Market Efficiency Capacity Benefits

MEPETF Phase 3

Nick Dumitriu
Market Simulation

Market Efficiency Process Enhancement Task Force

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Background Info

- Current B/C Ratio calculation requires both Energy and Capacity to be computed, irrespective of the driver type
- Benefits-to-Cost Calculation (Energy and Capacity) were discussed at MEPETF phase 1 & 2
  - Phase 1: successful FERC filling regarding the B/C calculation, however lack of consensus on study years and timeframe; recommended partial push to phase 2
  - Phase 2: focused on project reevaluation and TMEP; no substantial progress on benefits calculation
- Planning Committee endorsed continuing benefits discussion in Phase 3

Energy and Capacity Benefits Correlation

Market Efficiency Projects may address:

- Energy market constraints (drivers)
- Capacity market constraints (drivers)

Market Efficiency Projects may generate:

- Energy market benefits
- Capacity market benefits (RPM Benefits)

Total Benefits = Energy Benefits + RPM Benefits

Current benefits calculation requires adding together energy and capacity benefits. However, historical analysis on previously approved projects shows that energy benefits were always negligible for projects that have capacity benefits.

Stakeholder Concerns

- Approving overbuilt projects for a small energy congestion driver because of simulated capacity benefits.
  - e.g. approving a $200 million project to address a $1 million energy congestion driver simply because it passes the B/C Ratio threshold.
- BRA Models which use market sensitive data can't be shared
- Interpretation of criteria for posting of capacity drivers
- Due to the calculation procedure, simulated capacity benefits are always an order of magnitude larger than simulated energy benefits.
  - Higher volatility of simulated capacity benefits compared to energy benefits

Next Steps

- PJM SMEs reviewed stakeholder concerns and considering alternatives
- Encourage alternative proposals from Task Force participants