

Balancing Ratio Determination

Includes Problem/Opportunity Statement

Issue Source

PJM raised ~~this the~~ issue regarding the Balancing Ratio used in the calculation of the default Market Seller Offer Cap ("MSOC") during preparation for the 2021/2022 Base Residual Auction.

During discussion of the initial problem/opportunity statement, some members indicated a desire to discuss the number of Performance Assessment Hours assumed to occur in an average year as well. It was indicated that there may be a benefit to using the same estimate of the number of Performance Assessment Hours for both the default MSOC and the Non-Performance Charge Rate.

Stakeholder Group Assignment

~~For the 2021/2022 BRA, PJM proposes to use the 78.5% Balancing Ratio that was used for the 2020/2021 BRA even if a Performance Assessment Interval were to occur between now and the end of calendar year 2017. This near-term "temporary" solution should be filed ASAP for purpose of informing the MSOC process of the 2021/2022 BRA.~~

This issue is assigned to the Market Implementation Committee for development of a long-term solution that would become effective for the 2022/2023 BRA. Such a solution would need to be filed by October of 2018.

Key Work Activities

- ~~1.~~ Perform/Provide education on the calculation of the ~~MSOC-MSOC~~ and the Balancing Ratio.
- ~~1-2.~~ Provide education on the determination of the Non-Performance Charge Rate.
- ~~3.~~ Develop and discuss alternative Balancing Ratio calculation ~~methodology~~ methodologies for use in the determination of the default MSOC.
- ~~2-4.~~ Develop and discuss alternative methods to determine the Non-Performance Charge Rate.

Expected Deliverables

1. A more comprehensive methodology to determine the Balancing Ratio used in the calculation of the default MSOC.

- ~~1.2. Determination of rule changes required to implement potential solutions, if necessary~~A recommendation to the MRC on the methodology used to determine the Non-Performance Charge Rate.
- ~~2.3. Proposed revisions to~~ ~~Develop revisions to~~ Governing Agreements and PJM Manuals, as necessary.

Out of Scope Items

1. The general determination of the default Market Seller Offer Cap as $\text{Net CONE}_{\text{LDA}} * \text{Balancing Ratio}$.
2. The methodology and process used to determine unit-specific Avoidable Cost Rates.
3. The determination and applicability of the Balancing Ratio as described in Section 10A of Attachment DD of the PJM OATT. This includes:
 - a. The calculation of the Balancing Ratio as it applies to any Performance Assessment Hour/Interval.
 - b. The determination of Expected Performance for a Market Seller.
 - c. The determination of Actual Performance for a Market Seller.
 - d. The determination of Performance Shortfall for a Market Seller.
4. The level of the annual stop-loss.
- ~~1.5.~~ The development of any additional stop-loss provisions.

Expected Overall Duration of Work

Approximately one year (to facilitate implementation prior to the 2022/2023 Base Residual Auction).

Decision-Making Method

Tier 1 consensus (unanimity) on a single proposal is preferred.