

# Minimum Offer Price Rule Rehearing Order Compliance Approach

May 13, 2020

# Highlights of FERC Order on Requests for Rehearing and Clarification

The April 16 FERC order on requests for rehearing and clarification in the MOPR docket largely affirmed the December 2019 order.

Impact	
No	Order clarified that voluntary transactions for RECs are not considered State Subsidies.
No	Order affirmed that participation in RGGI is not categorized as a State Subsidy, but payment of RGGI revenue to specific generation units is a subsidy and subject to MOPR.
Yes	Order denied rehearing requests seeking to exempt state default service procurements from the definition of State Subsidy.

## Impact

No	Public power self-supply entities cannot engage in voluntary, arms-length bilateral contracts with unaffiliated third parties without triggering the MOPR. (P243)
Yes	Clarified that all existing resources that were included by an RPS standard as of the December 2019 Order qualify for the RPS Exemption (P279)

## Impact

No      Order clarified that voluntary transactions for RECs are not considered State Subsidies.

- Capacity Market Sellers that certify all generated RECs from the Capacity Resource will be used solely for voluntary transactions may elect the competitive exemption and not be subject to the MOPR.

## Impact

No      Order affirmed that participation in RGGI is not categorized as a State Subsidy, but payment of RGGI revenue to specific generation units is a subsidy and subject to MOPR.

- State Subsidy Definition:
  - “State Subsidy shall not include . . . state action that imposes a tax or assesses a charge utilizing the parameters of a regional program on a given set of resources notwithstanding the tax or cost having indirect benefits on resources not subject to the tax or cost (e.g., Regional Greenhouse Gas Initiative)”

## Impact

**Yes** Order denied rehearing/clarification requests seeking to exempt state default service procurements from the definition of State Subsidy.

### Alternative Straw Proposal:

- State default procurement auctions are State Subsidies
- Bilateral transactions used to fulfill default retail service obligations are **exempt from MOPR where the state default procurement auction:**
  - is subject to independent oversight by a consultant or manager who certifies that the auction was conducted through a non-discriminatory and competitive bidding process;
  - does not impose conditions based on the ownership, location, affiliation, or resource type – except for meeting state RPS requirements;
  - does not require bilateral transactions to be sourced from any specific Capacity Resource or resource type in order to satisfy retail supply obligations; and
  - costs can be avoided by retail customers who elect to obtain supply from a competitive retail supplier.

## Impact

No Public power self-supply entities cannot engage in voluntary, arms-length bilateral contracts with unaffiliated third parties without triggering the MOPR. (P243)

- “State Subsidy shall not include . . . any voluntary and arm’s length bilateral transaction (including but not limited to those reported pursuant to Tariff, Attachment DD, section 4.6), such as a power purchase agreement or other similar contract where the buyer is a Self-Supply Entity and the transaction is (1) a short term transaction (one-year or less) or (2) a long-term transaction that is the result of a competitive process that was not fuel-specific and is not used for the purpose of supporting uneconomic construction, development, or operation of the subject Capacity Resource, provided however that if the Self-Supply Entity is responsible for offering the Capacity Resource into an RPM Auction, the specified amount of installed capacity purchased by such Self-Supply Entity shall be considered to receive a State Subsidy in the same manner, under the same conditions, and to the same extent as any other Capacity Resource of a Self-Supply Entity.
- March filing is consistent with P70 of December 19 Order and “sufficiently address resources receiving State Subsidies to keep existing uneconomic resources in operation, or to support the uneconomic entry of new resources”



## Impact

**Yes**

Clarified that all existing resources that were included by an RPS standard as of the December 2019 Order qualify for the RPS Exemption (P279)

- **March Compliance Filing:** Exemption limited only to Intermittent Resources that qualified for an RPS standard as of December 19, 2019
- **Revised Approach:** Exemption will be broadened to any resource that qualified for an RPS standard as of December 19, 2019



Impact	
No	<b>Energy Efficiency:</b> Establish default MOPR floor price based on Net CONE/Net ACR rather than verifiable level of savings. (P197)
Yes	<b>Default Net ACR:</b> Use resource-specific net revenues rather than zonal net revenues in the net E&AS offset. (P171)
Yes	<b>MOPR for New-Entry Natural Gas Resources:</b> PJM's compliance filing should not contain any substantive changes to the existing MOPR rules that are unrelated to the replacement rate. (P397)

Impact	
No	<b>Energy Efficiency:</b> Establish default MOPR floor price based on Net CONE/Net ACR rather than verifiable level of savings. The default offer price floors for energy efficiency must account for the costs of measurement and verification necessary to establish a resource's verifiable level of savings.(P197)

**March Compliance Filing:** Default MOPR floor prices for Energy Efficiency were established with Net CONE/Net ACR approach.

