



# Critical Issue for Fast Path: Minimal Offer Price Rule June 30, 2021

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## LS Power Footprint in PJM

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**LS Power is the second largest privately held generation company in PJM, with over 11,000 MW of capacity**

- Our PJM generation assets include clean supply resources: **hydro pumped storage, and natural gas fired peaking and combined cycle facilities**
- **Affiliate CPower is the largest supplier of demand response and energy efficiency in PJM**
- **LS Power is a leading developer of transmission assets in PJM, for which its solutions were deemed lower cost and environmentally superior to other options proposed; LS Power established a first-of-its-kind project cost cap to protect electricity consumers from paying for cost overruns – a new, consumer-focused approach**
- **LS Power is technology neutral...** including hydro pumped storage, solar, and natural gas fired peaking and combined cycle facilities
- **We will invest where price signals are efficient and transparent to provide an opportunity (but not a guarantee) of a return on its investment**
  - **With two-thirds of LS Power's generation portfolio in PJM, PJM has provided such investment opportunities over its history that have provided significant consumer benefits**



# Proposal Advantages

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- Reliability maintained to current standards
- Accommodates state policy resources while preserving market efficiency and transparency
- Provides reasonable market clearing prices over the near term
  - Eliminates supplier incentive to bid low enough to escape being the marginal unit under the other repricing proposals
- Allows for the transition and development of a durable long term solution
- Protects load so they will never pay more for clearing all resources
- Retains the benefit of most of the existing RPM rules
  - Forward looking
  - Must offer commitments
  - Performance Penalties
- This is a COMPROMISE proposal that could be implemented near term and provide PJM and its stakeholders to focus on a long term solution

# Overview of Proposal

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- Use Existing PJM Rules
- 1<sup>st</sup> Run: Clear Auction applying MOPR and establish total cost to load
- 2<sup>nd</sup> Run: Add back those MOPRd Resources that did not clear and divide total cost to load by total MWs
- Allocate total amount of mws cleared pro rata across LDAs
- Basic math:
  - First Run: Multiply Mws cleared non-MOPRd resources x price = All in Cost
  - Load payment is capped at All in Cost
  - Add back MOPRd resources:  $\text{All in Cost} / \text{total number of Mws} = \text{Price Paid to All Resources}$
- Offer Withdrawal Option if overall price is less than Resource needed (as expressed in its bid)
  - Supplier makes the election before the auction
  - Supplier will know approximate total Mws of MOPRd resources so could make an informed decision of likely percentage decrease from the All in Cost/non-MOPRd resources to All in Cost/total number of MWs
  - Resource quantity is removed one at a time:  $\text{Total Cost to Load} / \text{reduced MWs} = \text{Price to All Remaining Resources}$ ; final price can never be greater than BRA clearing price

# Pros and Cons

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- Pros highlighted in opening:
  - Protects pricing integrity
  - Meets state accommodation
  - No additional cost to load
  - Requires minimal changes to PJM rules and running of the auction
- Cons:
  - Has so called “re-pricing” feature that FERC originally rejected
    - Different Commission Majority; does not support MOPR; does not believe it necessary to follow fundamental economic principles (e.g. do not see need for buyer market power mitigation)
    - Objected: “[repricing]would then adjust the clearing price paid to all cleared resources, including resources receiving Material Subsidies, while excluding other Non-MOPRd competitive resources that offered below the adjusted clearing price but above the stage one price. *PROPOSAL DOES NOT EXCLUDE RESOURCES THAT WOULD OTHERWISE HAVE CLEARED*
    - Objected: [repricing]”would then adjust the clearing price paid to all resources with a capacity commitment, including resources receiving Material Subsidies, while excluding other competitive resources (i.e., resources not receiving out-of-market support) that offered below the adjusted clearing price but above the stage one price.” *PROPOSAL DOES NOT EXCLUDE COMPETITIVE RESOURCES*
    - Stated: “This would make it more difficult for investors to gauge whether new entry is needed, or at what price that new entry will clear the PJM capacity market and receive a capacity commitment.” *PROPSAL IS TEMPORARY SO THIS SHOULD NOT BE A CONCERN FOR LONG TERM INVESTMENT*
  - Does not artificially lower prices as some would prefer but flip side is energy costs would be somewhat lowered by additional supply