

Proposed Path for Policy Resources based on Substantial Advance Notice

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CCPPSTF Core Issue

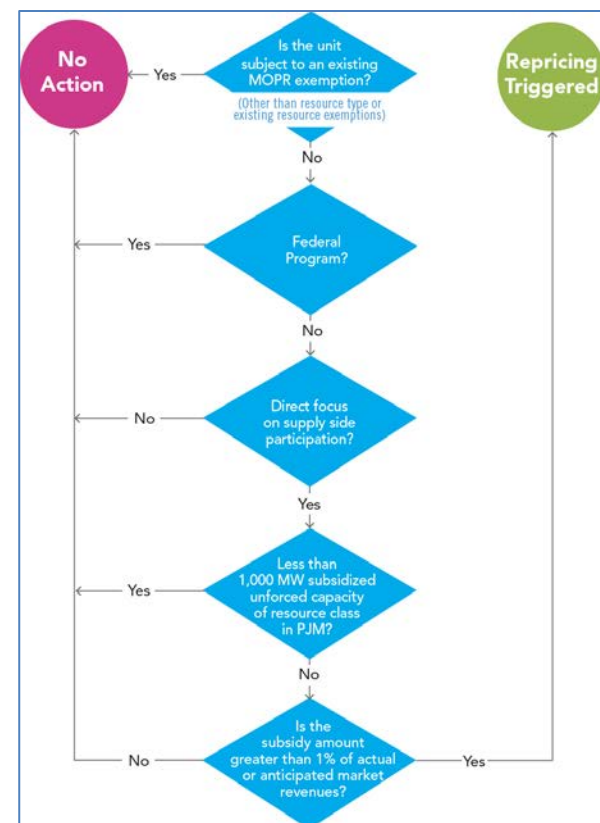
- States may from time to time take actions that affect the resource mix
 - Cause new resources to become available, or existing resources to continue operation
- State actions are likely driven by one or more policy objectives that may be global (e.g. carbon), local (local economies, jobs) or other
 - Some objectives are more legitimate than others but no one wants to have to “call balls and strikes” (pass judgement) on objectives or intentions
- Concern that such state actions can affect capacity market prices inappropriately; calls for “mitigation” (MOPR)
 - But mitigation leads to consumers “paying twice” for capacity, and prices that may not reflect the actual supply/demand situation with the policy resources

Need: Process/criteria for state actions that will not affect capacity market prices inappropriately and will not need to be mitigated.

Nature of Proposal

(Pertains to “Triggers” Only)

- Proposal: Identify a process and criteria which, if followed by a state, would result in their policy resources not triggering MOPR actions (repricing or other)
- The “flow chart” in PJM’s repricing proposal (to determine “actionable subsidies”) is a useful framework ->
- This proposal does not suggest a need for or support for re-pricing or other changes to the existing MOPR



Source: PJM’s Capacity Market Repricing Proposal, June 12, 2017

Circumstances Under Which Policy Resources Do Not Affect Capacity Prices Inappropriately (or at all)

Bookends:

- ▲ Last-minute (before RPM auction), unexpected state action to retain a plant the market reasonably expected to see retired
 - Other entry and retirement decisions were based on the expected retirement
 - Retention results in excess capacity in the RPM auction, suppressed price
- ▼ Policy resource resulting from a long and transparent regulatory process; resource anticipated by the market long before the auction
 - The timing of other entry and retirement decisions anticipate the resource
 - Presence of the resource is fully absorbed by the market; price not affected

See also: Wilson, James F., *Comments on Triggering, Re-Pricing and other CCPP Issues*, Capacity Construct/Public Policy Senior Task Force meeting, August 3, 2017

Impact of Incremental/Decremental Resources on Capacity Prices

- Market participants adjust their entry and exit plans based on the overall supply/demand balance, anticipated capacity prices
- When a new resource (or a retirement) is announced or anticipated it changes the supply/demand balance; some plans are adjusted
 - Timing of entry or exit; sizing of entry; go/no go; the supply curve changes
- **With sufficient lead time, the market fully reflects and absorbs an incremental or decremental resource (it becomes “baked in”)**
- A new resource known more than a year before the base residual auction (more than four years before its first delivery year) should be fully absorbed and not appreciably impact prices in the auction
 - May displace another resource, yes; but suppresses price? No.
 - Relatively large resource changes in smaller LDAs could take longer to absorb.

