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MOPR-Ex IMM Proposal for the CCPPSTF

The Independent Market Monitor for PJM

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MOPR-Ex Summary

Introduction

Due to the threat that nonmarket subsidies for existing generation pose to the competitiveness of the PJM capacity market outcomes, the IMM proposes an extension of the MOPR rule that would apply to all existing and new resources, regardless of technology type, that will receive revenue outside of Market Revenue (“MOPR-Ex”). Market Revenue is defined as revenue that is received under a tariff administered by PJM or other Regional Transmission System or Independent System Operator and regulated by the Commission. MOPR-Ex will require subsidized generation to offer at competitive levels in the PJM Capacity Market, thereby preserving the efficient market outcomes and accurate signals for entry and exit that are necessary for well functioning and competitive markets. Competitive investors rely on accurate signals to make decisions.

Generation resources that do not receive a MOPR-Ex subsidy would be able to confirm their compliance with MOPR-Ex via their submittals to the IMM’s electronic MIRA RPM/ACR system. Generation resources that receive MOPR-Ex subsidies and that want to submit a Sell Offer below the default MOPR-Ex Floor Offer Price must request an exemption or a unit-specific exception. The exemption/exception process will be conducted in a manner consistent with the current MOPR. Any existing generation resource that receives a MOPR-Ex subsidy, and does not obtain or is not eligible for an exemption, would be subject to the default MOPR-Ex Floor Offer Price or a Unit-Specific Exception.

Subsidies

Subsidies under the MOPR-Ex rules include revenue or cost abatement structures that do not meet the definition of Market Revenue. Based on the current MOPR rules, there are defined exceptions for MOPR-Ex. The proposed definition of a MOPR-Ex subsidy is as follows:

“Revenue or cost abatement structures that are not Market Revenue shall be classified as MOPR-Ex subsidies, subject to the following exceptions: MOPR-Ex subsidies shall not include (i) payments (including payments in lieu of taxes), concessions, rebates, subsidies, or incentives designed to incent, or participation in a program, contract or other arrangement that utilizes criteria designed to incent or promote, general industrial development in an area; (ii) payments, concessions, rebates, subsidies or incentives designed to incent, or participation in a program, contract or other arrangements from a county or other local governmental authority using eligibility or selection

criteria designed to incent, siting facilities in that county or locality rather than another county or locality; or (iii) federal government production tax credits, investment tax credits, and similar tax advantages or incentives that are available to generators without regard to the geographic location of the generation. Additionally, MOPR-Ex subsidies shall not include revenue or costs that are supported through any contracts obtained in any state-sponsored or state-mandated procurement processes that are deemed to be Competitive and Non-Discriminatory by the Office of the Interconnection and the Market Monitoring Unit. (The requirements for a procurement process to be deemed "Competitive and Non-Discriminatory" are specified in Attachment DD, Section 5.14 h) (7) ii).)"

Exemptions

The rules governing the Self-Supply Exemption for non-public power entities and the Competitive Entry Exemption are retained under MOPR-Ex. The IMM proposes two additional exemptions from MOPR, a public power exemption and a renewable portfolio standard (RPS) exemption.

The public power exemption will apply for all public power entities:

- a. if Owned and Contracted Capacity is planned to be less than or equal to LSE Total Estimated Capacity Obligation; and
- b. if ~~Owned and Contracted Capacity is less than 120 percent of LSE Total Estimated Capacity Obligation and~~ Owned and Contracted Capacity is less than 600 MW greater than LSE Total Estimated Capacity Obligation,
 - i. the public power entity will notify PJM and the IMM when it expects its Owned and Contracted Capacity to be greater than its LSE Total Estimated Capacity Obligation and describe the consistency of the investment decision with its business model.

Any excess supply will be subject to the MOPR floor or a unit specific exception, where excess supply is the MW amount of Owned and Contracted Capacity in excess of ~~the lesser of 120 percent of LSE Total Estimated Capacity Obligation or~~ 600 MW. The MOPR floor or unit specific exception shall apply to the last unit(s) added to Owned and Contracted Capacity.

The definitions of "Owned and Contracted Capacity" and of "LSE Estimated Capacity Obligation" from the existing Self-Supply Exemption apply.

The RPS exemption from MOPR will apply if the procurement occurs in a state mandated program and:

- a. The terms of the program are competitive and non-discriminatory, meaning:
 - i. both new and existing resources may participate,
 - ii. the requirements of the program are fully objective and transparent,
 - iii. the program terms do not include selection criteria that could give preference to new resources, and
 - iv. the program terms do not use indirect means to discriminate against existing capacity.
- b. The structure of the program is competitive and non-discriminatory, meaning:
 - i. there are at least 10 independent sellers that make offers consisting of price, quantity pairs,
 - ii. the program passes a three pivotal supplier test,
 - iii. renewable characteristic is the only screen for participation in program,
- c. If the program uses an auction, either as a means of procuring renewable attributes to meet state requirements, or as a means to facilitate the procurement of renewable attributes by responsible LSEs, such auction must be competitive and non-discriminatory:
 - i. winner(s) of auction based on lowest offer price(s), and
 - ii. payments to winners based on auction clearing price.
- d. If the conditions of (a) and (b) above, and, if applicable, the conditions of (c), are met by a program, any bilateral transactions executed by parties in compliance with that program are deemed competitive and non-discriminatory.
- e. Terms of trade are consistent across PJM
 - i. imports and exports allowed within PJM if consistent definition of renewable across states
- f. Transparent, public data on RECs prices and quantities will be provided
- g. Competitive multistate auctions may be used to procure renewable resources
 - i. Same rules as for a single state competitive auction

Unit-Specific Exceptions

Unit-Specific Exceptions for new entry must use standard assumptions:¹

- a. Nominal levelization of gross costs

¹ Additional details are available in an IMM memo. Monitoring Analytics, LLC, "Unit Specific MOPR Review Modeling Assumptions," (June 19, 2013) <http://www.monitoringanalytics.com/reports/Market_Messages/Messages/IMM_Unit_Specific_MOPR_Review_Modeling_Assumptions_20130619.pdf>.

- b. 20 year life
- c. No residual value
- d. Include all project costs
- e. Use first year revenues
- f. WACC based on the actual cost of capital for the company offering

Unit-Specific Exceptions for existing resources may:

- a. Use unit specific assumptions based on the Capacity Performance offer cap derivation that employ alternative assumptions for the availability ratio (A), the number of Performance Assessment Hours (H), the Balancing Ratio (B), and the Capacity Performance bonus payment rate (CPBR).²
- b. Use net ACR based on actual costs and revenues in cases where net ACR exceeds the expected energy only bonus revenue.
- c. All supporting data on costs must be provided for all requests.

² Monitoring Analytics, LLC, "Analysis of the 2019/2020 RPM Base Residual Auction," (August 31, 2016) <http://www.monitoringanalytics.com/reports/Reports/2016/IMM_Analysis_of_the_20192020_RPM_BRA_20160831-Revised.pdf>.