FLATIRON energy

Proposed Methodology to Address High RBP Costs from ELCC Risk

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Derisking ELCC Lowers RBP Costs

Context

- Several proposals suggest having UCAP bids utilize an ELCC value forecasted by PJM and fixing payment for resources based on this ELCC forecast
- This presentation describes one method by which this concept could be implemented

Rationale

- Addressing ELCC risk lowers the overall cost of RBP
  - Banks that underwrite construction financing need revenue certainty to ensure debt can be reliably repaid
    - ELCC, which can vary significantly based on factors outside of supply's control (load forecast, methodology, resource entry, etc), makes it difficult for resources to have sufficient revenue certainty to get financing
  - Under PJM's proposal, to receive revenue certainty over the course of the contract, supply will need to haircut their UCAP to account for ELCC risk, lowering the amount of UCAP a project bids
  - Resources will have the same cost to build but the cost will be spread over the smaller UCAP, increasing the $/MW price of bids
  - More resources will need to be procured to meet the same UCAP target, as resources will be bidding smaller UCAP quantities
  - **Impact: More resources, at more expensive prices, will be required if ELCC-risk is not addressed**

- De-risking ELCC through the RBP asks large load, not individual consumers, to help provide the revenue certainty necessary to bring cost-effective new supply online in the short-term

Proposed Methodology to Address ELCC Risk

Bidding:
- PJM creates a 15yr ELCC forecast prior to the auction
- Resources bid their yearly UCAP based on their ICAP * PJM's ELCC forecast each year

Payment/Settlement:
- RBP cleared resources receive a payment each year via a fixed-for-floating swap that guarantees resources receive their Resource Fixed Payment (defined as: PJM-forecasted ELCC * Cleared ICAP * RBP Price) for each year of their contract, so long as they maintain their RBP Cleared ICAP

- Large loads (via the EDCs) either pay supply or are paid for the difference between the Expected RPM Credit (defined as: RPM Clearing Price * RBP Cleared ICAP * Annual ELCC) and the Resource Fixed Payment

Mechanics:
- RBP cleared resources must offer their full available UCAP each year into the RPM Auction

- If the Expected RPM Credit is less than the Resource Fixed Payment, large loads pay a true-up to the resource equal to the Resource Fixed Payment - Expected RPM Credit.

- If the Expected RPM Credit is greater than the Resource Fixed Payment, the RBP cleared resource pays the large loads a true-up payment equal to the Expected RPM Credit – Resource Fixed Payment.

- The RBP cleared resource is responsible for ensuring that their ICAP each year is maintained to their RBP Cleared ICAP level and does not receive a true-up payment for ICAP less than their Cleared ICAP.

Example 1: Annual ELCC Is Lower than Forecast

RBP (Set in 2027)

RBP Cleared ICAP: 100MW
PJM-Forecasted ELCC: 50%
RBP Price ($/MW-day): $200
Resource Fixed Payment = $10,000

RPM (Set Annually)

Actual ICAP: 100 MW
Annual ELCC: 49%
RPM Cleared UCAP: 49 MW
RPM Clearing Price: $180/MW-Day

Takeaway

If ELCC is lower than PJM forecasted, RBP payments from large loads increase to ensure revenue stability.

Supply Settlement	Credit/Charge	Formula
Expected RPM Credit	$8,820	RPM Clearing Price * RBP Cleared ICAP * Annual ELCC
Actual RPM Credit	$8,820	RPM Clearing Price * RPM Cleared UCAP
RBP Credit	$1,180	Resource Fixed Payment – Expected RPM Credit
Total Credits	$10,000	Actual RPM Credit + RBP Credit

Load Settlement		
RPM Charges	($8,820)	RPM Clearing Price * RPM Cleared UCAP
RBP Charges	($1,180)	Expected RPM Credit – Resource Fixed Payment
Total Charges	($10,000)	

Example 2: Annual ELCC Is Higher than Forecast

RBP (Set in 2027)

RBP Cleared ICAP: 100MW
PJM-Forecasted ELCC: 50%
RBP Price ($/MW-day): $200
Resource Fixed Payment = $10,000

RPM (Set Annually)

Actual ICAP: 100 MW
Annual ELCC: 60%
RPM Cleared UCAP: 60 MW
RPM Clearing Price: $180/MW-Day

Takeaway

If ELCC is higher than PJM forecasted and supply is paid more than the Resource Fixed Payment, supply pays load an RBP Charge

Supply Settlement	Credit/Charge	Formula
Expected RPM Credit	$10,800	RPM Clearing Price * RBP Cleared ICAP * Annual ELCC
Actual RPM Credit	$10,800	RPM Clearing Price * RPM Cleared UCAP
RBP Charge	($800)	Resource Fixed Payment – Expected RPM Credit
Total Credits	$10,000	Actual RPM Credit + RBP Charge

Load Settlement		
RPM Charges	($10,800)	RPM Clearing Price * RPM Cleared UCAP
RBP Credit	$800	Expected RPM Credit – Resource Fixed Payment
Total Charges	($10,000)	

Example 3: Actual ICAP Is Lower than Cleared ICAP

RBP (Set in 2027)

RBP Cleared ICAP: 100MW
PJM-Forecasted ELCC: 50%
RBP Price ($/MW-day): $200
Resource Fixed Payment = $10,000

RPM (Set Annually)

Actual ICAP: 90 MW
Annual ELCC: 50%
RPM Cleared UCAP: 45 MW
RPM Clearing Price: $180/MW-Day

Takeaway

Resources only receive RBP Credit for actual ICAP, ensuring resources are only paid for maintained capacity

Supply Settlement	Credit/Charge	Formula
Expected RPM Credit	$9,000	RPM Clearing Price * RBP Cleared ICAP * Annual ELCC
Actual RPM Credit	$8,100	RPM Clearing Price * RPM Cleared UCAP
RBP Credit	$1,000	Resource Fixed Payment – Expected RPM Credit
Total Credits	$9,100	Actual RPM Credit + RBP Credit

Load Settlement		
RPM Charges	($8,100)	RPM Clearing Price * RPM Cleared UCAP
RBP Charges	($1,000)	Expected RPM Credit – Resource Fixed Payment
Total Charges	($9,100)	