



IASTF – Incremental Auction Design Changes, Package B

The MMU's primary concern with the current incremental auction design is that it systematically produces clearing prices well below the BRA prices. This incents speculative behavior which undermines competitive pricing in the BRA and the resource adequacy of PJM. The MMU proposal addresses this concern by requiring that PJM release capacity for sale at the BRA clearing price. The current method for pricing the PJM sell offers in an incremental auction does not capture the energy benefits of excess capacity. PJM analysis prior to the implementation of Capacity Performance valued the energy benefits of excess capacity well above recent BRA clearing prices. An update to the PJM analysis found that this relationship still holds. Setting the PJM sell offer price at the BRA clearing price will appropriately value the capacity already paid for by customers and reduce or eliminate the incentive for speculative offers in the BRA. The incentive to engage in a speculative short sale in the BRA is dependent upon an expectation that the opportunity exists to buy replacement capacity for the obligation at a price below the BRA clearing price. An incremental auction may still clear below the BRA clearing price but under this proposal it will not be a result of a release of capacity by PJM. This is a longstanding issue. It is important that the solution be implemented as soon as possible. The MMU proposes that the new rule be applicable to all incremental auctions beginning with the 2018/2019 Third IA.

Key Features of the MMU Proposal:

- PJM sell offers will be priced at the BRA clearing price
- Two incremental auctions: First IA 20 months prior to the DY and the Final IA three months prior to the DY
- PJM will only offer to release capacity in the Final IA
- Excess Commitment Credits will be eliminated
- Applicable to all incremental auctions beginning with the 2018/2019 Third IA