

**Problem Statement/Issue Charge – Quick Fix Process**

**CP Non-Performance Penalty Rate Modification ~~Alignment with Net ACR MSOC Determination~~**

**Issue Source**

Capacity market penalty rates significantly exceed capacity market clearing prices. Capacity market penalties have created market dislocations as applied during Winter Storm Elliott.

~~This Issue Charge is being presented by LS Power to address the misalignment between the MSOC Net ACR method and the Capacity Performance Non-Performance Charge Rate.~~

~~On September 2, 2021, FERC approved a change to the Market Seller Offer Cap (MSOC), un-tethering the MSOC from Net CONE (Net CONE \* B) and shifting it to Net ACR. Starting with the 2023/2024 BRA conducted in June, 2022, it was very difficult to include a Capacity Performance risk component in the Net ACR to reflect the risk of taking on the Capacity Performance risk (CPQR). As a result, many default MSOCs are at or close to \$0.00/MWD (many were actually negative). As expected, this change resulted in a reduction in RTO clearing prices over the last few BRAs—~~

DY	BRA Date	RTO Clearing Price \$/MWD	Net CONE \$/MWD	Penalty Rate \$/MWD
2021/2022	May 10, 2018	\$140.00	\$302.63	\$3,682.00
MSOC Complaint Filed Feb 21, 2019				
2022/2023	May 19, 2021	\$50.00	\$247.26	\$3,008.37
FERC Order Sept 2, 2021				
2023/2024	June 8, 2022	\$34.13	\$261.10	\$3,176.71
2024/2025	Dec 7, 2022	\$28.92	\$278.47	\$3,388.04

~~However, at the time the MSOC was changed from Net CONE \* B to Net ACR, the Capacity Performance Non-Performance Penalty Rate was not changed and remains tethered to Net CONE creating a significant disconnect between the BRA Clearing Price and the Non-Performance Charge Rate. To put this disconnect into perspective, it would only take a less than 2 hour CP event in the 2023/2024 DY to wipeout the entire years’ worth of capacity payments. If a CP event similar to WSE would occur in the 2024/2025 DY the non-performance penalty would equate to over 5 YEARS of capacity payments.~~

**Issue Content**

The work will finalize a ~~simple~~ Open Access Transmission Tariff (OATT) revisions, and associated manual revisions, to address the level of misalignment between the Net ACR MSOC process implemented with the 23/24 BRA and the Non- Performance Penalty Rate and the definition of a PAI.

**Key Work Activities and Scope**

The stakeholders will review the proposed, ~~simple~~ OATT revisions, and associated manual revisions below, and presenting the recommended finalized version to relevant stakeholder committees.

**Expected Deliverables**

## IMM Redline of LS Issue Charge for April 26 MRC Meeting Agenda Item 5

Provide updated OATT and Manual language changes to relevant stakeholder groups.

### **Decision-Making Method**

As appropriate Tier 1, consensus. Sector weighted vote.

### **Stakeholder Group Assignment**

This issue will be addressed by use the Quick Fix (QF) process in accordance with Manual 34 section 8.6.1, and will be presented to the Markets & Reliability Committee (MRC) for approval.

### **Expected Duration of Work Timeline**

Seeking sStakeholder and FERC approval for the simple OATT revisions, and associated manual revisions, for implementation as soon as practicable prior and ideally prior to December 1, 2023 to the onset of the 2023/2024 DY winter, and subsequent BRAs only until changes to the capacity market design are approved, including any changes to either the MSOC or CP Penalty Rate are implemented as a result of the CIFP process underway.

### **Proposed OATT Changes**

OATT, Att DD, Section 10A(e) –

For Capacity Performance Resources and Seasonal Capacity Performance Resources, the Non-Performance Charge Rate = ( BRA clearing price ~~0.5 x Net Cost of New Entry~~ (stated in terms of installed capacity) for the LDA and Delivery Year for which such calculation is performed \* (the number of days in the Delivery Year / 30) / (the number of Real-Time Settlement Intervals in an hour).

OATT, Att DD, Section 10A(f) –

The Non-Performance Charges for each Capacity Performance Resource (including Locational UCAP from such a resource) and each PRD Provider for a Delivery Year shall not exceed a Non-Performance Charge Limit equal to 2 times the ~~Net Cost of New Entry~~ BRA Clearing Price times the megawatts of Unforced Capacity committed by such resource or such PRD Provider times the number of days in the Delivery Year.

### **Other Change (not necessarily embedded exclusively in the OATT):**

Revise the PAI trigger as proposed by PJM in the PJM CIFP proposal:

PAI only triggered for all intervals in which ~~where~~ there is i) a real-time PJM primary reserve shortages AND ii) PJM ~~declaration of a regional~~ real-time emergency procedure more severe than ~~not including any emergency triggered by Pre-Emergency-~~ DR

Manual changes will be required.