



Capacity Senior Task Force STATUS REPORT March 18, 2014

The Capacity Senior Task Force (CSTF) will analyze and evaluate PJM's capacity market as directed by the Markets and Reliability Committee. This status report documents progress made since last reported on the issue(s) charged to this PJM stakeholder group.

1. [RPM - Replacement Capacity](#) / [Prospective Capacity Resource Incentives](#)

A. Issue Description:

This issue concerns whether or not RPM rules should be changed to eliminate the unintended financial incentive identified by the IMM for participants to speculate or over-commit in the BRA, and then buy-out of their capacity commitments in the Incremental Auctions.

B. Issue Tracking Status:

Awaiting Implementation & FERC Approval

C. Target Completion:

March 15, 2014

D. Progress Update:

Mr. Baker presented proposed Tariff and Reliability Assurance Agreement revisions related to Replacement Capacity developed by the Capacity Senior Task Force (CSTF) at the February 27 MRC.

Mr. Bresler proposed a friendly amendment to extend the Replacement Capacity Adjustment Charge to Capacity Market Sellers that replace commitments *by any means, including bilateral transactions, intra-portfolio transactions and EFORD adjustments*. Several Members objected to this proposed amendment being friendly and therefore it was not incorporated into the main motion.

Mr. Scott presented an alternate proposed package solution on behalf of Old Dominion Electric Cooperative (Package #4 from the CSTF).

Mr. O'Connell (JP Morgan Alternative) moved and Mr. Fitch seconded an alternate proposal: the OATT revisions prepared for the main motion for replacement capacity, the RAA revisions prepared for the main motion for replacement capacity, the OATT revisions prepared for the alternate settlement adjustment language amended as follows:

- Modify Section 5.14(g), ii to delete the parenthetical (by any means)



- Append to the end of the first sentence after the word quantity, “provided that a Capacity Market Seller may satisfy any shortage in its portfolio with any excess from any Capacity Resource: (1) the Capacity Market Seller offered into the Base Residual Auction for that Delivery Year from its portfolio or (2) any Affiliated Capacity Market Seller offered into the Base Residual Auction for that Delivery Year from its portfolio without paying a Replacement Capacity Adjustment Charge”

Mr. Jennings moved and Mr. Horton seconded as an alternative motion (Duke Alternative) the originally proposed PJM amendment.

Following discussion, the main motion **failed** in a sector-weighted vote with 2.01 in favor.

The ODEC alternative motion **failed** in a sector-weighted vote with 2.69 in favor.

The JP Morgan alternative motion **failed** in a sector-weighted vote with 1.75 in favor.

The Duke alternative motion **failed** in a sector-weighted vote with 1.56 in favor.

Following the February 27 MRC meeting, the PJM Board met and voted to make a 205 filing to FERC including the Main motion with the PJM friendly amendment. The filing was made on Monday, March 10. A version correction for a tariff sheet that was filed on March 14, along with a request for a shortened notice period to align the correction up to the rest of the filing.

An response date of May 9 was requested from FERC.

E. Action Requested:

None. PJM will continue to keep the CSTF updated with progress.



2. CONE Triennial Review Process

A. Issue Description:

The FERC accepted Offer of Settlement and Settlement Agreement among PJM and numerous other settling parties in FERC Docket No. ER12-513-000 required that a stakeholder process be conducted to identify any desired changes in the CONE triennial review process in light of lessons learned from the most recent triennial review process. Stakeholders will assess the current effective Tariff's Handy-Whitman Index adjustment method for Gross CONE and any other desired changes in the CONE review process such as the use of forward looking Energy and Ancillary Service Offset in the determination of Net CONE, timing of the Triennial Review process, or changes in the determination of other input parameters that govern the determination of Gross CONE.

B. Issue Tracking Status:

Awaiting Senior Committee Approval

C. Target Completion:

March, 2014

D. Progress Update:

Mr. Baker presented a first read of the proposed Tariff and OA revisions related to the timing of the CONE periodic review at the February 27 MRC meeting. The committee will be asked to endorse the proposed revisions at its next meeting.

E. Action Requested:

Stakeholders will be asked to endorse the tariff changes at the MRC AND MC meetings on March 27.

3. Minimum Offer Price Rule (MOPR) – Unit Specific Review Process

B. Issue Description:

The recent FERC order on the PJM MOPR filing (docket ELR13-535) required PJM to retain the unit specific review process in the MOPR to allow resources to request alternative minimum offer prices based on detailed review of project-specific costs and revenues. The FERC order also suggested that PJM conduct a stakeholder process to consider revisions to the unit-specific review process to make it more standardized. In paragraph 114 the order states: "While PJM asserts that, under its existing procedures, estimating certain costs and revenues is difficult, PJM can submit a section 205 filing to remedy these asserted deficiencies. We encourage PJM and its stakeholders to consider, for example, whether the unit-specific review process would be more effective if PJM requires the use of common modeling assumptions



for establishing unit-specific offer floors while, at the same time, allowing sellers to provide support for objective, individual cost advantages. Moreover, we encourage PJM and its stakeholders to consider these modifications to the unit-specific review process together with possible enhancements to the calculation of Net CONE." PJM and the Independent Market Monitor (IMM) believe the current unit-specific review process is flawed, non-transparent and provides too much discretion to PJM and the IMM. The specific areas that PJM and the IMM believe should be addressed are:

- Consider changes to financial modeling assumptions to standardize them and make them more consistent with modeling assumptions utilized to establish NET CONE parameter. Areas to be considered include: Use of Nominal Levelized Gross CONE; Use of Residual Value; Exclusion of Sunk Costs; Calculation of Net Revenues; Historic vs. forecast revenue; First year vs. multiple year assumption; Calculation of Weight Average Cost of Capital (WACC); Asset Life
- Consider changes to the process to provide more transparency

B. Issue Tracking Status:

Solution Alternatives Proposed

C. Target Completion:

July, 2014

D. Progress Update:

Stakeholders are currently reviewing 4 packages, and working towards concensus.

E. Action Requested:

None.

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