RPM Incremental Auction PJM Sales

Problem / Opportunity Statement

Historically, PJM has released a large amount of capacity in RPM Incremental Auctions due to declining peak load forecasts, and more recently due to excess capacity created by Capacity Performance transition auctions. PJM affects these capacity releases using sell offers in the Incremental Auctions that are combined with market participants' submitted buy bids and sell offers to set cleared capacity quantities and prices. PJM's sell offers have typically included large quantities of capacity at very low prices, relative to other market participant bid/offer activity. The impact of these offers has been to create a generally predictable auction outcome, wherein Incremental Auction clearing prices are set substantially below those set in the Base Residual Auction. The chart below shows the impact of load forecast reductions and Capacity Performance transition auction excess on the RPM Reliability Requirement between the Second and Third Incremental Auction for the last 5 delivery years, and the resulting auction clearing price differential between the Base Residual and Third Incremental Auction. Notably, in all but one year (where a one-time Tariff waiver granted PJM's request to *not sell* back excess capacity in the Third Incremental Auction) the Third Incremental Auction cleared at a substantial discount to the Base Residual Auction.

Delivery Year	Decrease in Reliability Requirement	3rd IA Reliability Requirement	2nd IA Reliability Requirement	3rd IA Clearing Price	BRA Clearing Price
2012/2013	-3,579	125,234	128,812	$2.51	$16.46
2013/2014	-1,824	139,184	141,007	$4.05	$27.73
2014/2015	-350	141,983	142,333	$25.51	$125.47
2015/2016 *	-5,167	153,800	158,967	$163.20	$136.00
2016/2017	-6,606	151,888	158,494	$5.02	$59.37

The low Incremental Auction clearing prices create an opportunity for Capacity Resources that cleared in the Base Residual Auction to buy out of their commitment, thereby avoiding all capacity availability, offer and performance requirements, *while retaining a large portion of the payment associated with being a committed capacity resource*. The chart below shows the Incremental Auction buyback quantities and percentages for different RPM products over the last four delivery years (negative buyback quantities indicate a net sale of that product in the incremental auctions).

Delivery Year	2014/2015	2015/2016	2016/2017	2017/2018
Total L/ES Buyback	4,692	3,485	3,575	1,099
Total Annual Buyback	(1,810)	(758)	6,693	5,244
Percentage L/ES Buyback of total L/ES Supply	34%	24%	29%	5%
Percentage Annual Buyback of total Annual Supply	-1%	-1%	4%	3%

Further, the low Incremental Auction clearing prices and large reductions in committed capacity result in a substantial reduction in the reliability of the PJM system, while providing the load that pays for that reliability with little resulting financial benefit. *In essence, load gets a lot less reliability in exchange for a negligible reduction in capacity cost.* For instance, the Third Incremental Auction for the 2016/2017 delivery year resulted in the sale of 4,556 MW of capacity by PJM at a price of ~$5, netting proceeds of $21,827/day or a total of $8 million. This means load exchanged of a reliability value of ~3% (4,556 MW Sale/173,313 MW BRA UCAP Obligation) of the reliability requirement for a reduction of approximately .103% of RTO reliability charges. The chart below reflects this trend over the last 5 delivery years.

Delivery Year	BRA UCAP Obligation	Final UCAP Obligation	% Reduction in UCAP Obligation	BRA Total Dollar Obligation	Final Total Dollar Obligation	% Reduction in Total Dollar Obligation	Total Over Collection of Capacity Dollars	BRA $/MW-Day Cost	Final $/MW-Day Cost
2012/2013	139,487	131,727	6%	$3,915,232,765	$3,861,657,038	1%	$164,230,056	$77	$80
2013/2014	156,493	146,181	7%	$6,907,606,729	$6,685,984,079	3%	$233,536,164	$121	$125
2014/2015	153,683	147,093	4%	$7,440,415,806	$7,267,523,735	2%	$146,132,699	$133	$135
2015/2016	168,631	161,834	4%	$9,964,308,771	$9,623,672,380	3%	$60,967,821	$162	$163
2016/2017	173,313	158,891	8%	$5,695,354,543	$5,420,294,474	5%	$198,867,541	$90	$93
2017/2018	171,129	162,445	5%	$7,720,206,015	$7,631,303,510	1%	$302,875,931	$124	$129

Through this problem statement, Direct Energy requests that the MRC conduct an investigation of whether PJM's policies governing its Incremental Auctions yield reasonable results that correctly value capacity in circumstances where PJM is a capacity seller, and to revise those policies if they are deemed deficient. Direct seeks to ensure that the reliability value of retaining excess capacity is properly reflected in any PJM Incremental Auctions where PJM is a substantial seller, and that any PJM offers reflect a reasonable level of compensation for load in exchange for the reduction in reliability while simultaneously maintaining opportunity for market sellers to procure replacement resources when needed for legitimate reasons. Specifically, the sale of capacity by PJM reduces the level of reliability in the RTO, regardless of whether capacity commitments exceed PJM's planning targets prior to those sales or not. Load should be appropriately compensated for the resulting reliability reduction, in consideration of the fact that, among other benefits, capacity in excess of the PJM's planning targets can have value in a tail reliability event.

The MRC investigation should include a review of PJM's sales practices as discussed above, and should also look at the general structure of the RPM Incremental Auctions including, but not limited to the number of incremental auctions, timing of incremental auctions, PJM participation in incremental auctions, etc.