

# Competitive Carve-out Auction (CCOA)

## PJM Capacity Market Workshop Session 3

Maryland Public Service Commission  
March 12, 2021

# CCOA Features

- Competitive mechanism
- Values state-preferred resources for their contribution to regional reliability
- Developed as an enhancement to FERC's Resource-Specific FRR concept
- Works in tandem with the traditional BRA

# CCOA Eligibility

- All resources that are eligible to receive revenues attributed to state policies in any of the PJM states would be eligible to bid into a preliminary, footprint-wide CCOA.
- These resources would compete with their subsidies and would not be subject to MOPR.

# CCOA or MOPR

Any resource eligible to bid in the CCOA that chooses not to bid, may bid in the BRA, but would be subject to MOPR in the BRA, unless exempted.

# Determining Demand

- A proportional amount of load from each state that provides for policy-related revenues, combined across the RTO, would represent the total demand that must be met in the CCOA
- Example:

If a state has a 20% RPS, the amount of capacity that can generate the needed amount of RECs (if operating every hour of the year) would represent the demand for that state that would be included in the CCOA demand curve

# Phased Approach

- The initial results of the CCOA would be the designation of an “initial clearing price” and “initially cleared” resources
- CCOA phase would immediately precede the BRA
- “Final clearing” and “final clearing price” are reliant on the outcome of the BRA

# Initial Clearing Process

- Capacity offers are stacked by price until sufficient capacity offsets total CCOA demand. These resources “initially clear” at the highest clearing price in their respective LDAs. (Initial clearing price.)
- If an insufficient amount of capacity offers into the BRA, the highest offer in each LDA sets the applicable “initial clearing” price.

# Final Clearing Process

- All CCOA bids are placed into the BRA
- BRA secures the total required amount of capacity, as normal, and serves to determine the “final clearing” of the CCOA resources.
- CCOA resources with offers exceeding the BRA clearing price do not “finally clear.”
- The remaining CCOA resources clear.
- Final clearing price is highest offer in applicable LDA at or below the BRA clearing price.

# Ensuring Reliability in the RTO

Since the BRA serves to determine what CCOA resources clear, they are automatically modeled by PJM through the BRA process to ensure that adequate capacity is allocated throughout the RTO to meet overall reliability needs.

# RTO Billing

- Total load payment for capacity would be apportioned as a composite of the clearing prices from both auctions and billed by PJM for applicable states, accordingly.
- Billing replicates paying specific resources (Resource Specific FRR) for preferred capacity by the aggregate load in multiple states-with-policies (that provide for payments outside of PJM's markets) throughout the RTO, but in a competitive manner

# Billing Apportionment

- a) Determine the cost for all cleared resources in each state zone as if they had all been paid the BRA clearing price. (This represents the amount that load would have paid in each state zone if CCOA resources that “finally cleared” had received the BRA clearing price.)
- b) Determine the sum of all state zone payments in (a). (This represents the total cost load would have paid across the entire RTO region if not for the CCOA “final clearing price.”)
- c) Determine the total cost for all cleared capacity in the RTO as a result of employing the CCOA approach. This represents the total cost load will pay across the region as a result of the CCOA approach.
- d) Subtract (c) from (b).
- e) For each state, the amount in (d) is multiplied by that state’s proportional contribution to the CCOA demand curve.
- f) The amount in (e) is subtracted from the price in (a) for each corresponding state zone. This is the composite price for capacity for the applicable zone of a state.

# Other Considerations

- **Performance Requirements.** Resources that clear the CCOA will be required to perform in the delivery year and meet all performance requirements of a capacity resource that clears the BRA. They would also be allowed bonus payments, similar to all resources that clear the BRA.
- **Interim Auctions.** This approach would apply to interim auctions if insufficient supply offers into the CCOA for the applicable delivery year, demand projections increase, or states change their policies (e.g. increase RPS for the applicable delivery year) prior to those interim auctions.



# It's Important to Start by Stating the Problem We're Trying to Solve

## MOPR

The capacity market needs to accommodate state resource decisions without causing the risk of double procurement for load.

## Competitive Auctions for Policy Resources

Given several state programs driving toward decarbonization and customer preferences, can PJM run auctions for state-mandated and consumer-preferred clean capacity?

## Capacity Procurement Levels

PJM has high reserve margins. Is there a way to achieve desired reliability more efficiently over time?

## Additional Reliability Attribute Products

With anticipated increase in penetration of intermittent resources, are there additional reliability attributes that need to be procured?

No Need for New Legislation

# Important Benefits

- Addresses the MOPR, Competition, and Reliability issues by PJM
- Addresses an additional issue – no need to legislate, alter state policies or acquire capacity outside PJM’s competitive markets
- Provides policymakers information regarding revenues to preferred resources
- Can be implemented quickly

# OPSI Support for a CCOA

“OPSI states support promoting market transparency and recognize that resources eligible to meet any one of our states’ policies and receive revenues for certain attributes may be capable of providing capacity that helps meet the reliability requirements for our states and the region. As such, we recommend development of a transparent, PJM-operated, competitive carve-out auction approach for capacity, preceding the BRA, allowing resources eligible to meet state policies to submit offers with demand represented by aggregated amounts of load reflecting state policies.”

“A competitive carve-out auction approach would provide an open, transparent, and just and reasonable method of pricing the capacity from resources eligible to receive revenues outside of PJM’s markets.”

“We view this approach to be implementable in a timely manner and for the benefit of a majority of OPSI states, and request PJM fully develop this approach in time for potential implementation by the upcoming BRA. OPSI also views this issue of critical importance to our states. PJM’s support and assistance in this matter would both enable PJM to accommodate state policy decisions and facilitate OPSI’s direct involvement in the stakeholder process.”

*OPSI Letter to the PJM Board of Managers, September 26, 2018*



[www.psc.state.md.us](http://www.psc.state.md.us)

