On December 3, 2020 the PJM Independent Market Monitor (IMM) posted a statement related to the use of the current federal tax component embodied in the Capital Recovery Factor (CRF) used to calculate Avoidable Project Investment Rate (APIR) as part of the Net Avoidable Cost Rate (ACR) for a given resource as specified in Attachment DD of the PJM Tariff. PJM understands the IMM’s concerns specified in the posted document. PJM recognizes that the federal tax component of the CRF values embodied in Attachment DD of the tariff does not reflect the currently effective federal tax rate. PJM further notes that for the purpose of market power mitigation, Net ACR is utilized to set a maximum value on certain offers under the Market Seller Offer Cap, as well as a floor price under the Minimum Offer Price Rule for certain other resources.

PJM also appreciates the need to obtain stakeholder input through a stakeholder process before making changes to the tariff, including changes to resolve the question presented in the IMM document. RPM is by definition a forward-looking mechanism so stakeholder discussion as to the appropriate tax rate is appropriate. There may be other, related components of the APIR that should be discussed in conjunction with the CRF. PJM further recognizes that completing such a stakeholder process and receiving a timely decision from FERC that would be applicable to the 2022/2023 Base Residual Auction could well lead to further delays of that already-delayed 2022/2023 auction. PJM further notes and agrees with the IMM’s expectation that offers including APIR in Net ACR values are unlikely to impact auction results in the near term. PJM will be introducing this issue into the stakeholder process at the January Markets Implementation Committee with the intent to move toward thoughtful but also expeditious resolution.

Finally, PJM notes that when used as an offer cap, the CRF and APIR determinations contribute to setting a maximum offer level and do not require parties to submit an offer at that maximum level. This stands in contrast to the black start compensation mechanism where the CRF sets the specific level of compensation to be awarded by PJM. For this reason, PJM urges market participants to note the IMM’s statement as they prepare their offers for the upcoming capacity auction. Given the tax law changes, in any review necessitated by disagreements on Net ACR levels between a Market Seller and the IMM, PJM will independently scrutinize offers that simply incorporate the existing CRF in their offers and that do not reflect the current applicable tax rates, and PJM will work with the IMM to obtain additional information from the Market Seller.

December 7, 2020

2 IMM statement at 2
3 See Tariff, Attachment DD, section 6.4(b) (Tariff provisions whereby Net ACR determination is made by PJM when there is disagreement between the Market Seller and the IMM).