**Revised Approach:** No change. PJM's compliance filing will affirm that measurement and verification costs were included in the development of the CONE and ACR values filed in March.

## Impact

**Yes**      **Default Net ACR:** Use resource-specific net revenues rather than zonal net revenues in the net E&AS offset. (P171)

## March Compliance Filing:

Default Net ACR = Gross ACR – **Zonal** Net E&AS Offset

## Revised Approach:

Default Net ACR = Gross ACR – **Resource-Specific** Net E&AS Offset

Resource-Specific Net E&AS Offset will be based on **3-year historical average**, consistent with current methodology described in Tariff for offer caps (Attachment DD, section 6.8(d))

## Impact

**Yes**      **MOPR for New-Entry Natural Gas Resources:** PJM's compliance filing should not contain any substantive changes to the existing MOPR rules that are unrelated to the replacement rate. (P397)

**March Compliance Filing:** Applied MOPR equally to new natural gas CT/CCs and state-subsidized resources

- Applied regardless of location and floor price set at applicable Net CONE

**Revised Approach:** Create two separate MOPR sections

- One for new natural gas resources and one for state-subsidized resources

# Impacts to MOPR Floor Prices: Two MOPR Sections

	Existing MOPR Application Section 5.14(h)	Expanded MOPR Application Section 5.14(h-1)
Resource Types	Natural Gas Generation (e.g. NG CTs, CCs, LFs, etc.)	All Resource Types
New vs. Existing	New	New and Existing
State-Subsidized	No	Yes
Location	LDAs for which a separate VRR curve has been established	Not Applicable (no locational restrictions)
Floor Price	For CT/CC: 90% Net CONE For Others: 70% CT Net CONE	Net CONE (New) Net ACR (Existing)

## Impact

**Yes**      **Seasonal Capacity Resources:** PJM's compliance filing should include default MOPR floor prices for seasonal capacity resources. (P195)

**March Compliance Filing:** Specified default CONE and ACR values on \$/MW-Day (Nameplate) basis; Did not explicitly describe application to seasonal offers

**Revised Approach:** Further describe the application and determination of default MOPR floor prices for all resource types, including seasonal offers

- How MOPR floor prices will be determined on \$/MW-Day (UCAP) basis
- How MOPR floor prices will apply to seasonal offers

# Default MOPR Floor Prices for New-Entry: \$/MW-Day (UCAP) Conversion

Example Resource	[A] Gross CONE (\$/MW-Day) (Nameplate)	[B] Zonal Net E&AS (\$/MW-Day) (Nameplate)	[C] Zonal Net CONE (\$/MW-Day) (Nameplate)	[D] Default Factors to Convert to \$/MW-Day (UCAP)	[E] Net CONE (\$/MW-Day) (UCAP)	Conversion Formula to Calculate [E]
Tracking Solar 1	\$290	\$185	\$105	60% <sup>1</sup>	\$175	[C] / [D]
Onshore Wind 1	\$420	\$240	\$180	17.6% <sup>1</sup>	\$1,023	[C] / [D]
Combined Cycle 1	\$320	\$168	\$152	3.4% <sup>2</sup>	\$157	[C] / (1 - [D])
Gen-Backed DR 1	\$254	\$0	\$254	1.08 <sup>3</sup>	\$235	[C] / [D]

1. Class-average **capacity value factors** used for UCAP conversion for solar and wind
2. Class-average **EFORds** used for UCAP conversion for other generation types
3. Delivery Year **Forecast Pool Requirement** used for UCAP conversion for DR and EE

Default MOPR floor prices for Existing resources will use unit-specific capacity value factors and EFORds, consistent with unit-specific net E&AS offsets



