Capacity Market Minimum Offer Price Rule (MOPR)

Problem / Opportunity Statement

The PJM capacity market – known as the Reliability Pricing Model (RPM) – in conjunction with PJM's other markets, has achieved great benefits for customers since it began, including reliability, affordability, reduced emissions, investment in innovative demand response and energy efficiency resources, and facilitating a smooth transition during the time of a dramatic fuel switch from coal to natural gas and renewables. But the energy landscape is shifting again, with renewable resources and batteries making up more than 90 percent of the planned projects being studied in PJM's interconnection process. With 13 states and the District of Colombia in our footprint, many with decarbonization goals and state policies aimed at choosing cleaner resources, we believe that some elements of our capacity market must evolve.

Administrative market rules, such as Minimum Price Offer Price Rules (MOPR), were historically implemented to address (buyer-side) market power in capacity markets – yet today are increasingly viewed as costly to consumers and an impediment to states' development of these non-emitting resources.

States have been presented with a "blunt-instrument" choice between living with a market mechanism that doesn't accommodate their resource choices and exiting the capacity market. Maintaining wide participation in regional, competitive wholesale markets benefits consumers greatly by procuring resources in the most efficient manner. As a result, continuing to apply these (buyer-side) market power rules to resources needed to achieve state' climate policy goals is not sustainable and will not fully serve the regions' needs.

Issues created by the current MOPR include:

- It creates the potential for consumers to have to pay for resources to meet public policy objectives but not to receive a credit for those resources' contributions to wholesale capacity markets. This is also known as the "double-procurement problem." State policy goals are accelerating, including in the area of offshore wind, which will likely make the double procurement problem worse over time.

- It may result in PJM procuring more capacity than is needed, as it may not recognize actions already being taken by states.

- The current iteration of the MOPR works against long established public power business models and long-established state traditional regulatory models. Specifically, limitations on self-supply and limitations on generation being built under a traditional state regulatory model frustrate these entities' fulfilment of the needs of their customers under these long-accepted models.

In the recent Capacity Market Workshop series, PJM and market participants articulated several principles underpinning the capacity market. One of these principles articulated that the capacity market should respect and accommodate state resource preferences. Without timely reform of the present MOPR, this principle is at risk of not being achieved for the foregoing reasons. Further, although the Federal Energy Regulatory Commission (FERC) has not formally spoken on the issue, the recent FERC Technical Conference focused heavily on the MOPR, and the FERC Chair has provided clear publicly stated guidance that he wants this issue addressed as soon as practicable. For these reasons, PJM believes that the current MOPR is not a durable solution and needs reform. This reform is time sensitive and needs to be tackled expeditiously.