

## Underperformance Risk Management Senior Task Force

This Charter describes the objectives (mission) and responsibilities of this stakeholder group to complete the specific scope of work assigned by the Markets and Reliability Committee (MRC).

### ***Mission***

This stakeholder group is chartered with completing a stakeholder process to recommend one or more proposed solution(s) for consideration to resolve the following issues:

- Underperformance Risk Management during CP Performance Assessment Hours
- External Capacity Performance Enhancements

### ***Responsibilities***

Specifically, this stakeholder group will conduct the following key work activities and produce the stated deliverables as described in the Issue Charge(s):

#### **1. Underperformance Risk Management during CP Performance Assessment Hours**

The [problem statement](#) approved at the December 2015 MRC asserts there are ineffective and inefficient options to manage the risk of underperformance during CP Compliance Hours. This issue has been identified in light of the transition to the Capacity Performance product.

#### **Key Work Activities**

- Evaluate the opportunities for all Capacity Resources, including Capacity Generation Resources, Capacity Demand Resources, and FRR Resources, to manage the risk of underperformance during CP Performance Assessment Hours.
- Evaluate opportunities for individual Market Participants with resources in separate accounts and corporate families to directly offset performance shortfalls with Bonus Performance within its own portfolio utilizing both committed and uncommitted resources.
- Evaluate potential opportunities to enable valuation of capacity, shortfalls, and bonus performance at a market price and to facilitate bilateral cures of penalty exposure after a CP Compliance Hour.
- Evaluate defining or redefining Available Capacity to reflect Actual Performance above a resource's Expected Performance in a Performance Assessment Hour as available to cure a CP performance shortfall through a bilateral transaction. In the alternative, develop and define a new term to facilitate these transactions.
- Evaluate the above with use of known, settlement accuracy values.
- Evaluate the timing associated with collection and allocation of the associated Non Performance Credits.

- Evaluate the risk imposed by a CP Performance Assessment Hour being declared in a footprint that is smaller than/inconsistent with an LDA footprint (the smallest market area recognized by RPM). Review the existing tariff language governing this situation. Identify and evaluate strategies to mitigate this risk.
- Evaluate the difference in risk to resource owners for imposing CP Non-Performance Assessments for security events, rather than resource adequacy events the current definition of Performance Assessment Hours rather than only capacity shortage events. Review the existing tariff language governing this situation. Identify and evaluate strategies to mitigate this risk.
- Develop a metric(s) to identify the benefits of any proposal to PJM market participants, including customers.
- Evaluate the benefits of any proposal developed under this Problem Statement using the metric(s) developed above.

### Expected Deliverables

- Education and analysis on the ability for Capacity Resources to manage the risk of underperformance during CP Performance Assessment Hours.
- Analysis of alternatives for solutions addressing rules and requirements to manage underperformance risk during Performance Assessment Hours.
- Tariff (OATT), Reliability Assurance Agreement, and Manual 18 (Capacity Market Operations) updates to reflect any decisions taken that would modify the status quo.

### Deadlines to Consider

- Complete work and make recommendations to the MRC by the October 2016 MRC meeting.

## 2. External Capacity Performance Enhancements

The problem statement approved at the May 2016 MRC asserts there is a need to implement enhancements to its external CP resource evaluation construct in response to operational, markets, and planning challenges observed by PJM and its neighboring entities during the pseudo-tie implementation process.

### Key Work Activities

- Provide education regarding:
  - Existing external CP resource construct; and
  - Existing internal and external resource capacity eligibility; and
  - Planning, Markets and Operations challenges and compliance requirements associated with external capacity resources; and
  - Concerns expressed by external entities.
- Determine what changes are necessary, if any, to align the requirements for internal and external capacity resources.
- Develop a detailed solution to implement any necessary changes

### Out of Scope Work Activities

- Redesign of PJM's Energy Management System (EMS)

- Relaxing current PJM Tariff or Manual Requirements, NERC Standard Requirements, and other FERC/NAESB approved reliability requirements
- Issues associated with the operation of the markets at the seam will be governed by existing Joint Operating Agreements and the Joint Reliability Coordination Agreements.
  - Therefore, any solution has to be limited to a set of requirements that PJM can unilaterally enforce.

### Expected Deliverables

- Education and analysis on the current challenges associated with pseudo tied External Capacity Resources.
- Analysis of alternatives for solutions addressing External Capacity Performance Enhancements that better align the requirements for internal and external capacity resources.
- Consider transition mechanism for current External Capacity Performance Resources that have already been committed.
- Tariff (OATT), Reliability Assurance Agreement, and Manual 18 (Capacity Market Operations) updates to reflect any decisions taken that would modify the status quo.

### Deadlines to Consider

- Complete work and make recommendations to the MRC by the September 2016 MRC meeting in order to impact the 2020/2021 Base Residual Auction to be held in May 2017.
- RPM Planning Parameters for the 2020/2021 Base Residual Auction are posted by February 1, 2017.
- Potential impacts to volume and timeline associated with planning studies required for participation in the 2020/2021 Base Residual Auction are posted by February 1, 2017.

### Decision-Making Method

Consensus Based Issue Resolution (CBIR) Methodology, with intended outcome of Tier 1, Consensus on a single proposal.

### Administration

Group name: Underperformance Risk Management Senior Task Force

Parent committee: Markets and Reliability Committee (MRC)

Facilitator/Cheif: Rebecca Carroll

Secretary: Susan Kenney

Webpage: <http://www.pjm.com/committees-and-groups/task-forces/urmstf.aspx>

Meeting frequency: Approximately twice a month

Expected overall duration of work: 8 months

- The Underperformance Risk Management Senior Task Force (URMSTF) shall base its activities by the rules and protocols found in the PJM Stakeholder Process Manual (M-34).
- The group will accomplish the scope of work identified above, and only that work.
- Approval from the parent Standing Committee will be sought before engaging in any activity outside this scope.

- The group will periodically report progress on its chartered scope of work to its parent committee, the MRC.
- Meeting minutes and all meeting materials will be published on the PJM web site.
- The group will prepare a final report (the Consensus Proposal Report or Proposal Alternatives Report, whichever is applicable). This report will constitute its recommendation to the parent Standing Committee to resolve the issue.
- Membership in the group is open and will be identified by volunteerism. Group members are not required to sign a confidentiality agreement or non-disclosure agreement.