



# Minimum Offer Price Rule Compliance Filing

Lisa Morelli

Director, Capacity, DR and Compliance

Markets and Reliability Committee

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- PJM submitted its [compliance filing](#) in the MOPR docket on March 18, 2020
- This was the culmination of a 90-day period in which PJM was committed to listening to stakeholder input and developing solutions that balanced disparate feedback, within the bounds of the FERC order
  - PJM held 9 stakeholder meetings on this topic
- PJM requested that FERC provide no less than 35 days for comment – instead of the typical 21-day period – given the size of the filing, the importance of the issues and the current circumstances.
  - Comments are due April 22, 2020

The filing conforms PJM's Tariff to the Dec 19, 2019 FERC order and provides implementation detail in some key areas that were not fully defined in the order.

- Establishes the Net Cost of New Entry (Net CONE) and Net Avoidable Cost Rate (Net ACR) values for the necessary resource classes
- Provides flexibility for unit-specific exceptions to the default MOPR floor prices
- Deals with the circumstances required by FERC, where resources elect the competitive exemption and then later receive a subsidy
- Deals with issues of cross-subsidization amongst jointly owned units and bilateral contracts
- Establishes auction timing that achieves a balance between states' needs – given the potential passage of legislation and processes that would follow that legislation – and the much-needed market certainty of running an auction



# Default Net CONE Values

Resource Type	Net CONE (\$/ICAP-MW-Day)
Nuclear	\$1,483
Coal	\$1,025
Combined Cycle	\$152
Combustion Turbine	\$246
Solar PV (Tracking)	\$175
Solar PV (Fixed)	\$367
Onshore Wind	\$1,023
Offshore Wind	\$3,146
Battery Storage	\$1,040
Demand Response (Gen)	\$254
Energy Efficiency	\$64

## Observations

- PJM default Net CONE values originate from publicly available data with the exception of Energy Efficiency (Brattle analysis).
- PJM's Combined Cycle (CC) and Combustion Turbine (CT) values are from the recently approved Quadrennial Review.
- Values for renewables are reflective of conversation from nameplate to Installed Capacity (ICAP) based on capacity value.
- Renewable financing and asset life are consistent with default parameters.

\*Net CONE numbers in this table are based on the average zonal net E&AS offset. Zone-specific E&AS offsets will be used in the auction.



# Default Net ACR Values

Resource Type-Location	Net ACR (\$/ICAP-MW-Day)
Single-Unit Nuclear	\$210
Multi-Unit Nuclear	\$0
Coal	\$37
Combined Cycle	\$0
Combustion Turbine	\$2
Solar PV	\$0
Onshore Wind	\$0
Demand Response (Gen)	\$3
Energy Efficiency	\$0

## Observations

- Default Gross ACR values originate from Brattle analysis and are reflective of the costs of a “representative plant”
- Energy & Ancillary Services (E&AS) offsets used to derive Net ACR are based on PJM analysis
  - Zone-specific offset values will be used in the auctions, unless FERC grants the request for clarification that ACR should continue to use resource-specific E&AS offsets
- Notwithstanding single-unit nuclear, PJM does not anticipate the implementation of a broader MOPR to impact the ability of existing resources to clear.

\* Net ACR numbers in this table are based on average zonal net E&AS offset.

To the extent the default MOPR floor prices are not representative of an individual resource's costs, the unit-specific exception process may be used to establish a unit-specific MOPR floor price.

- The filing clarifies that an alternate asset life (as opposed to the 20 year default) may be used in the unit-specific exception process and provides guidance on acceptable evidence to justify an alternate asset life.
  - The primary objective is to make sure MOPR floor prices reflect commercial reality.
- The filing also provides generation-backed Demand Response with the flexibility to:
  - Demonstrate that the cost of their backup generator is not reflective of their cost to provide demand response, or
  - Account for demand charge management benefits if the cost of the generator is reflective of their cost to provide demand response.

