Background

The Brattle Group’s “Performance Assessment” report in 2011 recommended a long-term capacity auction as a market-oriented mechanism that could replace the administratively-imposed New Entry Price Adjustment (NEPA) rule in the capacity market (RPM). Stakeholders expressed strong support for this long-term auction concept during the fall 2011 review and discussions on the Brattle report.

On March 29, 2012, the Markets and Reliability Committee (MRC) created the “Capacity Senior Task Force” to develop business rules for a long-term auction. The task force is seeking to gain stakeholder consensus for a FERC filing by August 1, 2012 as committed to FERC in the December 2011 filing. PJM is facilitating this task force and anticipates the MRC’s initial review of a proposal on June 28 and a Members Committee vote on July 26.

Current Status

The existing capacity market (RPM) allows participants to offer capacity up to three years into the future. Stakeholders are considering proposals to allow participants to trade capacity as far as 10 years into the future. Stakeholders and PJM support the concept for the obvious reliability benefits coming from long-term capacity commitments.

The most significant feature of the PJM staff proposal is that the long-term auction would be voluntary for both buyers and sellers. PJM staff envisions that the Long-term Capacity Auction would be conducted external to the existing capacity market to avoid disruption. Resources that participate in the current capacity market will continue to be subject to the existing RPM rules.

Stakeholders also are considering two other proposals offered by members. Certain Load Serving Entities support a proposal with limits on the eligible buyers and sellers. The other alternative proposes adding a long-term product to the current capacity market rather than creation of a new and separate long-term auction.

Stakeholders in other forums are discussing other possible changes to the RPM rules, though many recognize that frequent rules changes do not produce the certainty with the capacity market that is viewed as desirable.