



DATE: November 18, 2011

TO: PJM RPM Auction Participants

SUBJECT: Frequently Asked Questions on ACR Data and NJ High Electric Demand Day (HEDD) Rules

The Independent Market Monitor for PJM (IMM or MMU) has received questions related to the submission of Avoidable Cost Rate (ACR) data and the NJ High Electric Demand Day (HEDD) rules and requirements, as applicable. The second phase of HEDD, which will become effective May 1, 2015, requires combustion or steam units in New Jersey to meet specified NOx emissions rates.

The following are frequently asked questions and answers:

Question 1: Can a resource that cannot operate on high electric demand days remain a PJM Capacity Resource?

Answer 1:

- The MMU's view is that units that cannot operate on high electric demand days cannot be a PJM Capacity Resource because they cannot perform on days when capacity will be needed.

Question 2: If a Capacity Market Seller determines that the costs of compliance to meet the NJ HEDD rules will be prohibitive, can they retire or mothball the resource instead of offering it into the 2015/2016 Base Residual Auction (BRA)?

Answer 2:

- The MMU expects participants to offer units based on their calculated costs of compliance and based on their own economic decisions. If the units do not clear, participants have the option to propose retirement of the units.
- The MMU expects that there will be a corporate decision about participation in the RPM Auction based on the known facts about the NJ HEDD rules and that the corporate decision is documented.
- Under PJM Open Access Transmission Tariff (OATT) Attachment M-Appendix § II.C.4.A, a Capacity Market Seller may qualify for an exception to the RPM must offer requirement by providing a documented plan of retirement to the MMU and by demonstrating that it has notified PJM of the retirement in accordance with OATT Part V § 113.1. PJM will make the notice public, but such notice may be provided just

prior to the auction window opening. The MMU applies a market power test to any such request to ensure that the unit continues to be offered if the unit can operate economically.

- A plan to mothball a resource is not sufficient to qualify for an exception to the must offer requirement.

Question 3: What constitutes a documented plan to retire a unit?

Answer 3:

- The Capacity Market Seller must provide notice of deactivation to PJM under OATT Part V § 113.1. The MMU also requests information to support the economic decision to retire in order to apply the required market power test. In addition, the MMU requests a documented plan for addressing contingencies including any circumstances that would result in a reversal of the decision to retire and an estimate of the level of revenues required to remain in service. The MMU may request additional information based on its review of the initial submittal and the circumstances specific to the resource.
- This analysis of the requested deactivation under OATT Attachment M-Appendix § II.C.4.A is separate from the market power analysis performed by the MMU of the decision to deactivate, under OATT Attachment M-Appendix § IV.1.
- If a decision is made to make the date of retirement earlier than the date first specified, then an additional market power analysis will be necessary to evaluate the accelerated time frame, under OATT Attachment M-Appendix § IV.1.

Question 4: What are the relevant deadlines for the 2015/2016 Base Residual Auction that Capacity Market Sellers owning HEDD units should consider?

Answer 4:

- The 2015/2016 RPM Base Residual Auction window opens on May 7, 2012.
- Capacity Market Sellers must submit data for purposes of calculating offer caps to the MMU no later than two months prior to the commencement of the RPM Auction, in this case no later than March 7, 2012, pursuant to OATT Attachment DD § 6.7(b).
- The MMU calculates offer caps and notifies Capacity Market Sellers one month prior to the commencement of the RPM Auction, in this case no later than April 7, 2012, pursuant to OATT Attachment DD § 6.7(d).
- The ACR data entry and offer cap calculation timeline for the 2015/2016 Base Residual Auction can be found in:
http://www.monitoringanalytics.com/tools/docs/RPMACR_Timeline_2015_2016_Base_Residual_Auction_20111108.pdf

- If electing the 40 Plus Alternative CRF, written notice must be provided to PJM no later than six months prior to the Base Residual Auction, a deadline now passed in this case. OATT Attachment DD § 6.8(a) does provide that “shorter notice may be provided if unforeseen circumstances give rise to the need to make such election and such seller gives notice as soon as practicable.”
- To satisfy the must offer requirement under the reason for exemption in OATT Attachment M-Appendix § II.C.4.A, a notice of retirement with a deactivation date prior to the end of the 2015/2016 Delivery Year must be submitted to PJM prior to May 7, 2012, the opening of the auction window.

