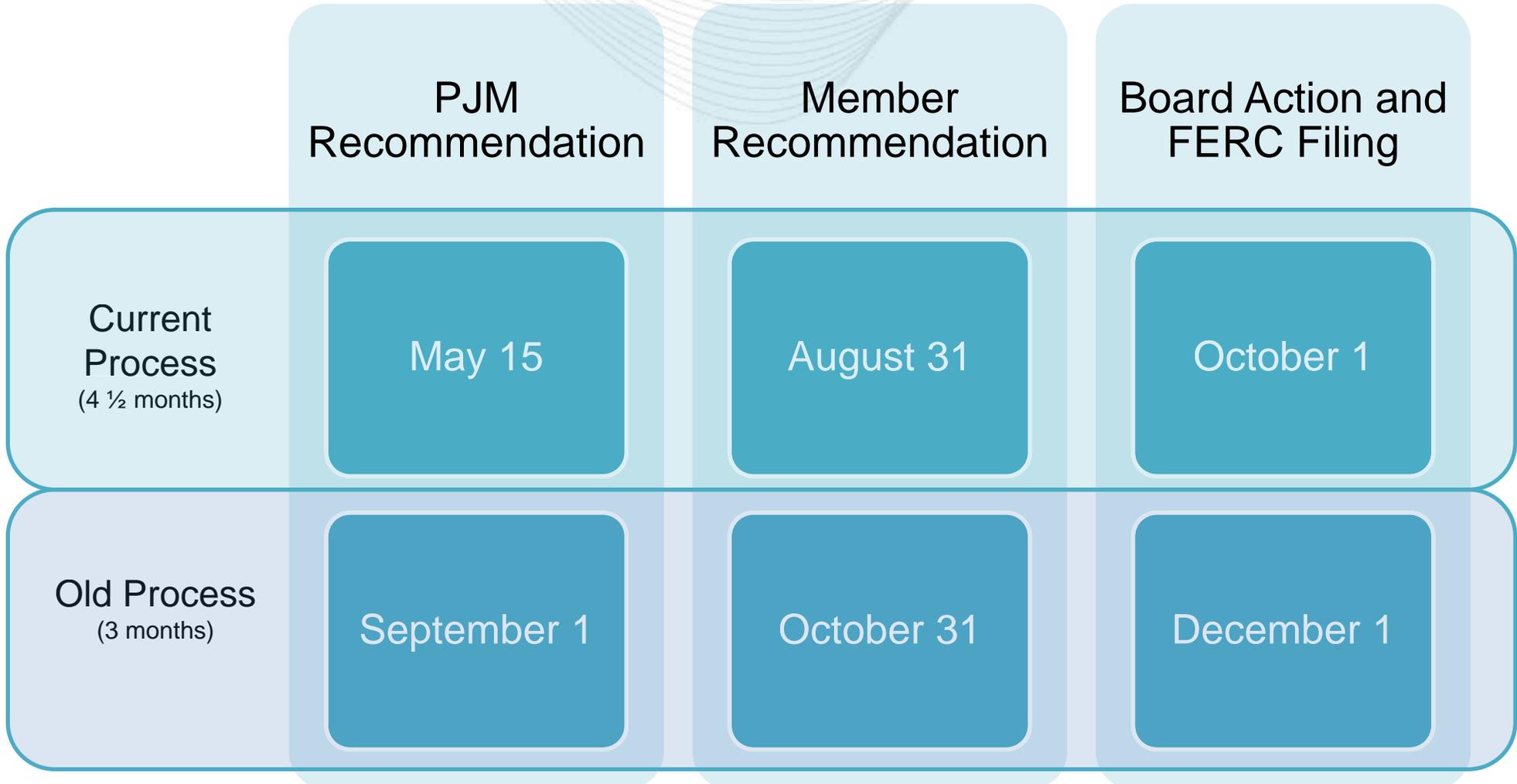




# Capacity Market Triennial Review

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- **Variable Resource Requirement (VRR)**, or demand curve shape which can affect price stability and provides an investment signal for capacity
- **Cost of New Entry (CONE)** based on an engineering analysis which provides an estimation of the cost of new construction of the reference technology
- **Net Energy and Ancillary Services Revenue Offset (E&AS Offset)** methodology which provides an estimate of the non-capacity revenues that a generator can expect to earn



Triennial Review - 2014 Work Plan	4/29	5/9	5/15*	5/23	6/2	6/13	6/30	7/11	7/18	7/25	7/31	8/1	8/8	8/14	8/21	8/22
Stakeholder Feedback Session (Brattle on 4/29 and PJM on 5/9)	X	X														
Review Work Plan		X														
PJM Initial Recommendations / Education			X	X												
Continued Education						X	X	X								
Interest Validation				X												
Design Components				X	X											
Develop Solution Options					X	X	X	X	X	X						
Develop & Refine Component Options						X	X	X	X	X						
Develop & Refine Solution Packages						X	X	X	X	X		X				
Build Consensus							X	X	X	X		X	X	X		X
MRC First Read - Preview											X					
MRC/MC Vote															X	
* Electronic delivery of materials																

## VRR Curve Shape

- Right-shift point "a"
  - PJM staff: right-shift plus 1% further from Brattle recommendation
- Stretch the VRR curve into a convex shape
- Local only - Increase the LDA price cap to 1.7 X Net CONE
  - PJM staff : Make local curves the same as the system curve
- Local only - Impose a minimum curve width equal to 25% of CETL
  - PJM staff: Make local curves the same as the system curve

