



Current Approach to FERC Order on Capacity Markets and Public Policies

Special MRC
August 15, 2018

- PJM not pursuing an “ISO-NE CASPR-Like” approach at this time
 - Too many details to resolve completely given the tight timeline (even if FERC grants the requested delay)
 - PJM recognizes that others may propose such an approach in their comments
 - Could work through stakeholder process to develop for a future filing
- PJM may still propose a “repricing” step; more on that at the end of the presentation

- Supply resources \geq 20 MW (behind a point of interconnection)
- Receiving out-of-market revenues in amount greater than 1% of actual or anticipated market revenues
- **As for federal programs:**
 - Out-of-market payments from any federal program adopted prior to the refund effective date of Calpine case (3/21/16) are excluded
 - Federal subsidies adopted after that date will be subject to MOPR based on the above criteria, unless there is a clear statement of congressional intent indicating otherwise in the law creating the subsidy.

- Exemption for self-supply in PJM's tariff prior to *NRG* remand for public power and vertically integrated entities
 - **New resources** will be subject to net short/net long criteria
 - Thus if the net short/net long thresholds are exceeded, **the new resource** will be subject to MOPR absent a waiver from FERC.

- MOPR floor price applied to:
 - Any resource with an actionable subsidy that does not elect the resource-specific carve out and is not eligible for the self-supply exemption
 - Any resource that was previously subsidized and elected the resource-specific carve out, whose subsidy has terminated, but that has not cleared economically in a prior BRA based on its applicable MOPR floor price.

- The MOPR floor price of **an existing resource** receiving an actionable subsidy will be the higher of:
 - submitted offer price if it is less than $\text{Net CONE} * B$ or
 - default or resource-specific Avoidable Cost Rate - Net EAS revenues, but in no event above the default offer cap.
- PJM proposes to maintain a table of default ACR values by resource class in order to ensure efficient administration of this process.
- Capacity Market Sellers may apply for a resource-specific MOPR Floor Price value should they so choose.

- For a planned resource receiving an actionable subsidy will be the MOPR floor prices as they exist in the current PJM Tariff for CTs and CCs; floor prices will be established for other resource types.
- For planned demand resources (DR), ultimately PJM will use the average offer price for planned DR from the previous 3 BRAs. Until we have that granularity in the data, PJM will use the average offer price of DR for the previous 3 BRAs. For existing demand resources, MOPR floor price is \$0

- The MOPR floor price for an existing resource that elected the resource-specific carve out whose subsidy has terminated and wishes to re-enter RPM until it clears an auction will be the higher of:
 - submitted offer price if it is less than $\text{Net CONE} * B$ or
 - default or resource-specific Avoidable Cost Rate* - Net EAS revenues
 - must include any project investment that occurred during the timeframe when the subsidy was received
- Planned:
 - For resources that were planned at the time of receiving an actionable subsidy and electing the resource specific carve-out, the Planned resource MOPR floor price will be used until such time as it clears an RPM auction.

- The default is a resource receiving an actionable subsidy will be subject to MOPR
- Resources receiving an actionable subsidy and that cannot receive an exemption are eligible to use ReCO
- The Capacity Market Seller of a resource with an actionable subsidy, with supporting documentation from the subsidizing entity, will be responsible for electing ReCO

- **120 days before the commencement of the auction** (for a May BRA, this would be in mid-January prior to the auction)
 - This is different than PJM's earlier proposal of Sept 1 – so that the election comes after PJM posts the MOPR floor price (150 days prior to auction, i.e., in mid-Dec)
 - For the 2019 BRA, assuming waiver is granted, PJM proposes a date that is shortly after the expected date of a final FERC order – in the mid-March, 2019 time frame.

- Resources and the associated load that are part of ReCO will be included in the clearing of RPM auctions.
 - The ReCO resources will be self-scheduled in the auction and no adjustments will be made to the demand curve
- In the capacity market settlement process, the ReCO resources will not be paid the RPM clearing price and the associated load (see next slide) will not be charged for capacity

- Cleared capacity from ReCO resources will not be paid the clearing price.
- The dollars not paid to such resources will be allocated as a pro-rata credit back to all PJM load in the state subsidizing the specific resources on the basis of such loads' Locational Reliability Charges

- At a minimum, life of **the subsidy**
 - A ReCO resource may choose to re-enter RPM once the subsidy ends, subject to the re-entry MOPR floor price, described previously

- ReCO resources are Capacity Performance (CP) resources and subject to CP performance requirements, non-performance charges and eligible for bonus payments.
- PJM will not extend to the ReCO construct the FRR concept of satisfying any non-performance charge obligations through a physical option of adding more MWs to the capacity plan.

- MOPR/ReCO approach combined with a form of repricing.

Rationale:

- FERC did not completely rule out repricing, but indicated concern with paying subsidized resources the reconstituted clearing price and separating the clearing price and cleared quantity for the sole purpose of addressing subsidized resources.
- The default MOPR with ReCO option addresses the concern about paying subsidized resources any clearing price from the BRA.
- Thus, PJM may propose adding in a repricing element to the clearing
- PJM recognizes that the reconstituted clearing price would still not reflect a point on the VRR curve that matches the committed set of resources.

- PJM is exploring ways to ensure additional load remains in RPM to account for the benefits of the diversity of resources that are subject to RPM in relation to the resource-specific nature of ReCO resources

- Any payment made by wholesale load to a subsidized resource for PJM capacity under ReCO is a federal rate
- Wholesale sale of a PJM-defined, FERC-regulated product (capacity) must retain its federal character
- Rate must therefore be just and reasonable and not unduly discriminatory
- Raises jurisdictional questions as to whether transaction can be done under existing market-based rate authority/need for affiliate waivers or under a separate rate filing?

- Envision either a rate filed with FERC or potentially done under market-based rate authority and noticed in EQR reporting
- PJM Settlement can provide billing and settlement services for affected resource and load.