

PSEG Nuclear, LLC
ZEC Application – Salem 1
Docket No:

Response to Application Request: SI-SSA-0031
Date: 12/19/2018

Question:

A listing of Capacity payments received from PJM for the Unit over the past ten (10) years.

Attachments Provided Herewith: Yes - CONFIDENTIAL

Response:

Attached is a listing of capacity revenue from PJM for Salem 1 & 2 (PS Share) and Hope Creek.

There are 2 categories of revenue provided; Direct PJM Revenue and Opportunity Cost.

Direct Revenue is simply the capacity revenue resulting from selling UCAP into the PJM capacity auctions. These auctions include the Base Residual Auction (BRA) and 3 Incremental Auctions. For the 2016/2017 and 2017/2018 Planning Years, PJM held special “Transition Auctions” (IA). These Transition Auctions provided an opportunity to convert Annual capacity into Capacity Performance (CP) capacity. As such, the volume of any capacity cleared in a TA was deducted from BRA clearing results in the attached tables to avoid double counting these volumes. This is why the volumes cleared in the 2016/2017 and 2017/2018 BRAs appears to be particularly low.

Opportunity Cost is a bit more complicated. The total amount of UCAP available from the unit may differ from the sum of sales into the BRA and 3 IAs. Sometimes, the difference is a negative number. This indicates that more capacity was sold into the auctions than is ultimately available on the unit. This is generally due to an increase in the unit’s Equivalent Forced Outage Rate (EFORd), which results in a decrease in its available UCAP. In these cases, the unit must “replace” the capacity it sold or face penalties. It can do this by buying capacity in an IA, purchasing it from another counterparty, or using capacity from another unit in its own fleet with excess unsold capacity. It should be noted that the unit still receives the revenue for the capacity it sold to PJM, but must incur the cost of replacing its shortfall.

On the other hand, the unit could have a positive difference between its auction sales and UCAP available during the delivery year. This excess capacity could be used to cure a deficiency at another unit in its fleet, sold bilaterally, exported to a neighboring ISO, or simply held as insurance.

PSEG manages its generating units as a portfolio. Excess capacity on one unit would be used to cure a deficiency on another unit which has no direct cost or revenue impact, but does have an

opportunity cost of not using it to sell into from the IAs. For this analysis, we value the differences between total capacity available and total sales at the average of the 3 incremental auction prices. This provides a reasonable proxy for the value of the excess or shortfall. If these units were managed individually, rather than as a portfolio, excess capacity would be sold into incremental auctions and replacement capacity for shortfalls would be purchased from those auctions.

Note: As described further in the response to II-GAIO-7 and VII-SSA-16, PSEG has frequently shifted a portion of Hope Creeks' capacity commitments from the BRAs and IAs to other units in our portfolio and used the resulting uncommitted portion of Hope Creek to support capacity sales to NYISO. These sales could have been supported by any PJM unit in PSEG's portfolio and as such are not included in Hope Creek's PJM capacity revenues.