## Cost of New Entry

- Adopt updated CONE estimates
- Adopt level-real CONE for yearly escalation of values
  - PJM staff: Maintain level-nominal
- Consider replacing the Handy-Whitman Index
- Review CONE areas to align more closely to modeled LDAs
- Consider introducing a test for a separate Gross CONE for small LDAs-
  - PJM staff: Not adopted.
- Consider adopting the average of CC and CT net CONE values defining the VRR curve
  - PJM staff: Continue to use the CT as reference resource

## E&AS Offset

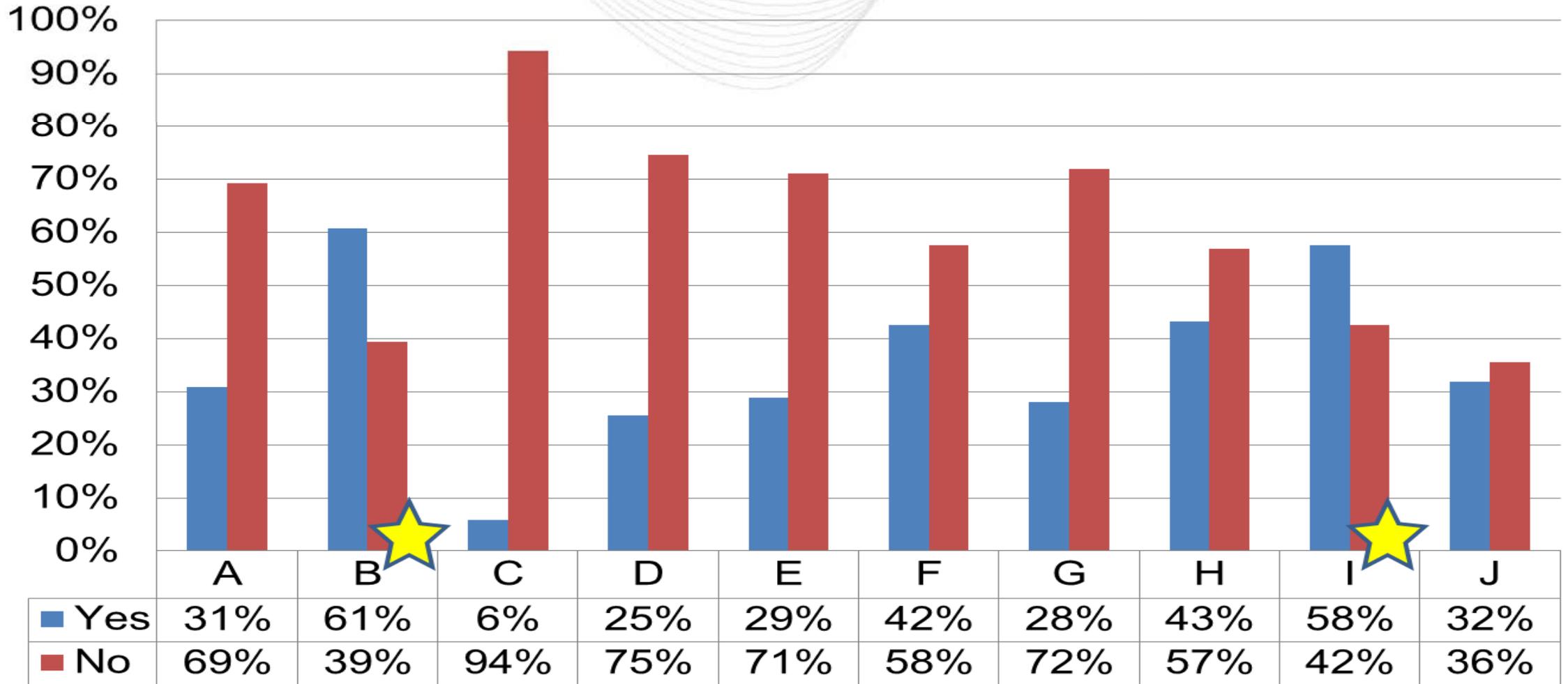
- Calibrate historical E&AS estimates to reflect plan actuals
- Develop a forward-looking E&AS calculation methodology
- Align E&AS Offset and Net CONE calculations more closely to modeled LDAs
- Consider imposing the parent-LDA Net CONE values as a minimum for sub-LDA Net CONE values



# Alternate Package Development

Design Component	Description	A	B	C	D	E	F	G	H	I	J
Gross CONE	WACC Changes and IMM	Blue	Yellow	Orange	Purple	Dark Blue	Blue	Blue	Blue	Blue	Grey
Levelization Method	Real/Nominal	Blue	Blue	Blue	Purple	Blue	Blue	Light Orange	Blue	Blue	Blue
Reference Resource	CT	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue
Net E&AS Offset	Backward/Forward	Blue	White	Orange	Purple	Blue	Blue	Light Orange	Light Orange	Light Orange	Blue
VRR Shape – System	Varies	Blue	Yellow	Orange	Purple	White	Green	White	Blue	Red	Grey
VRR Shape – Local	Same as System	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue
CONE Escalation Index	BLS	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue
RTO Wide Gross CONE	Average/Lowest	Blue	Blue	Orange	Blue	Blue	Blue	Blue	Blue	Blue	Grey
Net CONE Method – CONE Area	PJM/IMM	Blue	Blue	Orange	Blue	Blue	Blue	Blue	Blue	Blue	Yellow
Net CONE Method – RTO	Varies	Blue	Blue	Orange	Blue	Blue	Green	Blue	Blue	Green	Yellow
Net CONE Method – LDA	PJM/IMM/PJM no parent floor	Blue	Blue	Orange	Purple	Purple	Blue	Purple	Blue	Blue	Yellow

- 174 member companies represented
- 36 respondents
- Two packages received greater than 50% support, Package B and Package I



- Tariff
  - Status Quo
  - PJM Recommendation
  - Alternative Recommendations - Majority Votes from CSTF
    - Package B
    - Package I