# Default MOPR Floor Price and Seasonal Offers: New Tracking Solar w/ Class-Average Capacity Value Factor

## New Tracking Solar (Default MOPR)

Nameplate (MW)	100
Annual Capacity Value Factor (% Nameplate)	60%
Annual Capacity Value (MW)	60
Incremental Winter CIRs (MW)	N/A
<b>Applicable Capacity Value Factor (% Nameplate)</b>	<b>60%</b>
Default Net CONE (\$/MW-Day) (Nameplate)	\$105
<b>MOPR Floor Price (\$/MW-Day) (UCAP)</b>	<b>\$175</b>

Capacity value factor used to convert from  
\$/MW-Day (Nameplate) to \$/MW-Day (UCAP)

- Based on accredited capacity value; not how the resource owner chooses to offer the unit in any particular RPM Auction

MOPR floor price of **\$175/MW-Day (UCAP)** is  
applicable to any annual and/or summer sell  
offer submitted by the resource

- Eligible to submit annual offer: 0 to 60 MW
- Eligible to submit summer offer: 0 to 60 MW
- Combined summer total may not exceed 60 MW

# Unit-Specific MOPR Floor Price and Seasonal Offers: New Tracking Solar w/ Higher Capacity Value Factor

## New Tracking Solar (Unit-Specific MOPR Review)

Nameplate (MW)	100
Annual Capacity Value Factor (% Nameplate)	65%
Annual Capacity Value (MW)	65
Incremental Winter CIRs (MW)	N/A
<b>Applicable Capacity Value Factor (% Nameplate)</b>	<b>65%</b>
Unit-Specific Net CONE (\$/MW-Day) (Nameplate)	\$105
<b>MOPR Floor Price (\$/MW-Day) (UCAP)</b>	<b>\$162</b>

Capacity value factor used to convert from  
\$/MW-Day (Nameplate) to \$/MW-Day (UCAP)

- Based on accredited capacity value; not how the resource owner chooses to offer the unit in any particular RPM Auction

MOPR floor price of **\$162/MW-Day (UCAP)** is  
applicable to any annual and/or summer sell  
offer submitted by the resource

- Eligible to submit annual offer: 0 to 65 MW
- Eligible to submit summer offer: 0 to 65 MW
- Combined summer total may not exceed 65 MW

# Unit-Specific MOPR Floor Price: New Onshore Wind w/ Incremental Winter CIRs

## New Onshore Wind (Unit-Specific MOPR Review)

Nameplate (MW)	100
Annual Capacity Value Factor (% Nameplate)	17.6%
Annual Capacity Value (MW)	17.6
Incremental Winter CIRs (MW)	22.4
<b>Applicable Capacity Value Factor (% Nameplate)</b>	<b>28.7%</b>
Unit-Specific Net CONE (\$/MW-Day) (Nameplate)	\$180
<b>MOPR Floor Price (\$/MW-Day) (UCAP)</b>	<b>\$627</b>

Capacity value factor adjusted to reflect incremental winter capacity value

- $(17.6\% * 365 + 22.4\% * 181) / 365 = \mathbf{28.7\%}$

MOPR floor price of **\$627/MW-Day (UCAP)** is applicable to any annual and/or winter sell offer submitted by the resource

- Eligible to submit annual offer: 0 to 17.6 MW
- Eligible to submit winter offer: 0 to 40 MW
- Combined winter total may not exceed 40 MW

## Transition From **Existing** to **New**

### Impact

**Yes** Resources that are not subject to the Capacity Performance must-offer requirement will be treated as new resources if they seek to re-enter the capacity market after choosing not to participate in a particular auction, including intermittent renewable resources and demand resources. (P60)

## Transition From **New** to **Existing**

### Impact

**Yes** Only the cleared portion of a resource's megawatts will be treated as existing (P398)

**Yes** Demand resources increasing the number of megawatts they offer year-to-year must explain why the increased quantity they intend to offer is not connected to any increased costs or State Subsidies that make the uprate possible. (P172)

## Impact

Yes	Resources that are not subject to the Capacity Performance must-offer requirement will be treated as new resources if they seek to re-enter the capacity market after choosing not to participate in a particular auction, including intermittent renewable resources and demand resources. (P60)
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**March Compliance Filing:** Once a state-subsidized resource clears at Net CONE, it becomes existing and remains existing (unless mothballed and repowered)

