

Black Start Capital Recovery Rate Changes

Presented to the PJM Operating Committee

September 6, 2020



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Key Discussion Points



- Presentation offered on behalf of “Black Start resource owners” because specific unit identities are considered Confidential Energy Infrastructure Information (“CEII”)
 - Protects confidentiality and avoids unwanted disclosure of CEII data that could compromise security of the grid
- Proposed changes to Black Start capital recovery rate should ***only*** apply prospectively
 - Prospective application avoids unnecessary litigation over retroactive ratemaking concerns
 - August 2020 IMM presentation materially overstates rate impacts achievable through FERC litigation or settlement
 - Meaningful risk that retroactive application could raise Black Start service costs if current awardees terminate agreements and are replaced by more expensive units

Overview of PJM Black Start Capital Recovery Rate Construct



- **Only** two pathways Black Start resources to return of and on incremental capital investment
 - Formula rate in OATT Schedule 6A
 - FERC approval of alternate rate structure
- **“Black-box”** CRF values in OATT Schedule 6A Paragraph 18 establish both return on capital and duration of black start service commitment
 - Approved by FERC in 2009 without additional cost support
 - No information on components of CRF inputs are included in or drive the capital recovery rate rate
 - No secondary cite in PJM OATT or other governing documents indicating components of CRF inputs

Key Take-Away:

- **Mandatory** use of black-box CRF values in prior RFP bids without additional FERC FERC approval
- **No** ways identify CRF inputs in OATT, prior RFP bid documents, or applicable FERC filings
- PJM and IMM **confirmed** applicable CRF values during in prior RFP bid review and award selection
- Prior RFP award letters **restate** mandatory use of applicable CRF values in final rate approval

Retroactive Application of Proposed Changes to Prior RFP Awardees is Unreasonable



- 2018 Black Start RFP bid docs, FAQs and educational materials **confirm** mandatory use of black-box CRF values and commitment periods for units seeking compensation under OATT capital recovery rate
- 2018 RFP award letters to selected units **reconfirm** use of CRF values in OATT Schedule 6A
- October 2019 mandatory review of Black Start compensation methodology and inputs recommends **no changes** to CRF values
- April 2020 Problem Statement initiating Operating Committee process states, “units already awarded in recent Black Start RFPs **will continue with the commitment period and CRF rates.**”
- First notice of potential retroactive application provided at August 2020 Operating Committee **after** deadline for 2018 RFP awardees to complete construction of new facilities

Key Take-Away:

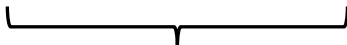
- Several awardees would not have participated in 2018 RFP had proposal been known at the time
- Terminating existing service agreements may create risk of higher costs to customers if more expensive units replace existing awardees
- Unnecessary litigation risk that could chill investment appetite in future Black Start resources

Retroactive Application to Prior Awardees Could Increase Black Start Service Costs



<u>Rate inputs</u>	<u>Units</u>	<u>PJM Current BSS</u>	<u>IMM Proposed</u>	<u>PJM Net CONE</u>	<u>ISO-NE Current BSS</u>
Term	Yrs	20	20	20	20
Debt	%	50.0%	50.0%	55.0%	60.0%
Equity	%	50.0%	50.0%	45.0%	40.0%
Debt Cost	%	7.0%	3.5%	6.0%	7.8%
Equity Costs	%	12.0%	12.0%	13.0%	13.4%
Fed. Income Tax	%	36.0%	21.0%	21.0%	21.0%
State Income. Tax	%	9.0%	9.0%	8.5%	8.0%
WACC	%	8.0%	7.3%	8.2%	10.1%
Black Start CRF	%	12.5%	8.5%	11.5%	12.0%

<u>IMM 20 Yr Proxy Investment =</u>	<u>21,000,000</u>	<u>PJM Current BSS</u>	<u>IMM Proposed</u>	<u>PJM Net CONE</u>	<u>ISO-NE Current BSS</u>
Annual Return		2,625,000	1,785,000	2,415,000	2,517,900
Delta to Status Quo		-	840,000	210,000	107,100



Key Take-Away:

- IMM analysis substantially overstates CRF impact to Black Start costs and ignores material risk of higher costs from replacing current awardees with more expensive units
- Litigation or settlement with impacted generators unlikely to produce results shown by IMM
- Prospective application only mitigates risk, maintains settled expectations, and optimizes overall value to PJM

- Proxies calculated with inputs recently approved by FERC
- ISO-NE 2018 update increased CRF despite tax changes and bonus depreciation