



MMU Discretion in the RPM Tariff “Objective, Factual Criteria”

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- Per FERC, RPM tariff provides for MMU discretion in three areas:
- Section 5.14(h)(3) Minimum offer price
- Section 6.5(a)(ii) Competitiveness of new entry offers
- Section 6.7(c) Proxy prices for units that choose not to submit cost-based offers

- FERC Order of December 22, 2007 found such discretion “inappropriate” and required PJM to address MMU discretion
- PJM filed tariff modifications on January 23, 2007
- Created Section 6.2(c). Requirement for PJM to file with the Commission regarding any exercises of discretion and providing for appeals to FERC and a decision process by FERC.
- FERC Order required PJM to file “objective, factual criteria be used by the Market Monitor” in reviewing bids under the three tariff sections within nine months, or by September 22, 2007.

- FERC Order of June 25, 2007 clarified December 22 Order.
- FERC expects the modifications to use the stakeholder process to arrive at a consensus if possible.
- If no consensus is possible, PJM needs to file.
- When PJM makes filing, any party has the opportunity to propose objective criteria to the Commission.

- Tariff Section 5.14(h)(3) addresses the minimum offer price for new units when the offer affects the clearing price, the sell offer is less than a defined threshold and the seller has a net short position.
- Tariff Section 5.14(h)(3) (Sheet 601) provides that “... **if the MMU determines that the information provided, combined with revenues that would be earned in PJM-administered markets as determined by PJM, does not support the offer,** the applicable cost-based net Cost of New Entry determined in Section 5.14(h)(1) shall be used to establish an alternative sell offer.”

- Alternative approach is to delete these words and use the thresholds defined in 5.14(h)(2)(ii).
- Result is to have the default offers greater than or equal 80 percent of applicable Net Asset Class Cost of New Entry or, if there is no applicable Net Asset Class Cost of New Entry, greater than or equal to 70 percent of the Net Asset Class Cost of New Entry for the Reference Resource effective in such LDA.

- Tariff Section 6.5(a)(ii)(c) addresses whether new entrant offers are competitive under certain conditions.
- Tariff Section 6.5(a)(ii)(c) (Sheet 608) provides that, “The Office of the Interconnection then shall clear the auction with such revised Sell Offer in place **if the MMU determines that such revised offer is competitive in accordance with the above criteria.**”

- Alternative approach is to delete these words and substitute the Net Asset Class Cost of New Entry as the definition of a competitive offer.

- Tariff Section 6.7 (c) addresses the conditions under which certain units do not have to provide avoidable cost data.
- Tariff Section 6.7 (c) (Sheet 610) provides that, potential auction participants need not submit avoidable cost data under Section 6.7(b) if the unit is an unconstrained LDA and **“is in a resource class determined by the MMU as not likely to include the marginal price-setting resources in such auctions.”**
- Tariff Section 6.7 (c) further provides that, **“The MMU shall determine, in its discretion, following stakeholder consultation, the resource classes and prices in the posting required by Section 6.2(a).”** (The posting of the PMSS results.)

- Alternative approach is to require all market participants to submit data under Section 6.7(b).