**Revised Approach:** A state subsidized resource that has transitioned to existing resource status will revert to being subject to Net CONE if the Market Seller declines to offer any MW on that resource in the BRA for a given Delivery Year

A state-subsidized resource will lose the status of any Existing MW if:

- Zero MW are offered on that resource in a given BRA; and
- Zero MW are committed to an FRR plan at the time of the BRA

The loss of Existing MW status will be applied for the remaining auctions in the given delivery year and all future delivery years

- The new status will not be applied retroactively to any incremental auctions that have yet to be run for prior delivery years

For example, a resource not offered in the 2023/2024 BRA will lose the Existing status for all MW for the 2023/2024 DY and beyond.

Existing status will be retained in the 2022/2023 1<sup>st</sup>, 2<sup>nd</sup> or 3<sup>rd</sup> Incremental Auctions.



- A resource that loses its existing MW status will be referred to as a “Re-Entry Capacity Resource with State Subsidy”
- A Re-Entry Capacity Resource with State Subsidy is subject to:
  - A MOPR floor price equal to Net CONE
  - The same consequence as an existing resource for 1) electing the competitive exemption or 2) not identifying the resource as a state-subsidized resource, and subsequently accepting a subsidy
    - That is, the resource is subject to the revenue forfeiture penalty rather than the asset-life ban



## Impact

**Yes** Only the cleared portion of a resource's megawatts will be treated as existing (P398)

**March Compliance Filing:** If a new entry resource cleared any MW at or above Net CONE in an auction, the entire resource would be treated as existing and subject to the lower Net ACR MOPR floor price in subsequent auctions

**Revised Approach:** If a New Entry Capacity Resource with State Subsidy partially clears the capacity market, only the cleared portion will be treated as existing in subsequent auctions. The uncleared MWs remain subject to MOPR at Net CONE.

- This applies to Re-entry Capacity Resources with State Subsidy as well

The portion of a state-subsidized resource's MWs that clear with an offer at or above Net CONE in a BRA or incremental auction will be treated as existing for the remaining auctions in the given delivery year and all future delivery years

- Status as Existing MW will not be applied retroactively to any incremental auctions that have yet to be run for prior delivery years

For example, MW newly cleared in the 2023/2024 BRA will transition to existing for the 2023/2024 DY and beyond.

They will not be treated as existing in the 2022/2023 1<sup>st</sup>, 2<sup>nd</sup> or 3<sup>rd</sup> incremental auctions.

- The quantity of MWs that transition to existing will be the ICAP equivalent of the UCAP MWs that clear at or above Net CONE
- Tracking existing MWs on an ICAP equivalent MW basis allows additional MWs that become available due to an improved EFORD to be counted as existing
  - Conversely, a worsened EFORD can result in less MWs being counted as existing
- $\text{Cleared Equivalent ICAP MW} = \text{Cleared UCAP MW} / (1 - \text{EFORD})$

## Resource with 100 MW ICAP

**2022/2023 BRA**

**EFORd = 10%**

### New Entry MW

100 MW Total ICAP

Available UCAP to offer =  $100 \text{ MW} * (1 - .10) = 90 \text{ MW}$

UCAP MW cleared at or above Net CONE = **80 MW**

Cleared Equivalent ICAP MW =  $80 \text{ MW} / (1 - .10) = 88.9 \text{ MW}$

### Existing MW

0 MW

**2023/2024 BRA**

**EFORd = 5%**

### New Entry MW

100 MW Total ICAP – 88.9 MW Existing ICAP = 11.1 MW

Available UCAP to offer =  $11.1 \text{ MW} * (1 - .05) = 10.5 \text{ MW}$

### Existing MW

ICAP = 88.9 MW

Available UCAP to offer =  $88.9 \text{ MW} * (1 - .05) = \textbf{84.5 MW}$

While 80 MW of UCAP cleared in the 2022/2023 BRA in this example, the use of equivalent ICAP allows 84.5 MW to be considered as existing in the subsequent BRA given the improved EFORd for that Delivery Year

## Impact

Yes	Demand resources increasing the number of megawatts they offer year-to-year must explain why the increased quantity they intend to offer is not connected to any increased costs or State Subsidies that make the uprate possible. (P172)
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**March Compliance Filing:** Once an end-use customer location achieves existing resource status, all MWs at that location would be treated as existing in subsequent auctions, even if the MW value fluctuates

**Revised Approach:** Once an end-use customer location achieves existing resource status, the MWs counted as existing may only fluctuate to the extent any increase is not related to an uprate.

