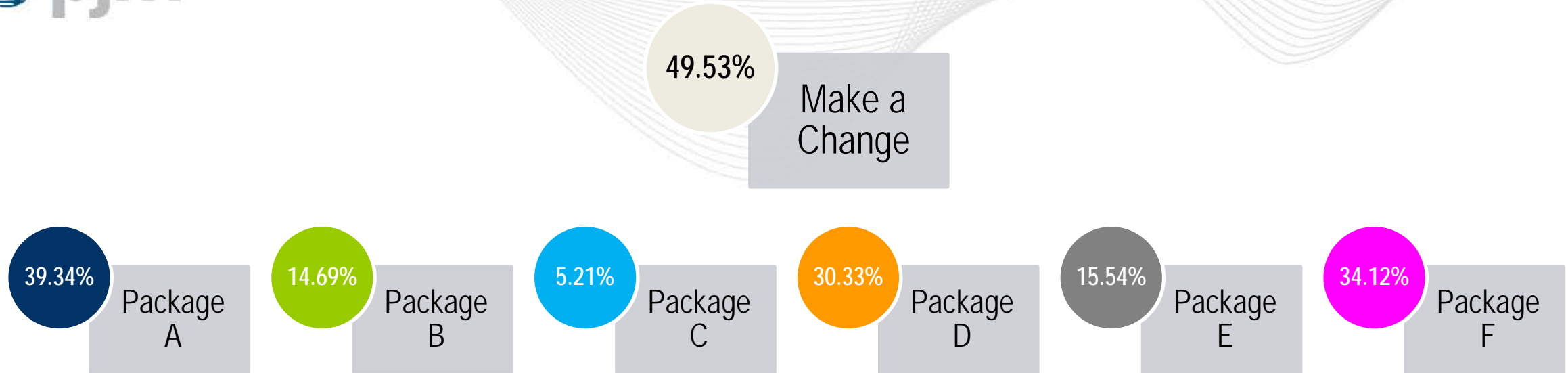


Incremental Auction Senior Task Force RPM Incremental Auction PJM Sales

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Markets & Reliability Committee

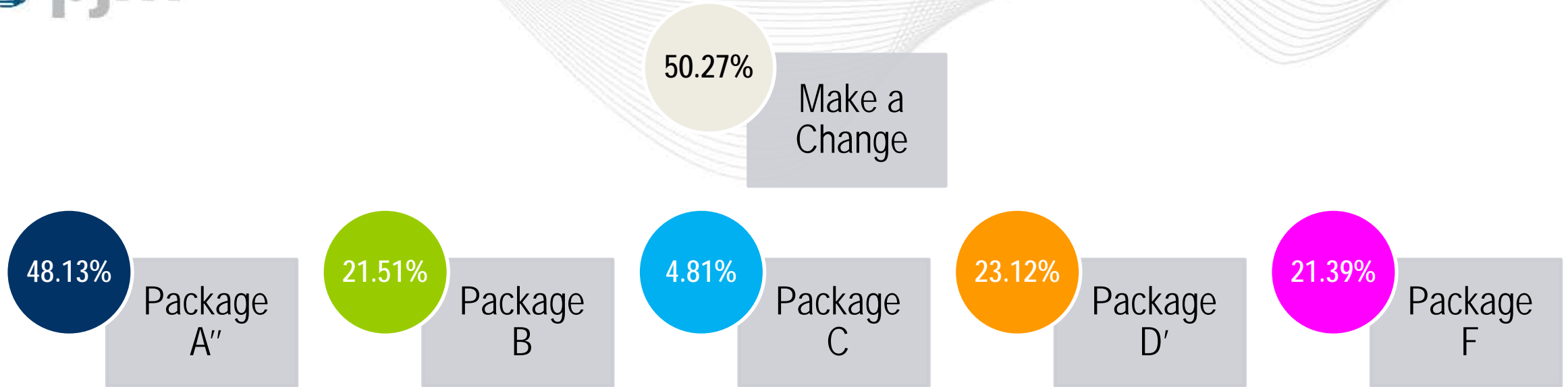


- [RPM Incremental Auction PJM Sales](#) approved in November 2016
 - Address historically low Incremental Auction (IA) prices through an investigation of PJM excess capacity sale practices, IA timing and structure.
- Key discussion areas:
 - Number & timing of IAs
 - PJM Sell Offer – Price & Quantity
 - Allocation of Excess Commitment Credits (ECCs)



- No package received majority support; (narrow) majority prefer status quo
- Major points of contention included:
 - Elimination of ECCs (Packages A,B)
 - PJM Sell price equal to BRA MCP (Packages A,B,F)
 - Number of Incremental Auctions – 2 (Packages A,B,F) Vs. 3 (C,D,E)
 - Implementation timing

