



POWER SUPPLY | GENERATION | FINANCIAL | MEMBER SERVICES | RISK MANAGEMENT | IT | SUSTAINABILITY

Views on MOPR Order – Presented to the Market Implementation Committee

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Agenda

- MOPR Order
 - Next Steps
 - Feedback
 - Summary
- Appendix

MOPR Order

- PJM has 90 days for their compliance filing. Significant work lays ahead for PJM including at least:
 - Para. 143: “...we direct PJM to use resource-type specific Net CONE values for resources that have not previously cleared a capacity auction...we direct PJM to provide additional explanation on how it calculated each of the proposed values on compliance, including workbooks and formulas, as appropriate.”
 - Para. 146: “We direct PJM to propose default offer floor prices for all other types of resources that participate in the capacity market, including capacity storage resources, as well as resources whose primary function is not energy production, including facilities fueled entirely by, for example, landfill gas, wood waste, municipal solid waste, black liquor, coal mine gas, or distillate fuel oil, on compliance.”
 - Para. 147: “...we direct PJM to establish objective measurement and verification requirements for new energy efficiency offers and to limit such offers to the verifiable level of savings.”
 - Para. 149: “We direct PJM to propose new values using more updated data, and to develop a process to ensure all the data used in the calculation is updated annually.”
 - Para. 150: “Finally, we direct PJM to propose default offer price floors for all other types of resources, including energy efficiency, non-generation-backed demand response resources, and capacity storage, as well as resources whose primary function is not energy production, including facilities fueled entirely by, for example, landfill gas, wood waste, municipal solid waste, black liquor, coal mine gas, or distillate fuel oil, on compliance.”

MOPR Order – Next Steps

- PJM should request more time – seek an extension for their compliance filing – AND include stakeholders in discussions
 - Avoid further litigation, delays, and uncertainty
 - Ensure transparency, inclusive of IMM feedback
- Need to discuss how PJM will inoculate itself and/or prepare for any reversals if rules change from anticipated future litigation (rehearing requests, 205/206 filings, etc.)

MOPR Order - Feedback

- Para. 39 (in part):
 - *This order does not, therefore, change the purpose of the MOPR, but only changes its scope in response to new efforts to provide State Subsidies to existing resources, or increased support for other types of new resources, that threaten to depress market clearing prices below competitive levels.*
- By classifying self-supply as a “State Subsidy” this Order clearly attacks the long-standing Public Power business model, one that is not driven or motivated by profits, but instead by a long-term view of what is in the best interest of its members and their unique goals.

MOPR Order - Feedback

- Experience with Unit-Specific review process:
 - Experts at PJM and IMM do not have first-hand experience with public power business model leading to incorrect comparisons of financing-related costs for merchant projects and those available to not-for-profit public power organizations
 - Example: Fallacy that tax-exempt financing constitutes a subsidy
- MOPR Everything = Build Nothing?
 - RPM construct historically results in significant price volatility
 - Irreversible major financial commitments have to be made well in advance because of long lead times caused by regulatory hurdles, queue review process, etc.

MOPR Order - Feedback

- An LSE that elects to self-supply via new generation is choosing to develop that resource as a hedge against the exercise of seller-side market power NOT as a means of employing buyer-side market power
 - AMP advocated for an alternative construct that would facilitate arms-length bilateral transactions but competitive suppliers opposed that option instead favoring the belief that RPM will provide a greater, though potentially more volatile, revenue stream
- The FRR Alternative was never designed as a viable option to most of PJM members, and is not, as currently constructed, an alternative for public power systems.
- Public Power is expressly prohibited from utilizing tax-advantaged financing for speculative purposes which would include unreasonable over-building

MOPR Order - Feedback

- Para. 39 (in part):
 - *If a seller believes that the default offer price floor for its resource type is not representative of its resource's costs, the seller may apply for a Unit-Specific Exemption, as described below (see IV.D.5).*
- Need a new stakeholder process (e.g., expedited CBIR) to review and enhance the Unit-Specific Exemption rules and associated process
- Need to develop multiple CONE values for each technology type by business model:
 1. Merchant (for-profit); and
 2. Non-merchant (*i.e.*, not-for-profit public power)

