

The Carbon Adjusted Minimum Offer Price Rule Proposal (“CAMOPR”)

March 26, 2021

CAMOPR Basic Elements

- Retain current MOPR structure but recognize Social Cost of Carbon (SCC) in identifying when environmental support payments are Actionable Subsidies
- Actionable Subsidies only include payments for support of clean energy policies that exceed the federally determined SCC plus 10%:
 - Use SCC from federal Interagency Working Group determination
 - Include 10% adder in addition to SCC value to provide degree of flexibility to states and local governments in pursuing policies
- Resources that clear a BRA with a payment that has been determined not to be an Actionable Subsidy or that clear notwithstanding a bid floor associated with an Actionable Subsidy will not be subject to the MOPR in a future auction unless the governmental entity creating the subsidy takes steps to increase it
- Include small carve-out for resources subject to MOPR equal to one year's projected load growth: prorate bid quantities if too many bids and limit opportunity to participate by MOPRed resources to three years

Illustrative Example

- Assume state environmental subsidy payment equal to \$15/MWh of production¹
- Express subsidy amount as equivalent Social Cost of Carbon value based on PJM carbon intensity, i.e., or 0.552 metric tons/MWh divided into \$15/MWh equals about \$27.17/ton
- Compare with Federal Social Cost of Carbon, e.g., \$76/ton (2020 value at 2.5% discount rate)² plus 10% or \$83.60/ton
- **Not** an Actionable subsidy because equivalent SCC value of program is below Federal SCC value plus 10%

Notes:

1. If subsidy value is not explicit, rules will be needed to calculate subsidy amount, e.g. projected value for traded RECs could be based on average clearing prices over a past period
2. This value chosen for illustrative purposes. Could chose other discount rates or options within study.

Rationale/Support

- FERC's orders expanding MOPR reasoned that that "subsidized resources can suppress capacity market clearing prices below competitive outcomes by offering below their costs" and cause "price distortions"
- But "competitive outcomes" did not take account of the social costs associated with fossil fuel production because those costs were not recognized under the PJM tariff
- FERC could accept the CAMOPR without changing its findings that subsidies could affect market outcomes:
 - FERC could find that environmental subsidies not in excess of a reasonable estimate of the social cost of carbon incorporated into the PJM tariff for evaluation of capacity market bids would help ameliorate "market distortions" caused by the lack of energy market carbon pricing and thus improve "competition outcomes"
 - A reasonable estimate of those costs would be the federally determined SCC
- States or local governments pursuing environmental goals by paying subsidies generally consistent with the federal SCC should not be attributed with the motive of attempting to exercise "buyer-side" market power
- Small carve-out could facilitate a transitional path towards meeting the federal standard
- CAMOPR would be consistent with the principles of "cooperative federalism" by allowing states/local governments to pursue environmental goals but limited by a federal standard to prevent potential abuses