SRSTF Compensation Alternatives

July 15, 2013
• PJM’s 6/21/13 presentation asked the following:
  — Is current formula rate self-correcting over time as units on formula rate retire and are replaced by units on Capital Recovery rate?

• Additional questions are necessary:
  — Is this the outcome we want?
  — Do we want a model that leads to turnover in service or do we prefer stability?
  — Does turnover lead to fewer options over the long term?
• Base Formula Rate

— Use replacement cost formula approach *a la* NE or NY.

— Confirm/leverage NY NE basic formula rate values (*i.e.*, accept as-is or tweak for PJM-specific costs)
  
  o Could alternatively build our own costs from the ground up?
  
  o Utilize categories based on size. Does MVAR or MW work better?

— Single rate for each each category

— This approach succeeds by addressing the primary gap under today’s rules: Eliminates potential for turnover once capital recovery ends. Ideally, no more Black Start Task Forces!

— Apply to existing black start units upon filing approval or next available delivery year cycle. Apply to 2013 RFP winners as accepted bids roll off (*eg.* if CRF=5 years, apply new formula rate beginning in year 6).
• Capital Recovery Rate
  — Fixed rate based on basic replacement cost formula rate support. Permit a filed rate if needed for service provider.

• NERC CIP Recovery
  — Fixed rate based on basic replacement cost formula rate support. May file for separate rate if necessary.
  — If a unit is recovering CIP today, rolls over to formula rate at conclusion of initial recovery period.

• O&M Rate
  — Fixed rate, consistent with basic replacement cost formula rate support.
• Other Incentives
  — Apply incentive factor for quicker start-up time. Consider PJM straw proposal of 7/15 for discussion.
  — Are there other characteristics responsive to incentives?
  — If above replacement cost approach and start-up incentive is adopted, eliminate Z-factor.

• Other
  — No changes to cost allocation.