- Continue discussions on potential modifications to the PJM Sell Offer Price, Excess Commitment Credit allocation and implementation timing
- Continue discussions on Replacement Capacity Transactions
 - Independent problem statement #2
- Three additional meetings were held to finalize compromise proposals
 - Five total, two new – A'' and D'



- No package received majority support; (narrow) majority prefer a change to status quo
- Major points of contention remained:
 - Elimination of ECCs – packages A'' and D' attempted compromise via altering allocation methodology through "BRA excusal"
- Package A'' needed 7 additional "Yes" votes to achieve 50%

Component	Status Quo	PJM Modification	PJM Reasoning
<p>Number of Incremental Auctions</p>	<p>Three IAs: 1st IA conducted 20 months prior to DY 2nd IA conducted 10 months prior to DY 3rd IA conducted 3 months prior to DY</p>	<p>Two IAs: 1st IA conducted 20 months prior to DY Final IA conducted 3 months prior to DY</p>	<p>Reduces opportunity for BRA seller to “shop” for cheapest possible replacement of a BRA commitment lowering chances to attempt buy out of a BRA commitment at a profit over multiple IAs. Such opportunity undermines a BRA seller’s incentive to only submit offers for resources having reasonable certainty of physical delivery.</p> <p>Reducing to two IAs strikes balance between encouraging BRA sell offers having reasonable certainty of physical delivery while still providing adequate opportunity for a BRA seller to cure a physical inability to satisfy a BRA commitment.</p>

Component	Status Quo	PJM Modification	PJM Reasoning
<p>PJM Sell Offer Price</p>	<p>Updated VRR Curve Decrement: upward sloping offer curve with starting price determined based on intersection point of updated VRR curve and vertical line at current commitment level</p>	<p>The entire MW quantity that PJM attempts to release in a Final IA will be offered at the BRA RCP.</p>	<p>A BRA seller that replaces a BRA commitment is excused of all performance obligations it committed to provide by clearing in the BRA avoiding the costs associated with commitment deficiency and/or non-performance assessment charges. A PJM sell offer of excess capacity at the BRA RCP effectively equally "excuses" PJM Load from paying the resource that cleared the BRA but that is now excused of the BRA commitment obligations.</p> <p>A PJM sell offer price set to the BRA RCP recognizes the proper value provided by retaining, rather than releasing "excess" capacity. A BRA seller that procures replacement capacity at the BRA RCP avoids costs that can greatly exceed the BRA RCP. If BRA seller is unwilling to pay the BRA RCP then PJM Dispatch and PJM Load is better served by retaining the commitment which provides benefits that can exceed the BRA RCP.</p> <p>A PJM sell offer price at the BRA RCP eliminates the ability for a BRA seller to profit from a PJM release of "excess" capacity striking appropriate balance between the need to encourage BRA sell offers having reasonable certainty of physical delivery and providing appropriate return to load.</p>

Component	Status Quo	PJM Modification	PJM Reasoning
<p>Excess Commitment Credits for un-cleared PJM Sell Offer MWs</p>	<p>Un-cleared PJM sell Offer MWs are allocated to LSEs as Excess Commitment Credits. Excess Commitment Credit MWs may be used to replace resource commitments.</p>	<p>After the Final IA and up to the commencement of the delivery year, BRA sellers may request to be excused of all or a portion of a capacity resource's BRA commitment in a total MW quantity not to exceed the un-cleared PJM sell offer MW quantity of the final IA. . The total relinquished dollar value of all accepted BRA commitment excusals will be allocated as a separate RPM-related billing line item to PJM load each day of the delivery year based on each LSE's pro-rata share of the total RTO UCAP obligation.</p>	<p>Eliminates following negative attributes of status-quo:</p> <p>The status-quo is equivalent to releasing "excess" capacity commitment at a price below the BRA RCP thereby providing incentive for a BRA seller to avoid meaningful participation as a buyer in the final IA to instead hold out for a better deal in the form of ECC MWs. Status-quo creates a means to by-pass final IA participation undermining the value provided to all load of releasing excess capacity in the IA at no less than the BRA RCP.</p> <p>The status-quo provides value or benefit only to those LSEs that use the allocated ECC MWs to replace the BRA commitment of a resource owned by the LSE or LSE affiliate, or those LSEs that are able to find a buyer for the allocated ECC MWs.</p>

- Next meeting scheduled for December 18th
 - Discuss potential of a replacement capacity proposal
- Report back to the MRC December 21st
 - Vote on package A'' – proposed implementation time DY 21/22 and beyond
- Work plan is scheduled through the early Q1 2018