Education on FPA Section 202(c) and DACC Cost Allocation
CIFP Day 1

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Why are we here?

- PJM needs to establish a cost allocation approach for the DACC Cost recovery for use in the DOE 202(c) order
- The focus of this process is not to address the cost recovery, which is addressed in the DOE order, but instead the cost allocation approach
- This background and education will cover both topics

Summary

- On May 30, 2025, Department of Energy (DOE) issued an emergency order, pursuant to section 202(c) of the Federal Power Act, to PJM Interconnection.
- The emergency order directs PJM, in coordination with Constellation Energy, to ensure specified generation units at the Eddystone Generation Station in Pennsylvania remain available for operation, minimizing the risk of generation shortfall that could lead to unnecessary power outages.

Federal Steps

On April 8, 2025, the White House issued the following Executive Order:

- STRENGTHENING THE RELIABILITY AND SECURITY OF THE UNITED STATES ELECTRIC GRID - https://www.whitehouse.gov/presidential-actions/2025/04/strengthening-the-reliability-and-security-of-the-united-states-electric-grid/
  - (c) The Secretary of Energy shall establish a process by which the methodology described in subsection (b) of this section, and any analysis and results it produces, are assessed on a regular basis, and a protocol to identify which generation resources within a region are critical to system reliability. This protocol shall additionally:
    - (i) include all mechanisms available under applicable law, including section 202(c) of the Federal Power Act, to ensure any generation resource identified as critical within an at-risk region is appropriately retained as an available generation resource within the at-risk region; and
    - (ii) prevent, as the Secretary of Energy deems appropriate and consistent with applicable law, including section 202 of the Federal Power Act, an identified generation resource in excess of 50 megawatts of nameplate capacity from leaving the bulk-power system or converting the source of fuel of such generation resource if such conversion would result in a net reduction in accredited generating capacity, as determined by the reserve margin methodology developed under subsection (b) of this section.

Data Request

- In early May, 2025, DOE requested PJM provide information on retiring units.
- PJM is providing a list of generating resources that had either announced retirements in the future or recently retired. The data provided was a download of PJM's generator deactivation posting – sorted by impact dates - https://www.pjm.com/planning/service-requests/gen-deactivations
  - Immediate concern – Units with announced plans to retire in the immediate future (i.e. prior to June 1, 2025) or recently retired
  - announced deactivations over the next three years
  - Announced or retired but working a parallel process to potentially retain the unit – e.g. units under RMRs or otherwise in the process of withdrawing the retirement.
  - Other units which have retired in the recent past

Emergency Order

- PJM cooperated with DOE on information requested
- PJM recommended DOE also contact unit owners in the immediate concern category
- While PJM did not initiate a request for emergency order, PJM supports the DOE Order, issued May 30.
- The Department's Order is a prudent, term-limited step that will retain the covered generators for a 90-day period.
- This will allow DOE, Constellation Energy and PJM to undertake further analysis regarding the longer-term need and viability of these generators

- Section 202(c) of the FPA provides authority for the Federal Power Commission to order temporary interconnections, generation, delivery, interchange or transmission of electric energy to alleviate emergency conditions involving a shortage of electricity. 16 U.S.C. § 824a(c)
  - This authority was later transferred in 1977 by statute to the Secretary of Energy. 42 U.S.C. § 7151(b)
- 202(c) orders may only last for 90-day periods, but can be reissued as the Secretary "determines necessary to meet the emergency and serve the public interest." 16 U.S.C. § 824a(c)(4)(A)

Compensation under FPA Section 202(c)

Under 202(c)

"If the parties affected by such order fail to agree upon the terms of any arrangement between them in carrying out such order, the Commission, after hearing held either before or after such order takes effect, may prescribe by supplemental order such terms as it finds to be just and reasonable, including the compensation or reimbursement which should be paid to or by any such party." 16 USC § 824a(c).

Under DOE Regs

"The applicant and the generating or transmitting systems from which emergency service is requested are encouraged to utilize the rates and charges contained in approved existing rate schedules or to negotiate mutually satisfactory rates for the proposed transactions. In the event that the DOE determines that an emergency exists under section 202(c), and the "entities" are unable to agree on the rates to be charged, the DOE shall prescribe the conditions of service and refer the rate issues to the Federal Energy Regulatory Commission for determination by that agency in accordance with its standards and procedures." 10 C.F.R. § 205.376

"Sections 202(c) and 202(d) of the Federal Power Act are applicable to any "entity" which owns or operates electric power generation, transmission or distribution facilities. An "entity" is a private or public corporation (utility), a governmental agency, a municipality, a cooperative or a lawful association of the foregoing." 10 C.F.R. § 205.370

May 30, 2025 202(c) Order

- The May 30, 2025 Order found that an emergency existed in portions of the PJM footprint “due to a shortage of facilities for the generation of electric energy, resource adequacy concerns, and other causes,” and directed, among other things, that PJM and Constellation Energy take “all measures necessary” to ensure that the Eddystone Units are available for continued operation until August 28, 2025.