Question 5: What happens if the NJ HEDD requirements are significantly different for a unit in the future than they are at the time of the ACR data submittal for the 2015/2016 RPM Base Residual Auction?

Answer 5:

- If the NJ HEDD requirements are significantly different for a unit after the ACR data submittal but before the 2015/2016 RPM Base Residual Auction, the MMU will be flexible in allowing updates to the ACR data. Capacity Market Sellers should update their ACR data to be consistent with the current best information prior to the auction.
- If a project at a unit is reviewed and accepted for the 2015/2016 BRA and included in the Capacity Market Seller’s offer and the unit is marginal in the BRA, the Capacity Market Seller is subject to the provisions OATT Attachment DD § 6.8(a) if that project is not in commercial operation prior to the end of the 2015/2016 delivery year.
- If, after the BRA, the NJ HEDD requirements change such that no project investment is necessary to provide capacity through the 2015/2016 delivery year, or the unit is granted an extension for compliance past the end of the 2015/2016 delivery year, the Capacity Market Seller may be required to make such investment during the subsequent delivery year or make the same level of investment in other units operated by the same Capacity Market Seller in the same Locational Deliverability Area (LDA) by the end of the 2015/2016 delivery year or else may be subject to the penalty referred to as a “rebate payment” under OATT Attachment DD § 6.8(a).
- Similarly, if, after the BRA, the Capacity Market Seller decides that it is optimal to retire the unit prior to the end of the delivery year rather than proceed with a project investment which has been reviewed and submitted in the capacity sell offer, and the unit was marginal, the Capacity Market Seller is subject to the provisions of OATT Attachment DD § 6.8(a).

Question 6: What information must be provided to the MMU in order to include an Avoidable Project Investment Recovery Rate (APIR) component in the ACR calculation?

Answer 6:

Pursuant to OATT Attachment DD § 6.8(a), a Capacity Market Seller including Project Investment (PI) in the calculation of a resource's ACR must provide the MMU with information supporting such Project Investment and CRF election, including but not limited to the following:

- Age of the unit.
- Amount of the Project Investment. This includes providing detailed support for the level of Project Investment to the MMU. This can be in the form of an engineering evaluation of cost, budgeted costs determined by means of an internal capital approval process, or other equivalent supporting documentation for the level of investment.
- Purpose of the investment.
- Evidence of corporate commitment (e.g., an SEC filing, a press release, or a letter from a duly authorized corporate officer indicating intent to make such investment).
- Detailed information concerning the governmental requirement, if applicable. In the case of resources affected by the NJ HEDD requirements, this would include the 2015 HEDD Emission Limit Achievement Plan or any successor equivalent applicable to the unit.
- An indication of the timing of the project completion must be provided to the MMU. If cleared in the RPM Auction, the project must be completed prior to June 1 of the delivery year, with the exception of the Mandatory Capital Expenditures (CapEx) option for which the project must be completed prior to the end of the delivery year.

In addition, for any resource for which a Project Investment was included in its ACR and which set the Resource Clearing Price, the Capacity Market Seller must provide to the MMU evidence of the actual expenditure of the Project Investment when such information is available.

Question 7: What are the project investment recovery options?

Answer 7:

The capital recovery factors (CRFs) are defined in OATT Attachment DD § 6.8(a).

Question 8: Is there any guarantee for recovery of Project Investment?

Answer 8:

Pursuant to OATT Attachment DD § 6.8(a), a resource for which the Multi-Year Pricing Option is elected and qualifies is eligible to recover its Project Investment costs on the same terms as the New Entry Price Adjustment (NEPA).

Question 9:

9A: Is election of the 40 Plus Alternative Option prior to the BRA a binding commitment to offer the resource as such?

9B: Regarding the public notice of election of the 40 Plus Alternative Option specified in OATT Attachment DD § 6.8(a), what information does PJM provide to market participants?

Answer 9:

- 9A: The tariff does not explicitly state whether or not an election for the 40 Plus Alternative Option is a binding commitment. The Market Monitor's view is that provision for an election implies a commitment and, in conjunction with the notice requirement, there is a potential for third party reliance on such an election. The Market Monitor would evaluate a request to rescind an election, and would, at a minimum, expect an explanation of the changed factors and other circumstances material to such a request.
- 9B: PJM informs the MMU that PJM would notify market participants only that the 40 Plus Alternative CRF option had been elected by a Capacity Market Seller.