Proposed modifications to PJM's "Capacity Repricing" concept

PJM CCPPSTF

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Exelon.

Background

- As discussed in the initial CCPPSTF meeting, Exelon’s position is that:

  - The PJM capacity market is competitive and functioning well, with high reserve margins, low prices, and no looming reliability problem. Imposing capacity repricing under such conditions is unnecessary and needlessly increases prices for customers; and

  - State programs that replicate for nuclear units the outcome of a regional carbon market and reflect legitimate state environmental goals are not “subsidies” and should not be treated as such in the context of PJM’s capacity repricing proposal.

- However, if PJM does move forward with its capacity repricing proposal, several important modifications are necessary to ensure that it is designed to maintain resource adequacy and a just and reasonable rate for customers:

  - *Applicability* - Which resources qualify as receiving “actionable subsidies”
  - *Competitive offer price determination* - How bids from affected resources are modified to represent “competitive offer prices”
  - *Auction clearing process*
  - *Settlement and cost allocation*.

- This presentation does not address mitigation of buyer-side market power accomplished through the existing Minimum Offer Price Rule.

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Applicability

- Application of capacity repricing should be based on economically meaningful criteria.

- The PJM proposal should be modified to reflect the following principles:

  - There should be no distinction between state, federal, or local subsidies

  - The size of the subsidy should not be dispositive

  - Exemptions should not be based on the number or total capacity of subsidized resources within a resource class (or any arbitrary size-based exemptions)

  - The nature of the resource as generation or demand-side should not matter

  - If existing resources are screened for the presence of "actionable subsidies," then all new resources should be as well

- The economic effect of subsidies, on a per-unit basis, is identical regardless of where it falls on these criteria (for example, a subsidy dollar has the same effect regardless of whether it comes from the federal or state level). If capacity repricing is adopted, all subsidies should be addressed in a non-discriminatory manner.

Competitive Offer Price Determination

- There are necessary refinements to PJM's proposed methodology for modifying resources' offers, which include:

  - For all resources that have been receiving "actionable subsidies" continuously since the resource was originally placed in service, the calculation of the competitive offer price should include a capital cost component intended to reflect the annualized cost of recovering and financing the original construction cost of the resource, in addition to the forward-looking costs normally included in an ACR-like calculation

  - Any determination of competitive offer price should incorporate the specific locational energy and ancillary services revenues received by the resource in question, and not be abstracted up to a broader regional or system-wide level

  - The methodology should distinguish between single- and dual-unit nuclear facilities as two distinct technology types.

- Alternatively, Exelon would also support in concept a simpler approach to determining competitive offer prices that would adjust affected offers to a uniform, appropriately-high competitive level while avoiding unit- or class-specific ACR-like calculations.

Auction Clearing Process

- Capacity repricing should only be applied when the capacity market is not achieving its goal of achieving resource adequacy. If the capacity price rises above a competitive level, as an indicator of tightening supply, that could be a signal of a potential reliability concern. Applying capacity re-pricing when supply is plentiful is inconsistent with basic principles of supply and demand and needlessly raises cost for customers.

- Accordingly, a “price-based materiality screen” should be added to the capacity repricing auction clearing process to ensure that capacity repricing is only applied when capacity with “actionable subsidies,” in aggregate, results in a price above Net CONE x B. Mechanics of this concept are:

  1. PJM receives bids for each auction, makes determinations on which resources are receiving “actionable subsidies” and determines “competitive offer” prices as previously described
  2. As part of the auction-clearing process occurring between the close of auction window and posting of results, PJM would take the following steps:
     a) First, run a "test” market-clearing using its proposed two-stage process with offers adjusted to the competitive offer level for all resources with "actionable subsidies.” The stage two “restated capacity clearing prices” determined in the test run are utilized to determine which resources have their offers adjusted to the competitive offer level in the final market-clearing run.
     b) If the test run restated capacity price exceeds Net CONE x B in an LDA, then offers of resources in that LDA with actionable subsidies will be modified in the final market-clearing run.
     c) If the test run restated capacity price is equal to or below Net CONE x B in an LDA, then offers of resources in that LDA with actionable subsidies will not be modified in the final market-clearing run.
  3. This screening process would apply independently to all base residual and incremental auctions.
  4. The results of the screening process would apply only to the instant auction, and the process would be independently repeated for subsequent auctions.

Rationale for Price-Based Materiality Screen

- Capacity resources can offer up to their opportunity cost, Net CONE x B, which FERC and the IMM have determined to be competitive and which forms the basis for the Capacity Performance market seller offer cap.

- Therefore, a resulting clearing price below Net CONE x B, subsequent to application of capacity repricing, indicates that:

  - Non-subsidized resources are, in the aggregate, bidding in a competitive enough fashion to eliminate any concerns about the competitiveness of the auction; and

  - There are no reliability concerns driven by participation from subsidized resources because a clearing price below Net CONE x B implies a cleared reserve margin greater than the target reserve margin, per the mechanics of the demand curve; and

  - The “subsidized” resources are not significant enough in the aggregate to drive any potential reliability concerns

- Thus, capacity repricing with auction results under Net CONE x B is unnecessary and serves only to needlessly inflate the prices paid by consumers

Settlement and Cost Allocation

- All resources receiving a capacity obligation through the RPM should receive the same capacity price, appropriate for their location.

- States should not have the option of directing PJM to pay resources an alternate price.

  - Only FERC may establish the wholesale rate.
  - Doing otherwise violates the single clearing price principle inherent in RPM and all competitive markets.