The Market Adjusts and Absorbs: Some Indications

- 26,000 MW of retirement in a short period without price spike
- 12,000 MW of new resources cleared for base residual auction w/o mitigation, but only a portion offered and cleared each year
- > 10,000 MW of offered but uncleared capacity, last 7 auctions
- RTO Region capacity prices generally in the \$80-\$165/MW-day range (with a few exceptions) over many years, despite multiple rules changes, retirements, entry, etc. etc.

Conclusion: the relevant section of the supply curve (near market clearing) is rather stable year-to-year, due to adjustments of entry and exit decisions in response to the anticipated supply/demand balance and resulting prices.

New or Retained Resources and Price Impacts

- It's the presence of the MW, not the size of any subsidy, that may impact price
 - Note that new entrants of all types generally offer into RPM as price-takers, not based on “cost” (it's a long-term decision, auction determines just one price); existing resources also typically offer at low prices based on going forward cost
 - Therefore, a quantity of new or retained resource has the same potential impact on prices, without regard to whether its there on a merchant basis or with policy support, or the magnitude of any subsidy
 - Note that MOPR'ing, including “re-pricing” approaches, based on a levelized cost (which generally removes the resource from the auction) overstates the impact of the resource on price, to the extent the market had any opportunity to adjust to it
- MOPR'ing results in a price that does not reflect actual supply/demand, and it will also delay market absorption of the policy resource

The goal should be to have the market absorb the policy resource, that is, to get back to the right supply/demand balance and right price

Specific Proposal: Path (Process, Criteria) For Policy Resources To Not Affect Price, Be Exempt from MOPR

If the quantity of a new or retained policy resource:

1. Is established in a formal state document ≥ 20 months before the RPM auction (regulatory order, legislation, executive order); and
2. The resources resulted from a process or discussions that began at least 8 months before the formal action (not a snap decision); and
3. The quantity is under a size threshold (suggested: 2,000 MW UCAP)

Then the policy resource is presumed absorbed by the market by the time of the base residual auction, and would be exempt from MOPR.

If a policy resource fails the 20 month or 8 month threshold, but would satisfy these thresholds the following year, it would be presumed absorbed, and not mitigated, in the following auction.

Details/Variants?

- Parameters (20 months, 8 months, 2,000 MW) are suggested values
- Smaller quantity threshold in LDAs?
 - But removing load pocket constraints is a good thing and leads to more competition; and policies should not protect or create a property right to constraints and high prices....
- Multiple policy resources in the same auction?
- Firm the state's commitment to some extent; consequences if the policy resources do not arrive on time?

Summary

- There should be a path that states can follow to take policy actions that will not impact capacity prices inappropriately, and, therefore, will not be MOPRed
- Proposal: include such a path as an additional form of exemption in the “Triggers” section of CCPPSTF packages
- Note that this proposed exemption focuses on lack of price impact
 - It does not require any evaluation of objectives or intent; exemptions that address legitimate objectives, such as externalities, would be separate
 - This proposal is not intended to replace or preclude other exemptions

Attempts by states or other parties to suppress prices should be mitigated, of course; existing, broad FERC authority covers this

FYI about the presenter

- Consultant to consumer advocates of NJ, PA, MD, DC, DE
- Consultant to New England States Committee on Electricity (NESCOE) for similar issues being addressed in New England
- Testified on MOPR issues in PJM, also NE (2010), MISO (2013); testified against subsidized resources > 10 times in past three years (~5x elec. gen., ~5x gas pipe)

Views expressed here are my own and may not be those of some clients

August 3, 2017 CCPPSTF presentation:

<http://www.pjm.com/-/media/committees-groups/task-forces/ccppstf/20170803/20170803-wilson-energy-economics-ccppstf-presentation.ashx>

Comments in AD17-11:

<https://elibrary.ferc.gov/idmws/common/opennat.asp?fileID=14620400>

Comments on two-tiered pricing proposals in New England:

http://nepool.com/uploads/IMAPP_20161021_NESCOE_2Tiered_Pricing_Analysis.pdf

Missing Money Revisited: Evolution of PJM's RPM Capacity Construct:

<http://appanet.files.cms-plus.com/PDFs/MissingMoneyRevisitedJWilsonSept16.pdf>