- Uprate MWs are treated as new if investment is made to increase the available load reduction capability in the capacity market.

## Impact

**Yes** Bilaterally procured capacity from a State-Subsidized Resource cannot serve as replacement capacity for unsubsidized capacity resources. (P400)

**March Compliance Filing:** No restrictions on the use of replacement transactions

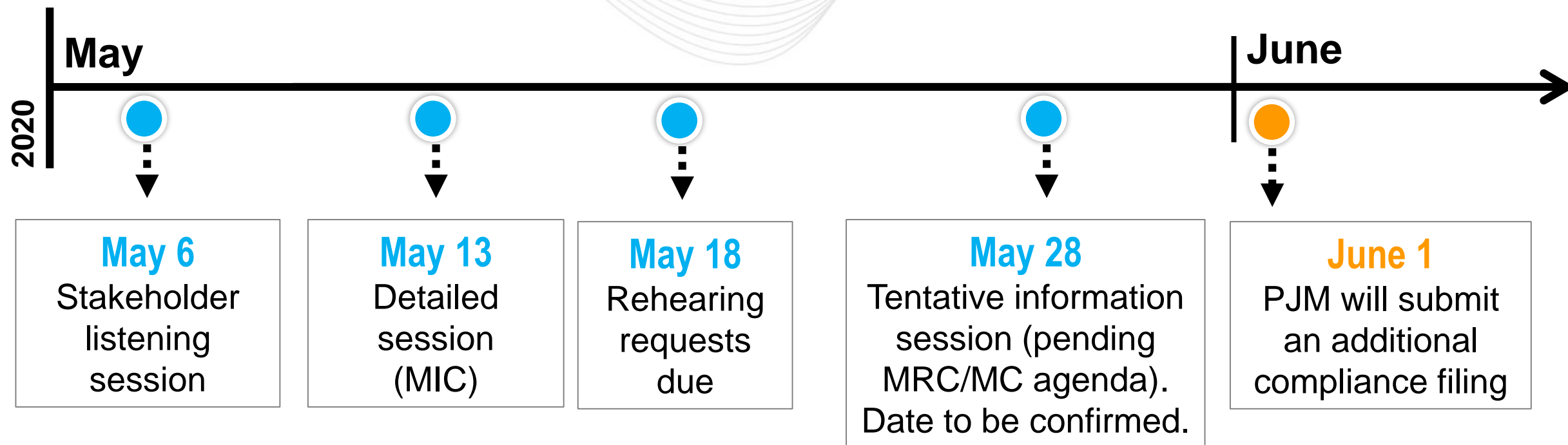
**Revised Approach:** Restrict the use of available capacity on a state-subsidized resource as a replacement for a non-subsidized resource's capacity commitment, if the replacement capacity was bilaterally procured

- A bilaterally procured, subsidized resource that has elected the competitive exemption may still replace a non-subsidized resource.
- There are no restrictions on replacement capacity between resources owned by a Market Seller.



- Locational UCAP transactions are commonly used to transfer replacement capacity.
- To provide the buyer with transparency into the status of a replacement resource and ensure subsidized resources are not used to replace non-subsidized resources, the following additional information must be provided on Locational UCAP transactions in Capacity Exchange:
  - Whether the resource that is the subject of the transaction is a Capacity Resource with State Subsidy; and
  - Whether the Competitive Exemption has been elected for such resource.
- If the replacement resource is subsidized or elected the competitive exemption and subsequently accepts the subsidy during the delivery year, the replacement transaction will be null and void.





Questions may be directed to [RPM\\_Hotline@pjm.com](mailto:RPM_Hotline@pjm.com).

# Alternative State Default Procurement Approach

(presented at 5/13/2020 MIC special session)

## Not Subject to MOPR

Short-term transactions (one year or less)

Long-term transactions where either:

1

The resource's owner is unaffiliated with the default supplier; or

2

The owner is affiliated with the default supplier but the transaction is **not unit-specific** and **is at prevailing market rates**