Capital Recovery Factor for Avoidable Project Investment Rate Determinations

Problem / Opportunity Statement

As specified in section 6.8(a), Attachment DD of the PJM Tariff, 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 that is seeking a resource-specific Market Seller Offer Cap or a resource-specific MOPR Floor Offer Price. 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. This section of the PJM Tariff includes a table with a unique CRF value specified for each of eight different assumed capital recovery periods.

CRFs are calculated for recovery years periods of 1, 4, 5, 10, 15, 20, 25, and 30 years, using a standard financial model and assumptions of the following components: (i) capital structure and cost of capital, (ii) debt interest rate, (iii) state income tax rate, and (iv) federal income tax and depreciation rates. The CRF values of the table of section 6.8(a) of Attachment DD were established as part of the PJM Tariff in 2007 and therefore, most significantly, do not reflect the current federal tax laws that were enacted in 2017.

The CRF values of the table of section 6.8(a) of Attachment DD of PJM stakeholders need updating to reflect current federal tax laws. In addition, the current approach of "hardwiring" these values into the tariff is problematic as it does not allow for a timely update of the values should federal tax laws change in the future.