

## **Capacity Performance Transition Incremental Auctions Rules, Schedule and Planning Parameters<sup>1</sup>**

### **Overview**

- Capacity Performance Transition Incremental Auctions (“Transition Auctions”) will be conducted for the 2016/2017 and 2017/2018 Delivery Years to procure Capacity Performance Resources in quantities up to 60% and 70%, respectively, of the updated Reliability Requirement for those Delivery Years.
- The Transition Auctions will be conducted independently and sequentially.
- Participation in each Transition Auction is voluntary and is open to any Capacity Resource that can meet the requirements of a Capacity Performance Resource, regardless of whether the resource has already committed to provide capacity by clearing in a prior auction for the relevant Delivery Year.
- Participation is voluntary. A seller that does not participate will retain all prior commitments and revenues, if any, associated with clearing in any prior auctions for the relevant Delivery Year.
- The clearing price caps for the Transition Auctions of the 2016/2017 and 2017/2018 Delivery Years will be established as 50% and 60%, respectively, of the Net CONE of the PJM Region used in the BRA for those Delivery Years. The clearing price of each Transition Auction will not exceed the applicable clearing price caps.
- Resource Sell Offers are not subject to mitigation. Any resource offering into a Transition Auction may submit a sell offer at a sell offer price up to the applicable clearing price cap. Any sell offer in excess of the auction clearing price cap will not clear the auction.
- The non-performance charge/performance credit provisions of Section 10A of Attachment DD of the PJM OATT will apply to all Capacity Resources committed as Capacity Performance Resources; however, the magnitude of non-performance charges for the 2016/2017 and 2017/2018 Delivery Years is reduced to 50% and 60 %, respectively, of the non-performance charges that become effective with the 2018/2019 Delivery Year implementation of these provisions.

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<sup>1</sup> Updated 7/30/2015 to reflect PJM’s 7/28/15 Compliance Filing in Docket No. ER15-623 et al, to revise the Transition Auction schedule and allow participation in the Transition Auctions of all Capacity Resources that are Capacity Performance-capable.

## Schedule

1. The Transition Auctions will be conducted independently and sequentially according to the following schedule:
  - a. **The sell offer window for the 2016/2017 Transition Auction opens on Wednesday, August 26, and closes at 4 PM on Thursday, August 27.** Auction results will be posted after 4:00 PM on Monday, August 31.
  - b. **The sell offer window for the 2017/2018 Transition Auction opens on Thursday, September 3, and closes at 4 PM on Friday, September 4.** Auction results will be posted after 4:00 PM on Wednesday, September 9.

## Eligibility Requirements

2. **Participation in each Transition Auction is voluntary and is open to any Capacity Resource that can meet the requirements of a Capacity Performance Resource,** regardless of whether the resource has already committed to provide capacity by clearing in a prior auction for the relevant Delivery Year. Prior resource commitment quantities, if any, will be replaced by any MW quantity cleared by the resource in the Transition Auction (see #15 for further detail on the determination of RPM Auction Credits for resources that clear in a Transition Auction).
3. Capacity Resources must be capable of meeting the Capacity Performance requirements on a stand-alone basis, i.e., the aggregate sell offer of Intermittent, Capacity Storage, Demand Response, Energy Efficiency and Environmentally Limited Resources that cannot meet the Capacity Performance requirements on a stand-alone basis is effective with the 2018/2019 Delivery Year and cannot be utilized in the Transition Auctions.
4. Sell offers will be accepted from any Generation Capacity Resource that can meet the requirements of a Capacity Performance Resource, including:
  - a. External Generation Capacity Resources that have an accepted CIL exception prior to the opening of the auction provided the resource is reasonably expected to be pseudo-tied by the applicable Delivery Year,
  - b. Planned Generation Capacity Resources that have an executed Interconnection Service Agreement or Wholesale Market Participant Agreement prior to the opening of the auction,
  - c. Intermittent Resources and Capacity Storage Resources for that MW quantity that the seller can demonstrate can meet the requirements of a Capacity Performance Resource. The average expected output over peak-hour periods<sup>2</sup> provides an

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<sup>2</sup>Expected peak-hour periods include hours ending 6 through 9 and hours ending 18 through 21 in the months of January and February, and hours ending 15 through 20 in the months of June, July and August.

acceptable Capacity Performance sell offer quantity for such resources. Using this approach, however, may result in significant non-performance risk for the seller of an Intermittent Resource or Capacity Storage Resource for which the average expected output for individual hours or seasons within the peak-hour period vary significantly from the average expected output across all hours in peak-hour period.

