

Capacity Market Minimum Offer Price Rule Order

Adam Keech
Vice President – Market Operations
Market Implementation Committee
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March 21, 2016

Calpine files 206 complaint claiming PJM's Tariff to be unjust and unreasonable due to state-subsidization of existing resources participating in PJM's capacity market.

June 29, 2018

FERC rejects PJM's April 2018 filing and finds PJM's Tariff unjust and unreasonable because the existing MOPR does not adequately address out-of-market payments to resources.

Dec. 19, 2019

FERC order expands MOPR to all units receiving state subsidies. Does not include PJM-proposed resource carve-out option.

April 9, 2018

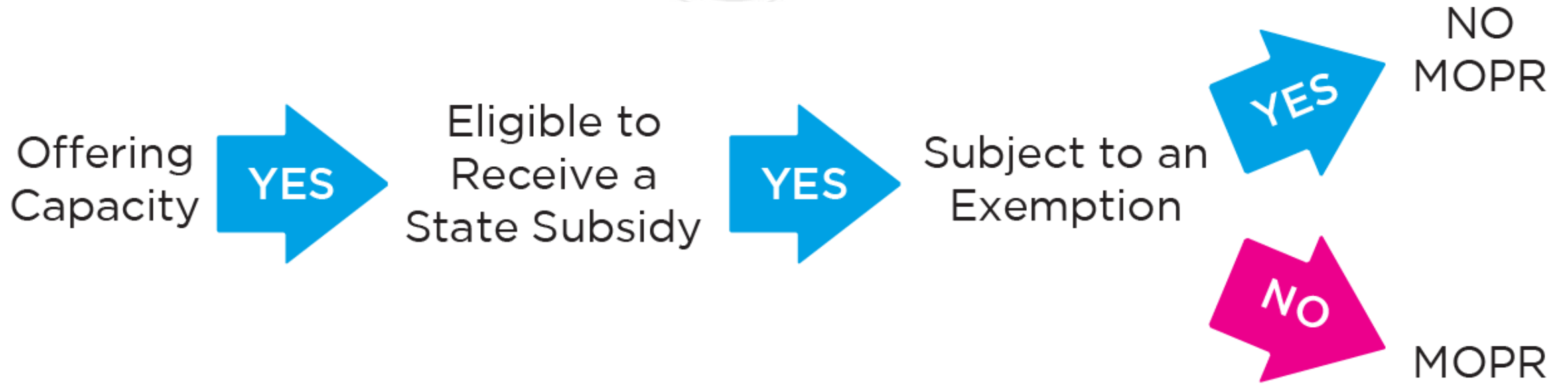
PJM proposes to FERC two separate capacity reform constructs:

1. Capacity repricing (PJM)
2. MOPR-Ex (IMM)

Oct. 2, 2018

PJM proposes to FERC in response FERC guidance:

1. Expanded MOPR
2. Resource carve-out
3. (Optional) Resource carve-out with repricing



FERC's December 2019 Order defines a State Subsidy as:

“a direct or indirect payment, concession, rebate, subsidy, non-bypassable consumer charge, or other financial benefit that is **(1)** a result of any action, mandated process, or sponsored process of a state government, a political subdivision or agency of a state, or an electric cooperative formed pursuant to state law, and that **(2)** is derived from or connected to the procurement of (a) electricity or electric generation capacity sold at wholesale in interstate commerce, or (b) an attribute of the generation process for electricity or electric generation capacity sold at wholesale in interstate commerce, or **(3)** will support the construction, development, or operation of a new or existing capacity resource, or **(4)** could have the effect of allowing a resource to clear in any PJM capacity auction.”

December 2019 Order, 169 FERC ¶ 61,239 at P 9.

1. Existing **self-supply** resources
2. Existing **demand response, energy efficiency and storage resources**
3. Existing renewables participating in **RPS** programs
4. Competitive exemption
 - For new and existing resources forgoing a state subsidy
5. Unit-specific exemption
 - Allows resources that do not qualify for a categorical exemption to justify a competitive offer below their applicable MOPR

What is a **New** Resource?

Has not cleared a Base Residual Auction (BRA) or Incremental Auction

What is an **Existing** Resource?

