



Frequently Mitigated Unit Adders

Market Implementation Committee
May 7, 2014

Units that are frequently offer capped are allowed to include an adder in their cost-based offers.

The Independent Market Monitor presented a problem statement seeking to review the appropriateness of the adders as many market changes have been implemented since the adders were approved in late 2005.

This issue is at the May 2014 MIC for endorsement.

- The IMM offered a problem statement which was approved by stakeholders in April, 2013
- Work began in November 2013
- In late 2013, PJM observed new operational trends that caused concern and PJM accelerated the schedule for this issue.

- The original intent of the adders was provide revenues to help cover the going forward costs of units that were frequently mitigated and hence did not have the opportunity to make infra-marginal rents.
- The adders were created in 2005 and last modified in early 2006.
- The adders were put in place before the RPM Capacity Market was created.
- Changing system conditions have resulted in some units becoming eligible for FMU adders for reasons that were not originally envisioned. These reasons include reactive support and Automatic Load Rejection (ALR) for black start service.

PJM and the IMM have proposed a compromise package with the following main elements

- Adder levels remain as they are today, but a check will be made each month. Only units who's net revenues are not covering their going-forward costs (ACR) will be eligible for an adder
- FRR units will not be eligible for adders
- External units are not eligible

Package F prime restricts the adder to a percentage of the cost offer for units with more than 500 run hours in the rolling 12 month calculation period.

- 25% for Tier 3 units (over 80% mitigated hours)
- 20% for Tier 2 units (70% - 80% mitigated hours)
- 15% for Tier 1 units (60% - 70% mitigated hours)

Adders remain unchanged for units with under 500 run hours. All units are eligible if mitigated by PJM.

Package G restricts the revenues from the adder to a cap of 12% of the gross CONE of the unit's LDA. Once at the cap, the unit may only include the usual 10% adder. The adder levels remain as they are today. All units are eligible if mitigated by PJM.

This package also includes an option for a generation owner to speak to PJM and the MMU if they feel they are not receiving adequate compensation.

Package H changes only the level of the Tier 2 adder and makes no other adjustments. The current Tier 2 adder is \$30 or 15% of the cost offer (not to exceed \$40). Package H changes this to be \$30 (without the 15% option).

Key elements	Status Quo/ Package H	Package A (PJM/IMM compromise)	Package F prime	Package G
Adder level	\$40/\$30*/\$20	\$40/\$30/\$20	\$40/\$30/\$20 for under 500 run hours. 25%/20%/15% if over 500 run hours	\$40/\$30/\$20 limited to 12% of gross CONE for that unit's LDA
RMR units eligible?	Yes	No	No	No
Adders for FRR units?	Yes	No	Yes	Yes
External units?	Yes	No	Yes	Yes
Additional screens?	No	Adders applicable only if unit's net revenues do not cover ACR	No	No