MOPR Order - Summary

- Public Power was the only “business model” singled out and attacked for its existence.
 - Self-supply is a critical component of our power supply arrangements on behalf of our members.
- Re-iterate call for:
 1. Revising FRR Alternative rules;
 2. Revising Unit Specific Exemption Process;
 3. Extension of the compliance filing timeline from 90 days to **at least** 120 days;
 4. Develop multiple CONE values by business model and by technology
 5. New CCPPSTF (“C2P2” v2.020) stakeholder process

APPENDIX

AMP Concerns and Impact

- AMP, its members, and the national organizations to which we are a member (*i.e.*, APPA), have made countless comments at PJM and FERC (among other places) about the importance of a viable self-supply option.
- Repeated rule churn such as this MOPR Order only serve to reinforce the comments we have made and continue to believe in wholeheartedly – self-supply serves to insulate our members and our not-for-profit organizations from otherwise unhedgeable price volatility and regulatory uncertainty.

AMP Concerns and Impact

- If not ever more apparent to us all then now, RPM is not a market but instead an administratively determined, non-market construct with no end in sight for litigation and major modifications that has now severely crippled prudent investment decisions for future new build.
- Significant uncertainty:
 - Will states pull out of PJM?
 - Will an FRR option reduce the pool of buyers and sellers impacting the benefits of competition?
 - Will future FERC Orders substantively modify RPM again?

AMP Concerns and Impact

- History repeating itself!
- Following excerpts offered by Patrick McCullar on behalf of DEMEC and the APPA in Dockets ER11-2875-001,002 and EL11-20-001 on **JULY 28, 2011**:
 - *A fundamental error in the logic underlying the MOPR is that the offer price is assumed to be calculated using only expected revenues from PJM's LMP and RPM constructs.... There are legitimate revenues other than PJM-granted revenues available to support the development of new efficient generation resources. These revenues come from a traditional source: long-term bilateral contracts between willing counterparties to support the necessary long-term capital investment in new capacity resources in needed locations. These revenues should be looked upon as beneficial, and not as a threat to PJM's "competitive markets," which by any real-world measure do not exist.*

AMP Concerns and Impact

- Excerpts (cont.):
 - *Most grievous is that the new MOPR erects the highest barriers to new entrants in the regions of PJM where their presence is so sorely needed--in the constrained Local Delivery Areas (LDAs).*
 - *The MOPR Order has the direct effect of insulating incumbent generators in constrained LDAs from competition by new gas-fired resources and upgrades*
 - *New policies jeopardizing the RPM revenue opportunity for new plants committed by LSEs with their eyes on the long-term benefits to their customers, rather than short-term profits, is harmful to both such LSEs and their retail consumers.*

AMP Vision, Mission and Values

Vision

To be public power's leader in wholesale energy supply and value-added Member services.

Mission

To provide Members with the benefits of scale and expertise in providing and managing energy services.

Values

- **Cooperation:** Work together to achieve common goals.
- **Integrity:** Be honest, fair, reliable and ethical.
- **Innovation:** Develop new and creative approaches that increase value to our Members.
- **Action Oriented:** Anticipate, adapt and act.
- **Effective Communication:** Foster open, honest, timely and responsible two-way communications; listen actively and show respect for others.
- **Member Focus:** To continually improve timely, dedicated and professional support to our Members and their customers.

Who and What is AMP?

- American Municipal Power, Inc. (AMP) is a nonprofit corporation that owns and operates electric facilities with the purpose of providing generation, transmission and distribution of electric power and energy to its members.
- AMP was founded in 1971 when a group of municipally owned electric systems joined forces to lower costs and increase the reliability of their power supply to benefit their consumer-owners; Today AMP has grown to serve 135 Members across nine states.
- As a nonprofit corporation, AMP is owned and governed by its Members, who are in turn owned and governed by their more than 650,000 customers.

American Municipal Power Overview

- Non-profit wholesale power supplier and services provider for 135 Member municipal electric systems; Members are units of local government

- Established 1971
- 170 Employees
- HQ: Columbus OH
- Members located in 9 states
- OH, KY, PA, MI, VA, MI, DE, WV, IN
- Serving 650,000 Customers
- Operate in 2 RTOs & non-market areas
- 21-Member Board of Trustees
- Comprised of Member System Officials
- Assets Totaling \$6.7 billion
- Mixed Generation Technologies
- Diverse Energy Portfolio
- 3400 MW Peak Load