# Consequences of electing the competitive exemption and then later receiving a subsidy

- P 162 of the FERC order states that if a new resource claims the Competitive Exemption in its first year, then **subsequently** elects to accept a State Subsidy, that resource may not participate in the capacity market from that point forward.
- The debate around the interpretation of the “asset-life ban” centered around the time period to which “**subsequently**” refers.
  - Is the ban triggered if the resource ever accepts a subsidy from that point forward?
  - Is the ban only triggered if the resource accepts a subsidy in that new entry delivery year? The revenue forfeiture provision for existing resources in this same paragraph is limited to acceptance of a subsidy for the delivery year in question.
    - “We therefore direct PJM to include in its compliance filing a provision stating that if an existing resource claims the Competitive Exemption in a capacity auction for a delivery year and subsequently elects to accept a State Subsidy for any part of that delivery year, then the resource may not receive capacity market revenues for any part of that delivery year.” (FERC order P 162)

- PJM believes a reasonable interpretation and implementation of the asset-life ban provision combines the asset-life ban provisions in [P162](#) of the order with the provisions governing transition from new state-subsidized resource to existing state-subsidized resource in [P141](#).
  - P141 – a new state-subsidized resource remains treated as new until it clears subject to Net CONE
- PJM's compliance filing clarifies that the asset-life ban will only be triggered if a subsidy is accepted in a delivery year in which the resource was treated as new entry (when the resource otherwise indicated it would not receive a subsidy)
  - New subsidized resources which elect the competitive exemption will continue to be treated as new entry in future delivery years until they clear with an offer at or above the Net CONE, and will continue to be subject to the asset-life ban provision until such time.



- PJM's market design allows a single facility to be modeled as multiple Capacity Resources in order to reflect joint ownership amongst several parties.
  - Because these Capacity Resources are not truly independent of each other, as they are each supported by the same facility, the subsidy received by one owner can affect the ownership costs of the others, effectively providing a cross-subsidy among the owners.
- PJM proposed a general rule to apply the MOPR to all Capacity Resources supported by a jointly owned facility in which at least one owner receives or is entitled to receive a State Subsidy.
  - In order to elect the competitive exemption, all Capacity Resources associated with the underlying facility must unanimously elect the competitive exemption.
- Jointly owned resources where all owners have equal rights and responsibilities proportionate to their ownership share are the exception to this rule.
  - Each owner is responsible only for its costs and, absent additional agreement, cannot not cross-subsidize other owners.
  - In this case, only the share(s) that designate they intend to accept a subsidy will be subject to MOPR.

- Bilateral transactions present a similar scenario to jointly owned units.
  - The Capacity Market Seller offering the purchased capacity into the market does not own the underlying facility but may nonetheless benefit from a subsidy received by the resource's owner
- Bilateral transactions will be subject to the MOPR to the extent the transacting owner is entitled to a subsidy associated with the facility even if the transacting buyer is not entitled to a subsidy.
  - In order to elect the competitive exemption, all Capacity Resources associated with the underlying facility must unanimously elect the competitive exemption.
- Voluntary, arm's length bilateral transactions are excluded from the definition of State Subsidy
  - A Market Seller may bilaterally transact a part or all of the capacity, energy, or ancillary services from its facility to a Self-Supply Entity without jeopardizing the non-subsidized status of the underlying generating facility (while the capacity transacted to the Self-Supply Entity would be considered a Capacity Resource with State Subsidy).

- **Compress pre-auction activities into 6 months to conduct the next BRA (2022/2023) as soon as possible after FERC approval of compliance filing**
  - Request flexibility from FERC to delay the start of the 2022/2023 auction to no later than mid-March, with completion no later than March 31, 2021, IF a state passes new legislation PRIOR TO June 1, 2020 and the state requests the additional time
  - If FERC approves PJM's compliance filing by September, March 31, 2021 is the last date by which PJM would complete the next auction
  - If FERC does not approve PJM's compliance filing by September, the first auction would be 6 months (plus 2 weeks) after issuance since that would be after March 2021
- **Conduct the 2023/2024 thru 2025/2026 BRAs at 6 month intervals thereafter**
  - Includes 6 week pause between posting of auction results and commencement of a 4.5 month window of pre-auction activities for next BRA
- **Filing provides guidelines for cancelling Incremental Auctions based on proximity to the rescheduled BRA dates**

- Sets baseline for executing the next auction as soon as practically possible after receiving FERC approval of the compliance filing – PJM needs 6 months for pre-auction activities for the first auction under the new rules
- Provides flexibility to delay the next auction to accommodate any state(s) that pass legislation by June 1, but limits the delay such that auction is completed by March 31, 2021
  - Reason behind the requested flexibility is a direct request from states
  - Requires legislation is passed soon, and stretches as far as reasonable to achieve a balance between providing flexibility and limiting the potential delay
  - Provides certainty as to whether there will be any delay in the next auction by June 1, 2020