- Sell offers will be accepted from any Demand Resource or Energy Efficiency Resource that can meet the requirements of a Capacity Performance Resource. CSPs and EE providers that intend to offer DR and EE as Capacity Performance must submit a DR Sell Offer Plan and EE M&V Plan, respectively, for both transition auctions by no later than the end of the day on Friday, August 7.

### **Auction Parameters and Auction Clearing**

- Transition Auctions will be conducted for the 2016/2017 and 2017/2018 Delivery Years to procure Capacity Performance Resources in quantities up to 60% and 70%, respectively, of the updated Reliability Requirement for those Delivery Years. **The target quantity of Capacity Performance Resources to be procured for the 2016/2017 and 2017/2018 Delivery Years is 95,097 MW and 112,194 MW, respectively.**
- No locational requirements will be modeled in the Transition Auctions. PJM will procure a percentage of the PJM Region's Reliability Requirement for each Delivery Year as Capacity Performance Resources without regard for where the resource is located.
- The clearing price cap and the market seller offer cap for resources that offer into the Transition Auction for the 2016/2017 Delivery Year is \$165.27/MW-Day** (established as 50% of the Net CONE of the PJM Region used in the 2016/2017 BRA). The auction clearing price cannot exceed the clearing price cap and any resource offering into the auction may submit sell offers at an offer price up to this market seller offer cap.
- The clearing price cap and the market seller offer cap for resources that offer into the Transition Auction for the 2017/2018 Delivery Year is \$210.83/MW-Day** (established as 60% of the Net CONE for the PJM Region for the 2017/2018 BRA). The auction clearing price cannot exceed the clearing price cap and any resource offering into the auction may submit sell offers at an offer price up to this market seller offer cap.
- The clearing price for each Transition Auction will be set by the marginal resource offers when PJM procures the target amount of Capacity Performance Resources. If the target amount of Capacity Performance Resources is not cleared, then the clearing price will equal the clearing price cap.
- If two or more Sell Offers submitted into the auction include the same offer price, and some, but not all of the Unforced Capacity is required to clear the auction, then the auction will be cleared to minimize total costs including make-whole payments by first clearing such offers that have a flexible MW quantity and therefore require no make-whole. When some but not

all of such equal-priced flexible quantities are required to clear the auction, such offers will clear pro-rata based on the flexible MW quantities offered.

**Performance Assessment of CP Resources for 2016/2017 & 2017/2018 Delivery Years**

12. The non-performance charge/performance credit provisions of Section 10A of Attachment DD of the PJM OATT will apply to all Capacity Resources committed as Capacity Performance Resources; however, the magnitude of non-performance charges for the 2016/2017 and 2017/2018 Delivery Years is reduced to 50% and 60%, respectively, of the non-performance charges that become effective with the 2018/2019 Delivery Year implementation of these provisions.
  - a. **For 2016/2017, the Non-Performance Charge Rate is \$1,896.30/MWhr** (established as  $(50\%)*(\$311.72/\text{MW-day})*(365 \text{ days})/30 \text{ hours}$ ); **and, the annual stop-loss is \$85,333.70 times the resource's committed CP UCAP MW** (established as  $(50%)*(1.5)*(\$311.72/\text{MW-day})*(365 \text{ days})$ ].
  - b. **For 2017/2018, the Non-Performance Charge Rate is \$2,420.23/MWhr** (established as  $(60%)*(\$331.54/\text{MW-day})*(365 \text{ days})/30 \text{ hours}$ ); **and the annual stop-loss is \$108,910.23 times the resource's committed CP UCAP MW** (established as  $(60%)*(1.5)*(\$331.54/\text{MW-day})*(365 \text{ days})$ ].
13. For Performance Assessment purposes during the 2016/2017 and 2017/2018 transition years, the Actual Performance of any Capacity Resource that has both an Annual Resource commitment and a Capacity Performance commitment will first be assigned to meet the resource's Expected Performance as a Capacity Performance Resource. Actual Performance above the resource's Expected Performance will then be assigned to meet the resource's Annual commitment with any remaining Actual Performance used for purposes of determining Bonus Performance.

14. The total revenues collected from Non-Performance Charges for a Performance Assessment Hour will be allocated only to over-performing Capacity Resources that have a Capacity Performance commitment.