- As relevant here, the Secretary’s Order directed PJM and Constellation to “file with the Federal Energy Regulatory Commission any tariff revisions or waivers necessary to effectuate this order,” and further specified that “[r]ate recovery is available pursuant to [FPA section 202(c)].”

- Constellation has communicated its agreement to utilize the Deactivation Avoidable Cost Credit (“DACC”), as described in Part V of the PJM Tariff. PJM supports this determination and is willing to agree to the use of the DACC for the Eddystone Units during this 90-day period.

Deactivation Avoidable Cost Credit

- DACC as specified in the PJM Tariff is determined per the following formula:

  *DACC = ((Deactivation Avoidable Cost Rate (DACR) * Applicable Multiplier) * MW capability of the unit * Number of days in the month) + (APIR * First Year Multiplier) – Actual Net Revenues*

  - *The applicable multiplier for the first year is 110% and escalates by 10% each year up to a cap of 150%. 110% is the relevant multiplier in the instance of Eddystone.*

- The Market Monitoring Unit (MMU) and generator owner must attempt to agree on the appropriate level of each component in the DACC.

- If generator owner includes a cost component inconsistent with MMU's determination, MMU may petition FERC for an order requiring generator owner to include an appropriate cost component.

- The Deactivation Avoidable Cost Rate is based on avoidable, incremental expenses directly required for the operation of the RMR unit that would not be incurred if the unit deactivated as requested
  - The avoidable cost components include: O&M Labor, Administrative Expenses, Maintenance Expenses, Variable Expenses, Taxes, Fees & Insurance, Carrying Charges, Corporate Level Expenses
  - Based on actual costs incurred for the 12 months preceding notification of intent to deactivate the resource
  - All inquiries regarding avoidable expenses are directed to MMU
- APIR = Project Investment needed to enable continued operation / Number of months operating beyond desired deactivation date
- DACR is filed with FERC by the generation owner as an informational filing, along with applicable cost support and an officer certification attesting to the accuracy of the DACR.

- Credits paid to Reliability Must Run (RMR) units utilizing the Deactivation Avoidable Cost Credit (DACC) methodology are allocated as an additional transmission charge.
  - This is consistent with the preservation of RMR units for the purpose of transmission reliability, rather than resource adequacy.
  - The charges are allocated to load in the Zone(s) of the Transmission Owner(s) that will be assigned financial responsibility for the reliability upgrades necessary to alleviate the reliability impact of the RMR unit retiring.
  - Charges are allocated using the LSE’s ratio share of the total **Network Service Peak Load (NSPL)** of all affected LSEs.

- The 202c order cited resource adequacy concerns, rather than transmission concerns.
- Costs associated with resource adequacy are generally allocated to load based on Unforced Capacity Obligations
  - Locational Reliability Charges
  - Schedule 9-4 Charges
- Unforced Capacity Obligations are based on **Peak Load Contributions (PLCs)**

NSPL vs PLC

	NSPL	PLC
Used For	Transmission Charges	Resource Adequacy Charges
Measurement	Load MWh on the 1 Coincident Peak for the Transmission Zone for prior year ending Oct. 31	Average Load MWh on the 5 Coincident Peak hours for the RTO from the prior summer

Key Takeaways

1	2	3
• The 202c order has been issued in response to resource adequacy concerns	• The tariff-defined DACC cost allocation does not align with how costs associated with resource adequacy are allocated	• Costs associated with resource adequacy are allocated using Unforced Capacity Obligations

PJM Proposal

Proposal

- Adopt a resource adequacy cost allocation approach
- Allocate the DOE 202c Emergency Order Eddystone DACC charges using monthly Unforced Capacity Obligation ratio share
  - Similar to DACC cost allocation, but based on PLCs rather than NSPLs
  - Applies to all RTO load (load covered through both RPM auctions and Fixed Resource Requirement plans)
- Charge will appear as a load charge on the bill once a month
- This cost allocation will apply to all 202(c) orders issued for resource adequacy where the generator owners elects to utilize the DACC as their form of compensation.

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