

# *Package “D” Proposal For Unit-Specific, Below-MOPR Calculation Based on Out-of-Market Payment Amounts*

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# The Payment Stream Needed for a Construction Commitment As Revealed through a Competitive Procurement or an Administrative Regulatory Process Will Provide Reliable Data for the Unit Specific MOPR Determination

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- Two categories of cases for the unit specific exemption:
  - Units that do not qualify for the Competitive Exemption because they receive out-of-market payments from a governmental entity awarded through a discriminatory (new only) procurement
  - Cost of service units that do not qualify for the Self-Supply Exemption because the developer falls outside of the “safe harbor” parameters for lacking incentives to exercise market power
- Competitive (but discriminatory) procurements should reveal the minimum acceptable level of payments for the developer’s commitment to construction
- The findings of the regulatory agency with oversight of the cost-of-service developer should also provide a reliable indication of the developer’s costs and risks

## ***Post Hoc* Data Supplied by the Developer or Industry Proxy Data Will Be Less Reliable as Evidence of the Developer's Real Costs**

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- Data supplied by a developer solely for the purpose of seeking a unit-specific MOPR determination will be less reliable:
  - The developer is not obligated to make any financial commitment based on its submissions to PJM/IMM and has financial incentives to “low-ball” the cost components
  - The MOPR review oversight process will not be as rigorous as a rate case proceeding with testimony, cross-examination, etc.
- Industry proxy data, while objective, does not necessarily represent a particular developer's actual costs or risk profile

## The Calculation Process

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- Identify the full payment stream that supports the development of the project
- Determine a “cost of funds advantage” associated with the OOM support
- Scale up the full payment stream based on the impact of using the lower cost of funds associated with the OOM arrangement as compared with the reference unit calculation
- Determine the nominal-levelized scaled payment stream
- Subtract the nominal-levelized energy and ancillary payments that the project can expect to receive as determined by the IMM/PJM
- The final result will be an amount in \$/MW-Day that reflects the developer’s perception of costs and risks presented in a comparable manner to the reference unit calculation

## Comparison With Proposal A

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- Proposal D uses the best available evidence of the developer's costs; Proposal A allows the use of less reliable data compiled by a developer with incentives to understate costs
- Proposal D uses industry proxy data for a limited set of components, *i.e.* the cost of funds advantage calculation and the energy/ancillary service revenues; Proposal A uses industry proxy data for many components
- Proposal D is very transparent – the main cost element is publicly available; under Proposal A, key cost items are confidential and cannot be challenged by other stakeholders
- Proposal D inherently recognizes cost savings derived from the special circumstances of public power entities; Proposal A also may recognize such cost savings but requires the developer to make an affirmative demonstration of their levels

## Additional Information

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- Additional information:
  - Dr. Shanker Presentation: <http://www.pjm.com/~media/committees-groups/task-forces/cstf/20140411/20140411-item-03-package-d-mopr-presentation.ashx>.
  - White Paper: <http://www.pjm.com/~media/committees-groups/task-forces/cstf/20140411/20140411-item-03-package-d-mopr-whitepaper.ashx>.
  - Illustrative example: <http://www.pjm.com/~media/committees-groups/task-forces/cstf/20140425/20140425-item-04-pseg-proposal-for-unit-specific-below-mopr-calculation.ashx>.
  - Short description: <http://www.pjm.com/~media/committees-groups/task-forces/cstf/20140425/20140425-item-04-package-d-summary.ashx>.

# *Appendix*

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**Illustrative Example of PSEG Companies Proposal For Unit Specific Below MOPR Calculation**  
**Revised April 30, 2014**

A	B	C	D	E
IMM/PJM Cost of Funds For Reference Unit (Assumed)	Average "BBB" Credit Spread to 30Y U.S. Treasuries - based on Bloomberg Indices 20 year history (3/31/93 - 11/13/13)	Average "B" Credit Spread to 30Y U.S. Treasuries - based on Bloomberg Indices 20 year history (3/31/93 - 11/13/13)	C minus B BBB to B Credit Spread - Difference between Investment Grade and Typical Merchant Generator Credit Rating	A minus D (Assumed Rate for Below MOPR Scaling Adjustment)
8.00%	1.61%	4.59%	2.98%	5.02%

**SCALING FACTOR:** The Ratio of CONE value using 8.0% cost of funds vs. CONE value using 5% cost of funds: **1.3**

A	B	C	D	E	F	G	H
Delivery Year (starting in fourth year after auction)	Contract/OOM Capacity Payment (Seller keeps energy revenues)(\$/MWD)	PJM/IMM Calculated E&AS Payments Expected (\$/MWD)	B+C --Imputed Total Nominal Expected Payments (\$/MWD)(A proxy for annual gross capacity cost)	(D*1.3)-- Imputed Total Nominal Payments (Adjusted by scaling factor of 1.3) (\$/MWD)	(Levelize Sum of E) --Nominal Levelized Total Future Payments To Achieve Same Present Value (assumed 8.0% DR) (\$/MWD)	(Estimate Proxy Portion of Capital From E&AS)-- Nominal-Levelized E&AS Payments (assumed 8.0% DR) (\$/MWD)	(F-G)--Nominal Levelized Future Capacity Payments (Column F Minus Column G) (Unit Specific Below MOPR Value) (\$/MWD)
1	\$ 140	\$ 200	\$ 340	\$ 442	\$ 477	\$ 208	\$ 269
2	\$ 145	\$ 202	\$ 347	\$ 451	\$ 477	\$ 208	\$ 269
3	\$ 150	\$ 204	\$ 354	\$ 460	\$ 477	\$ 208	\$ 269
4	\$ 155	\$ 206	\$ 361	\$ 469	\$ 477	\$ 208	\$ 269
5	\$ 160	\$ 208	\$ 368	\$ 478	\$ 477	\$ 208	\$ 269
6	\$ 165	\$ 210	\$ 375	\$ 488	\$ 477	\$ 208	\$ 269
7	\$ 170	\$ 212	\$ 382	\$ 497	\$ 477	\$ 208	\$ 269
8	\$ 175	\$ 214	\$ 389	\$ 506	\$ 477	\$ 208	\$ 269
9	\$ 180	\$ 216	\$ 396	\$ 515	\$ 477	\$ 208	\$ 269
10	\$ 185	\$ 218	\$ 403	\$ 524	\$ 477	\$ 208	\$ 269
Present value at time of auction using 8.0%	\$ 849	\$ 1,107	\$ 1,955	\$ 2,542	\$ 2,542	\$ 1,107	\$ 1,435

The intent is to estimate gross cone. Here we infer that gross cone equals the sum of the party's offer price plus the estimated E&AS. Thus column D reflects a 100% gross capital number. We then wish to decompose that back to a levelized offer by removing the portion of capital expected to be recovered from energy (Column G)