- Successfully cleared an annual or incremental capacity auction prior to the order, or
- Has an executed interconnection construction service agreement on or before the date of the order, or
- Has an unexecuted interconnection construction service agreement filed by PJM for the resource with the FERC on or before the date of this order

In calculating the **MOPR** for each resource, FERC determined that PJM is to use:

- NET CONE for **new resources**
- NET ACR for **existing resources**

Cost of New Entry (CONE) vs. Avoidable Cost Rate (ACR)

CONE reflects a *new* resource's capital investment and fixed operations and maintenance expenses

ACR reflects an *existing* resource's annual going-forward costs (i.e., costs that would be avoided if the unit would otherwise retire)

- Not applicable to new resources; does not incorporate cost to enter market
- Reflects a resource's lower threshold to remain in market than to enter it

Net CONE and Net ACR remove expected energy and ancillary service (E&AS) market revenues

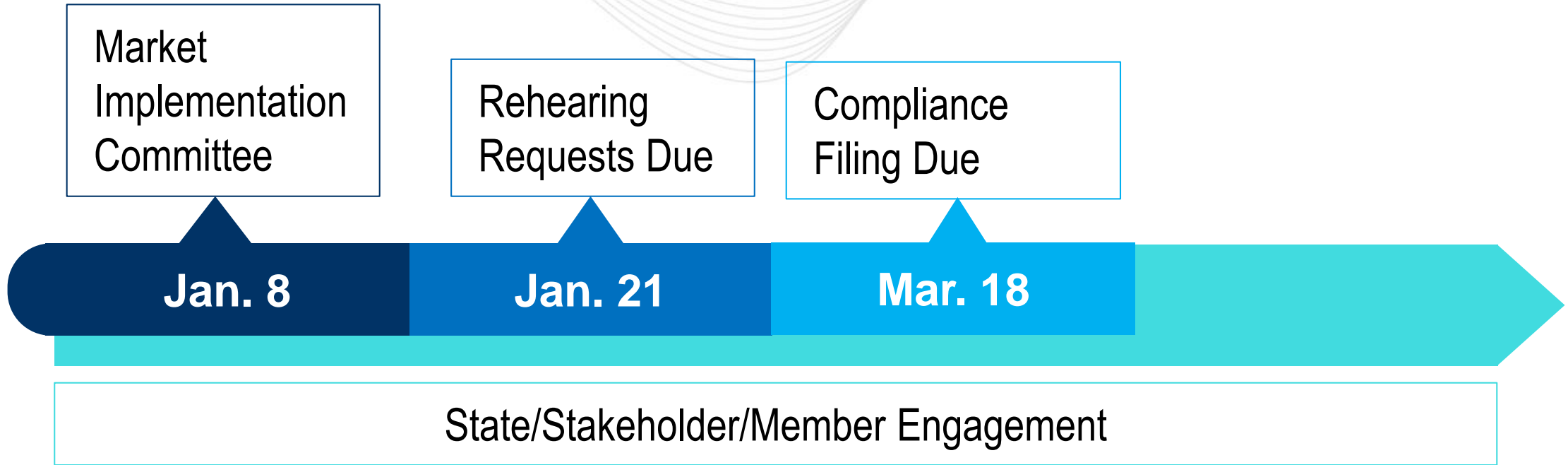
- Reveals the capacity revenue necessary for a resource to remain profitable



PJM's Proposal Versus FERC Order

PJM's Proposal	FERC Order
Resource-specific carve-out for new and existing resources	NO
Materiality threshold of 20 MW (UCAP)	NO
Materiality threshold of subsidy totaling $\geq 1\%$ of resource's PJM revenue	NO
Retain self-supply short/long test (for public power and vertically integrated utilities)	NO (existing only)
Exclude resources whose primary purpose is not producing electricity	NO
Full energy efficiency exemption	NO (existing only)
Exclude industrial development and local siting support	YES
Exclude federal subsidies (enacted prior to March 21, 2016)	YES
MOPR for new resources based on Net CONE; existing resources based on Net ACR	YES

- PJM will likely need to recalculate MOPR floor prices and submit updated values
 - New resources will be **Net CONE** for the resource type
 - Existing resources will be **Net ACR** for the resource type
- New demand response (DR) [with behind-the-meter (BTM) generation] and energy efficiency will have CONE values calculated for them
 - New DR without BTM generation will use average of historic DR offers
- Many other resource types will need CONE values in addition to what PJM originally filed
 - Black liquor, coal mine gas, landfill gas, etc.



- Update Tariff to expand MOPR application and apply FERC exemptions
- Submit new floor prices
 - PJM must develop MOPR floor prices for all resource classes
 - PJM must update ACR values
 - Will not run a BRA until new MOPR floors **approved** by FERC
- Establish updated auction timelines for the 2022/2023 and 2023/2024 Delivery Years
 - Proposal will also need to include modified schedules for implicated Incremental Auctions



Comments and questions regarding this order
may be directed to RPM_Hotline@pjm.com