

**SMECO COMMENTS
CRITICAL ISSUE FAST PATH –
MINIMUM OFFER PRICE RULE**

May 26, 2021

PJM'S PREFERRED OPTION 'SELF-SUPPLY BUSINESS MODELS'

Potential indicators of buyer-side market power:

“Self-supply business models with rate-base cost recovery are a potential indicator of the ability to submit offers below the resource’s actual cost which, in some scenarios, can be used to exert buyer-side market power (subject to the self-supply exemptions below). Portfolio outside of long/short thresholds is subject to a unit-specific review of the most recent resource additions to determine whether such addition and offer is consistent with long-term business planning and therefore whether or not the MOPR should be applied.”

Source: 5/26 pre-meeting CIFP-MOPR Matrix, PJM package

EXAMPLE OF PROHIBITED UNDUE DISCRIMINATION, BACKGROUND

PJM's Preferred "Net Short Thresholds" (Values subject to change)

“Type of Self-Supply LSE: Maximum Net Short Position (UCAP MW, measured at RTO, MAAC, SWMAAC and EMAAC unless otherwise specified)

- Single Customer Entity: 150 MW
- Public Power Entity: 1000 MW
- Multi-state Public Power Entity*: 1000 MW in SWMAAC, EMAAC, or MAAC LDAs and 1800 MW RTO
- Vertically Integrated Utility: 20% of LSE's Estimated Capacity Obligation
- *A Multi-state Public Power Entity shall not have more than 90% of its total load in any one state.”

Source: 5/26 pre-meeting CIFP-MOPR Matrix, PJM package

**EXAMPLE OF UNDUE DISCRIMINATION
IN PJM'S PREFERRED OPTION
- HYPOTHETICAL EXAMPLE "A"**

Scenario (all Values UCAP): New Resource: Offshore Wind Farm for State Alpha
"Competitive LSE", located in State Alpha: Load obligation of 2,500 MW,
Capacity resources of 500 MW; LSE is net short 2,000 MW

- State solicitation & procurement allocates 150 MW of off-shore wind to LSE
- Under PJM current proposal, RPM sell-offer not subject to MOPR screening

"Public Power LSE", also located in State Alpha: Load obligation of 2,500 MW,
Capacity resources of 500 MW; LSE is also net short 2,000 MW

- State solicitation & procurement allocates 150 MW of off-shore wind to LSE
- Under PJM's current proposal, Public Power LSE's 150 MW allocation of off-shore would be subject to "subject to a unit-specific review of the most recent resource additions to determine whether such addition and offer is consistent with long-term business planning and therefore whether or not the MOPR should be applied"

**EXAMPLE OF UNDUE DISCRIMINATION
IN PJM'S PREFERRED OPTION
- HYPOTHETICAL SCENARIO "B"**

Scenario (all Values UCAP): New resource: 120 MW (200 MW ICAP) solar park in State Bravo; two '50/50' LSE off-takers, competitive LSE & self-supply public power LSE:

"Competitive LSE" located in State Bravo: Load obligation of 2,500 MW, Capacity resources of 500 MW. LSE is net short 2,000 MW

- Via competitive solicitation, LSE contracts for 60 MW from new solar park
- Under PJM current proposal, RPM sell-offer not subject to MOPR screening

"Public Power LSE", also located in State Bravo: Load obligation of 2,500 MW, Capacity resources of 500 MW. LSE is net short 2,000 MW

- Via competitive solicitation, LSE contracts for 60 MW from new solar park
- In PJM proposal, LSE's 60 MW competitive solar procurement "subject to a unit-specific review of the most recent resource additions to determine whether such addition and offer is consistent with long-term business planning and therefore whether or not the MOPR should be applied"

PJM'S PREFERRED OPTION
'REVIEW OF BILATERAL CONTRACTS'
BACKGROUND – PJM PROPOSAL

- “The tariff will prohibit a buyer contracting with a seller outside of the capacity market and directing the seller to submit an offer below the supplier’s cost (e.g., at zero) in the capacity auction to lower the market clearing price. Rather than applying the MOPR to these cases, they will be referred to the FERC as they are fact-specific and require investigation.”
 - Source: 5/26 pre-meeting CIFP-MOPR Matrix, PJM package

PJM'S PREFERRED OPTION 'REVIEW OF BILATERAL CONTRACTS' CONCERNS

- PJM's tariff contemplates bilateral transactions in RPM, including auction-specific & unit specific bilaterals, OATT Attachment DD section 4.6 (b) & (a), respectively
- **Hypothetical Example:** LSE Located in State Charlie enters into two bilateral contracts for a future BRA:
 - 100 MW UCAP from existing gas-fired CCGT
 - 15 MW (115 MW ICAP) from existing wind farm
- Per PJM's own current parameters, Net ACR (gross ACR - inframarginal energy rev) of both resources ~ \$0 MW-day.
- PJM bilateral transactions types: <https://agreements.pjm.com/oatt/5139>

**PJM'S PREFERRED OPTION
'REVIEW OF BILATERAL CONTRACTS'
CONCERNS**

- **Hypothetical Example (continued):**
 - For the 4.6 (b) auction-specific bilateral, gas resource enters offer at Net ACR into BRA
 - For 4.6 (a) unit-specific wind bilateral, the buyer offers at level consistent with intermittent risk and CP penalties
 - PJM (Current CIFP-MOPR matrix): “Rather than applying the MOPR to these cases, they will be referred to the FERC as they are fact-specific and require investigation”
 - Note: PJM has expressed that it is not PJM’s intent to make a referral for all bilateral contract RPM sell-offers.