

Market Seller Offer Cap (MSOC) Reform

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PJM Perspective: Targeted reform to the MSOC is appropriate in the near-term to address design and process issues as soon as practicable for upcoming auctions

- Three general categories of stated issues / potential areas for reform:
 - Market design flaws of the unit-specific offer cap calculation
 - Process issues & challenges of unit-specific offer cap reviews
 - Default Market Seller Offer Cap
- Need to work through what set of targeted reforms are appropriate and feasible within the time period we have to implement for earlier auctions

RASTF Meetings – MSOC Work Plan

- **Feb. 4:** Solution Options
- **Feb. 28:** Solution Options / Packages
- **Mar. 14:** Packages / Vote (*new half-day*)
- **Mar. 24:** Final discussions, if needed

24/25 BRA
IMM Unit-Specific
E&AS Posting
July 2022

24/25 BRA
Unit-Specific Offer
Cap Reviews
Aug. – Oct. 2022

24/25 BRA
Offer Window
Dec. 2022



MRC & MC Meetings

- **Mar. 23:** MRC & MC First Read
- **Apr. 27:** MRC & MC Vote
- Next scheduled meetings are May 17 (MC) & May 25 (MRC)

FERC Filing & Order

- **By early May:** FERC 205 Filing
- **60 days for FERC review**



MSOC Solution Options

Solution Option: Allow market sellers to reflect marginal cost of capacity consistent with decision at hand (“mothball” vs. “retirement” vs. “energy-only”), and include relevant Capacity Performance opportunity costs and risks

- Today, offer caps calculated for existing generation based on Net Avoidable Cost Rate (“ACR”) formula
- Net ACR = ACR – Net E&AS Offset
 - **ACR:** Incremental expenses required to operate the unit that an owner would not incur if such unit did not operate in the Delivery Year, including Capacity Performance Quantifiable Risk (“CPQR”)
 - **Net E&AS Offset:** Projected profit from energy and ancillary services markets in the Delivery Year

Simple Net ACR Example (Mothball Decision)

| Generator X | |
|----------------------------|-------------|
| Capacity | 1 MW |
| ACR (mothball, incl. CPQR) | \$80 |
| Net E&AS Offset | \$50 |
| Net ACR | \$30 |

Dollars in \$/MW-day

Competitive offer when decision is to mothball the generator or not for the Delivery Year

If owner were to mothball the unit, they would:

- Save \$80 per MW-day in avoided expenses
- Lose \$50 per MW-day in potential E&AS profits
- Expect net savings of \$30 per MW-day absent any capacity revenues

The competitive offer reflects the minimum capacity payment needed for owner to make the economic decision to operate the unit and take on a capacity commitment for the year (\$30 per MW-day in this example)

Simple Example (Energy-only Decision)

| Generator X | |
|-------------------------------|-------------|
| Capacity | 1 MW |
| ACR (energy-only, incl. CPQR) | \$30 |
| Net E&AS Offset | - |
| CP Opportunity Costs | \$5 |
| Competitive Offer | \$35 |

Dollars in \$/MW-day

Competitive offer when expecting to operate the unit and decision is solely to take on a capacity commitment or not for the Delivery Year

If owner were to solely participate in the E&AS markets, they would:

- Save \$30 per MW-day in avoided expenses (note: less than costs avoided by mothballing)
- Expect no change in E&AS profits
- Receive \$5 per MW-day more in expected CP bonus payments

The competitive offer reflects the minimum capacity payment needed for owner to make the economic decision to take on a capacity commitment for the year (\$35 per MW-day)

Solution Options (Design comp. 6a, 6c, and 7: Process timing and approvals)

- Move IMM deadline to provide unit-specific E&AS offsets to 150 days prior to the auction for preliminary values & 135 days prior for final values
 - The current deadline of 90 days is after the deadline for market sellers to elect a unit-specific review (120 days prior)
- Shorten time between the IMM deadline to provide unit-specific offer caps & market seller's deadline to agree or disagree with caps from 10 days to 5 days
 - Provides an earlier indication to PJM of disagreements to increase the time to work with market sellers on those disagreements
- Change PJM determination from a simple accept or reject to allow for approval of alternative values based on review and discussions with market sellers

Solution Options (Design comp. 8: Transparency of models, methodology, etc.)

- Publish a document that further describes the calculation and inputs of the net E&AS offset values provided to market sellers
- Provide or allow market sellers to request details of the E&AS offset results to better understand the final number (e.g. run hours, total gross revenues, etc.)
- If rejecting a market seller's requested offer cap, provide the Gross ACR template that supports the IMM or PJM approved offer cap value

Solution Options (Design comp. 9 and 10: Guidance for Supporting Documentation)

- CPQR Guidance:
 - Publish a guidance document for market sellers that further details acceptable methods of supporting the costs of CP risk
 - Provide a standardized CPQR approach that sellers could opt-in to use, along with guidance on reasonable inputs into the model
- Fixed vs. Variable Cost Guidance:
 - Publish further guidance on how market sellers can provide reasonable support that the costs going into the ACR calculation do not include those allowable in energy market cost offers

Solution Options (Design comp. 11: Default MSOC methodology)

- Default MSOC based on average of prior three BRA clearing prices, discounted by some factor (e.g. 5 or 10 percent)
 - Could be determined for just the RTO or certain LDAs as well
- Other alternatives might include a default MSOC based on:
 - A design mirrored after ISO-NE's that considers auction results from the prior auction, along with expected changes in demand for the upcoming auction
 - CP opportunity costs that reflect expected bonus rates, hours of PAIs, etc.



Forward-Looking E&AS Offset

- FERC Remand Order on reserve pricing resulted in reverting back to an historical E&AS offset that will be used for the 23/24 BRA
 - FERC did not determine a forward-looking approach was unjust or unreasonable
- General consensus appears to largely support going back to a forward-looking E&AS offset methodology given its advantages over an historical approach
- PJM is interested in stakeholder feedback on how and when we switch back to the forward-looking approach

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RASTF KWA#9 Targeted Reform of MSOC



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