



Capital Recovery Factor for Avoidable Project Investment Cost Determinations

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- A Capital Recovery Factor (“CRF”) is used to calculate the Avoidable Project Investment Rate (“APIR”) as a component of the Net Avoidable Cost Rate (“ACR”) of a resource
- The Net ACR of a given resource sets the Market Seller Offer Cap as well as the MOPR Floor Offer Price of the resource depending on which is applicable to the resource
- Section 6.8(a), Attachment DD of the PJM Tariff, provides a table of CRF values applicable to resources seeking a resource-specific Market Seller Offer Cap or a resource-specific MOPR Floor Offer Price

- The table of CRF values of section 6.8(a), Attachment DD of the PJM Tariff, were established as part of the PJM Tariff in 2007
- On 12/3/2020, the PJM IMM posted a statement with concern that these CRF values do not reflect current federal tax law
- PJM understands IMM concern but also appreciates the need for stakeholder input before making changes to the tariff, including changes to resolve the IMM concern

- PJM proposes to address this as part of the Quick Fix process, which is outlined in Manual 34, Section 8.6.1
- PJM requests that the MIC simultaneously approve the issue charge and the proposed tariff revisions at the 2/10/20 meeting
 - Expected Deliverables: Revision to Section 6.8(a), Attachment DD of the PJM Tariff
 - Decision Making Method: Tier 1 (consensus)
 - Stakeholder Group Assignment: MIC

- PJM proposes to update the values of the CRF table of section 6.8(a), Attachment DD of the PJM Tariff to reflect the tax rates and depreciation provisions of current federal tax law
- Updated CRF values proposed to be effective with the 2023/2024 BRA
 - Concern that seeking an earlier effective date could lead to further delays of an already-delayed 2022/2023 BRA auction with relevant deadlines for 2022/2023 BRA fast-approaching in January 2021
 - PJM agrees with the IMM's expectation that offers including APIR in Net ACR values are unlikely to impact near term auction results thereby alleviating concerns of not updating for 2022/2023 BRA
- Updated CRF values are shown on table of slide 7

- PJM proposes to review the CRF values of section 6.8(a) on a going-forward basis on a schedule consistent with the quadrennial review of key auction parameters
 - CRF values are impacted by the same financial input assumptions that are reviewed as part of each quadrennial review process; CRFs are calculated using a standard financial model that incorporates the weighted average cost of capital and its components, including the rate of return on equity and the interest rate on debt and the capital structure, in addition to depreciation and taxes
 - The next quadrennial review is scheduled to commence in 2021 with any recommended changes that result from the review to be made effective with the 2026/2027 Delivery Year
- Proposal also permits PJM to review and file updated CRF values outside of the quadrennial review cycle if appropriate



Proposed Updates to CRF Values of Attachment DD, section 6.8(a) of PJM OATT

Age of Unit	Remaining Life of Plant	Delivery Years Up to and Including 2022/23	2023/24 Delivery Year	2024/25 Delivery Year	2025/26 Delivery Year
1 to 5	30	0.107	0.087	0.091	0.095
6 to 10	25	0.114	0.092	0.096	0.100
11 to 15	20	0.125	0.101	0.105	0.110
16 to 20	15	0.146	0.116	0.121	0.126
21 to 25	10	0.198	0.151	0.158	0.165
25 Plus	5	0.363	0.259	0.273	0.286
Mandatory CapEx	4	0.450	0.314	0.331	0.349
40 Plus Alternative	1	1.1	1.1	1.1	1.1

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