSOC value and allow any Capacity Market Sellers that may wish to seek a unit-specific MSOC review with sufficient time to prepare the unit-specific submission in advance of the deadline. PJM acknowledges that it may be unlikely to receive a final Commission order accepting a compliance filing with the replacement default MSOC by July 2, 2021. However, the Commission could direct PJM to submit compliance based on exact redline Tariff language for the replacement default MSOC provided by the Commission in issuing the order prior to the July 2, 2021 date. In this way, PJM and Capacity Market Sellers can proceed with the unit-specific review process knowing what the replacement MSOC will be in advance of the unit-specific submission deadline.

III. CONCLUSION

For the reasons provided herein, the Commission should expeditiously adopt PJM's proposed alternative default MSOC methodology.

Respectfully submitted,

/s/ Chenchao Lu

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On behalf of
PJM Interconnection, L.L.C.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Audubon, PA this 3rd day of May 2021.

/s/ Chenchao Lu
Chenchao Lu