### **Auction Credit Determination for Resources that Clear a Transition Auction**

15. A Capacity Resource that clears in a Transition Auction will receive payment for each MW cleared in the auction based on the Resource Clearing Price established in the Transition Auction. A resource that cleared in a prior RPM auction(s) for the relevant Delivery Year and that also clears in the Transition Incremental Auction for that same Delivery Year will have all or a portion of the prior committed MWs replaced by any MW quantity cleared in the Transition Auction.
  - a. A resource that clears in a Transition Auction at a MW quantity that exceeds the total cleared MW quantity from all prior auctions conducted for the relevant Delivery Year will receive a payment for each MW cleared in the Transition Auction based on the Resource Clearing Price established in the Transition Auction; and, the cleared MW quantity for all prior auctions conducted for that Delivery Year will be set to zero MW.

Example: A resource clears 90 MW in the 2016/2017 BRA, 5 MW in the 2016/2017 1<sup>st</sup> Incremental Auction and 5 MW in the 2016/2017 2<sup>nd</sup> Incremental Auction, for a total commitment level of 100 MW. The resource subsequently clears 110 MW in the 2016/2017 Transition Auction. The resource will receive a payment for the 110 MW Capacity Performance commitment based on the Resource Clearing Price established in the Transition Auction and the cleared MWs for all prior auctions conducted for the Delivery Year will be set to zero.

- b. A resource that clears in a Transition Auction at a MW quantity that is less than the total cleared MW quantity from all prior auctions conducted for the relevant Delivery Year will receive a payment for each MW cleared in the Transition Auction based on the Resource Clearing Price established in the Transition Auction; and, the cleared MW quantity for all prior auctions conducted for that Delivery Year will be reset in proportion to each prior auction's share of the original commitment quantity in a manner that maintains the original total commitment level of the resource.

Example: A resource clears 90 MW in the 2016/2017 BRA, 5 MW in the 2016/2017 1<sup>st</sup> Incremental Auction and 5 MW in the 2016/2017 2<sup>nd</sup> Incremental Auction, for a total commitment level of 100 MW. The resource subsequently clears 60 MW in the 2016/2017 Transition Auction. The resource will receive a payment for the 60 MW Capacity Performance commitment based on the Resource Clearing Price established in the Transition Auction and the cleared MWs for all prior auctions conducted for the Delivery Year will be reset to a total of 40 MW: 36 MW for the 2016/2017 BRA (90% of original commitment level), 2 MW for the 2016/2017 1<sup>st</sup> Incremental Auction (5% of

original commitment level) and 2 MW for the 2016/2017 2<sup>nd</sup> Incremental Auction (5% of the original commitment level), The resource will receive a payment for each prior auction based on the reset MW quantities and the Resource Clearing Price applicable to each prior auction.

16. The Final Zonal Capacity Price for the 2016/2017 and 2017/2018 Delivery Years will reflect the results of all auctions, including Transition Auctions, conducted for that delivery year. The cost of the Transition Auctions will be represented on the settlement statement as a separate cost component in the Final Zonal Capacity Price for the 2016/17 and 2017/18 Delivery Years.

#### **Transaction Auction Credit Requirement for Planned Capacity Resources**

17. The pre- and post-Auction Credit Rates for Planned Capacity Resources that offer into the Transition Auctions will be \$25,010.15/MW-year and \$31,957.28/MW-year for the 2016/2017 and 2017/2018 Transition Auctions, respectively. The pre- and post-Auction Credit Rates for the Transition Auctions were established using the post-auction credit rate formula of Attachment Q for Capacity Performance Resources adjusted to reflect the reduced non-performance charge rates and stop-loss values described in #11 above, and are based on the clearing price cap for each auction.
18. A Planned Capacity Resource with an existing commitment and associated credit requirement due to clearing prior auctions for these Delivery Years that wishes to participate in the Transition Auctions will be required to provide additional credit equal to the incremental difference between the Transition Auction credit requirement and the resources existing credit requirement.
19. The post-Auction Credit Rates are fixed at the pre-Auction Credit Rate values.

#### **Replacement of CP Commitments in Delivery Years 2016/2017 and 2017/2018**

20. All Scheduled Incremental Auctions for the 2016/2017 and 2017/2018 Delivery Years that are conducted subsequent to the Transition Auctions will provide only for the buying and selling of existing (non-Capacity Performance) capacity products, i.e., Annual, Extended Summer and Limited Capacity. Participant buy bids for Capacity Performance products are not permitted in Scheduled Incremental Auctions.
21. A Capacity Performance commitment from a Transition Auction may be replaced by available, uncommitted MWs from a Capacity Resource that can meet the requirements of a Capacity Performance Resource. Such replacement may be submitted into the eRPM system after the final EFORD values for a Delivery Year are known and finalized in that system.