

PJM MOPR Filing Overview

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Background

- **On July 30, 2021, PJM filed proposed revisions to its Minimum Offer Price Rule (MOPR) with FERC under FPA Section 205**
 - PJM requested an effective date of September 28th
 - Comments on the filing were due by August 20th
- **The PJM Filing would scale back the MOPR so that it would only apply to:**
 - Narrowly defined exercises of buyer-side market power by net sellers with the incentive and ability to suppress prices; and
 - State support expressly tied to a seller clearing in the PJM Reliability Pricing Model (“RPM”) capacity auctions (“Conditioned State Support”)
 - Rule would be applied to all new sellers and applied to existing sellers except for demand response and energy efficiency resources
- **The Filing acknowledges that some form of buyer-side market power mitigation is necessary under the FPA**
 - PJM argues that the focused MOPR it is proposing will be sufficient to mitigate buyer-side mitigation power

ELCC

- **FERC approved PJM's Effective Load Carrying Capability (ELCC) construct on the same day the PJM Filing was made**
 - The ELCC construct is PJM's capacity accreditation improvements for wind, solar, and storage resources, and as a result PJM expects the entry of these subsidized resources having a smaller auction price impact as the number of these resources increase
 - PJM points to the ELCC construct in its Filing as a factor allowing it to move to the focused MOPR without undermining the capacity market

Summary of Revisions

- **PJM proposes to eliminate the “Expanded” MOPR that FERC imposed in 2019**
 - PJM would remove 2011 MOPR rules that applied mitigation only to new natural gas units on the theory that they were most likely to be used in uneconomic entry schemes
- **The new “focused MOPR” would only apply to:**
 - Actual exercises of buyer-side market power by net sellers with the ability to actually impact auction prices; and
 - Improper state actions that would directly target and have a direct effect on capacity market clearing prices
 - Generation Capacity Resources
- **Demand response and energy efficiency resources are exempt from the focused MOPR**

Summary of Revisions

- **PJM is proposing that sellers “self-certify” whether their resources should be subject to the MOPR**
 - As a starting point certification would indicate whether the focused MOPR should be applied
 - Sellers will need to provide such certifications no later than 150 days prior to the relevant auction as to whether it
 - (1) is “receiving or expected to receive Conditioned State Support,” and
 - (2) intends to offer “their Generation Capacity Resource as an Exercise of Buyer-Side Market Power”

Summary of Revisions

- **The focused MOPR would mitigate confirmed exercise of buyer side market power and state policies or actions that constituted “Conditioned State Support”**
 - Conditioned State Support has been defined as any financial benefit required or incentivized by a state (or a political subdivision) conditioned on selling into and clearing in the RPM auction or on offering into the RPM at a particular price
 - The MOPR would apply to instances of Conditioned State Support only upon confirmation from FERC through a Section 205 filing
- **Certain programs not considered Conditioned State Support include:**
 - Non-FERC jurisdictional programs (RECs/ZECs/RGGI)
 - State and local tax incentives
 - State retail default service auctions
 - Fuel supply incentives
 - Federal programs administered by states such as PURPA and the Cross-State Air Pollution Rule
 - Self-supply by public power entities would also explicitly not count

Summary of Revisions

- If PJM or the IMM has a “reasonable basis” to initiate an inquiry that a seller may be exercising buyer-side market power then it “may” initiate a fact-specific review
- PJM has proposed a “non-exhaustive list of circumstances” that would preclude an inquiry into a seller’s ability to exercise buyer-side market power. These include: (i) “true” merchant resources; (ii) capacity secured through a competitive and non-discriminatory procurement open to both new and existing resources; (iii) certain self-supply arrangements
 - Additional documentation may be requested from the seller to conduct fact-specific case-by-case reviews
 - Quantitative screens would be applied to excuse resources that lacked the incentive or ability to suppress prices

Summary of Revisions

- **PJM will be screening sellers with incentive and ability to exercise market power**
 - Sellers would only be deemed to have an incentive if they had or were affiliated/contracted with a “Load Interest”
 - If a Seller has a Load Interest PJM would evaluate whether it had a “net short” position in the relevant area
 - The seller must be net short for the test to apply
 - PJM will evaluate whether price suppression would be economically beneficial to the seller by comparing its expected cost with its economic benefit
 - Out of market-support that is not “Conditioned State Support” may be used to support the economics of the seller
 - If an offer can be justified, “economically or otherwise” without considering the benefit to the seller then the seller would not be deemed to have an incentive
 - A seller would need to be able to have a “material” impact on auction prices
 - PJM would only look to the individual seller’s impact, i.e., it would not consider the aggregate impact of a large number of subsidized resources

Summary of Arguments

- **PJM argues that the Expanded MOPR imposed by FERC in 2019 must be updated because it is no “longer sustainable” and disrupts the balance between states and stakeholder interests**
 - PJM notes that the Expanded MOPR ignores that state support for renewables has become a “well-established determinant of supply” and could price resources out of the capacity market while ignoring their reliability contributions
 - PJM argues that this could drive resources and states to withdraw from the capacity market
- **PJM also argues that the recently approved ELCC construct will result in more accurate capacity valuations for solar, wind and storage**
 - This ensures that subsidized clean energy resources will have a smaller price impact on the capacity market as their numbers increase, reducing the need for the Expanded MOPR

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- Maintaining and enhancing regional reliability
- Operating open, fair and competitive wholesale electricity markets
- Planning the power system for the future
- Providing factual information to policymakers, stakeholders and investors in the power system



Questions?