

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Modernizing Electricity Market Design

Docket No. AD21-10-000

NOTICE INVITING POST-TECHNICAL CONFERENCE COMMENTS

(April 5, 2021)

On March 23, 2021, the Federal Energy Regulation Commission (Commission) convened a Commissioner-led technical conference to discuss the role of the capacity market constructs in PJM Interconnection, L.L.C. (PJM), ISO New England Inc., and New York Independent System Operator, Inc. in an environment where state policies increasingly affect resource entry and exit. The technical conference included the discussion on the implications of retaining the expanded minimum offer price rule (Expanded MOPR) in the PJM capacity market, as well as prospective alternative approaches that could replace PJM's Expanded MOPR.

All interested persons are invited to file initial and reply post-technical conference comments on the topics in Parts I and II below. Commenters may reference material previously filed in this docket, including the technical conference transcript, but are encouraged to avoid repetition or replication of previous material. Commenters need not answer all of the questions, but commenters are encouraged to organize responses using the numbering and order in the below questions. Commenters are encouraged to limit their responses to the questions identified below and not provide significant background or other material. Initial comments must be submitted on or before April 26, 2021. Reply comments must be submitted on or before May 10, 2021. Initial comments should not exceed 25 pages and reply comments should not exceed 15 pages. PJM's initial and reply comments are not subject to these page limitations.

I. Comments on Supplemental Notice

We are seeking comments on the topics discussed during the technical conference, including responses to the questions listed in the Supplemental Notice issued in this proceeding on March 16, 2021, in accordance with the deadlines and other guidance above.

II. Comments on PJM's Capacity Market

We are also interested in comments regarding PJM's capacity market, in accordance with the deadlines and other guidance above, as follows:

A. Existing PJM MOPR Implications

- (1) Have circumstances regarding the nature and scope of state actions to support specific resource types (e.g., new state legislation, new or revised state subsidies, new or revised standards such as increased renewable portfolio standards, etc.) changed in the PJM footprint since the establishment of the Reliability Pricing Model? If so, should the purpose and goals of the capacity market evolve in response to this change? Please explain.
- (2) Please explain how the expected quantity of state supported and non-state supported resources, by resource type, has changed since 2018. Please provide the relevant dates of relevant legislation, executive actions, rulemakings, and/or other state actions. How is the Expanded MOPR likely to affect the entry of these resources? Will the expected impact of the Expanded MOPR change over time? Please explain.
- (3) Is there a particular type or quantity of state supported resources that are unlikely to clear PJM's capacity market as a result of PJM's Expanded MOPR, in the near term or in the future? If so, please provide examples.
- (4) Please explain whether and, if so, how PJM's Expanded MOPR will result in overprocurement of capacity, or "surplus capacity" (i.e., capacity in excess of the PJM Installed Reserve Margin), due to reasons other than the capacity market's sloped demand curve. To the extent the Expanded MOPR results in surplus capacity, including the delayed retirement of existing resources, what are the impacts on PJM's customers? What impact could such surplus capacity have on PJM's energy and ancillary services markets? How do any such impacts bear on the Commission's responsibility to ensure just and reasonable rates under the Federal Power Act?
- (5) Does PJM's Expanded MOPR affect states' willingness to remain in PJM's capacity market? Does the Expanded MOPR compel states to choose between relying on PJM's capacity market to meet their resource adequacy needs and achieving state policies? If so, how? Which states are relying on or are considering relying on PJM's Fixed Resource Requirement (FRR), rather than the PJM's capacity market, as a result of the Expanded MOPR and why?
- (6) Please explain whether the implementation of PJM's Expanded MOPR has led or may lead to unforeseen impacts, including those enumerated below:
 - a. Several panelists at the conference noted the potential for greater use of the FRR construct as a result of the Expanded MOPR. Please explain any potential impacts or concerns from an increased reliance on PJM's FRR construct in this manner (e.g., adverse impacts on capacity prices in PJM in

zones that remain in the market, the reduced ability to ensure resource adequacy, etc.).

- b. Does the Expanded MOPR create administrative burdens for PJM, capacity resource owners, or others? If so, please explain and include details regarding the difficulties encountered.
 - c. Does the Expanded MOPR have any impact on the ability of resources to engage in private voluntary, bilateral transactions?¹
- (7) What are the benefits of the Expanded MOPR? Please explain.
- (8) Is it appropriate for the Commission to apply a MOPR to address state actions intended to suppress capacity market prices? Please explain why or why not?

B. Potential Alternatives to Expanded MOPR in PJM

- (9) Should the Expanded MOPR be revised or eliminated? If so, what, if any, are any other changes to the PJM Tariff would be necessary or appropriate? Please explain fully.
- (10) If any changes are made to the MOPR rules, is it necessary or appropriate to combine those changes with reforms to ensure that capacity resources are properly accredited for their reliability value?
- (11) Please explain the timeframe in which a proposed replacement rate could be implemented to avoid delaying the December 2021 Base Residual Auction.
- (12) Should a MOPR designed to address only buyer-side market power (i.e., a Targeted MOPR) replace the Expanded MOPR? How should the Commission determine what constitutes a potential exercise of buyer-side market power?²

¹ *Calpine Corporation v. PJM Interconnection, L.L.C.*, 169 FERC ¶ 61,239, at P 70 (2019) (“As to whether private, voluntary bilateral transactions might raise inappropriate subsidy concerns, we find that the record in the instant proceeding does not demonstrate a need to subject voluntary, arm’s length bilateral transactions to the MOPR at this time.”) (footnote omitted).

² For example, a buyer could contract with a seller outside of the PJM capacity market and direct the seller to submit an offer below the supplier’s cost (e.g., at zero) in the PJM capacity auction to lower the market clearing price. Such a strategy would lower the buyer’s total capacity procurement costs if the savings the buyer achieves from the lower market clearing price paid for the total quantity of capacity the buyer purchased in the PJM capacity market exceeds the losses (excess costs in this example) the buyer

- (13) Please explain to which resources a Targeted MOPR should apply (e.g., only to natural gas-fired resources or to all resource types; only to new resources or to all new and existing resources).
- (14) Under a Targeted MOPR construct, what exemptions, if any, should be considered (e.g., self-supply, competitive entry exemptions)? Please explain.
- (15) For states that choose to achieve resource adequacy outside of the PJM capacity market, please describe any options (e.g. FRR, self-supply, etc.) that should be considered for availability to the states.
- a. Should FRR or other self-supply options be modified in any way to make them more useful to states that wish to reclaim authority for resource adequacy in order to meet state policies?
- (16) Should load serving entities be able to procure capacity outside of PJM's capacity market such that PJM would only administer a residual capacity auction (i.e., an auction that removes demand procured outside the capacity market from the demand curve and supply curve would not include capacity procured outside of the capacity market) to procure the remaining capacity requirements? What rules should govern such a residual auction? Would a residual auction provide sufficient incentives for capacity to enter the PJM market when needed to ensure resource adequacy? Please explain.
- (17) Several panelists at the conference stated that removing the Expanded MOPR in PJM would not have any adverse impacts on resource adequacy and in turn reliability. Please explain whether you agree or disagree with this statement and why.
- (18) Are there differences among the expected short-term, intermediate term, and long-term effects of removing the Expanded MOPR on resource adequacy and in turn reliability? Please explain why or why not.
- (19) Is there a concern that merchant resources may fail to receive financing due to state supported resource entry in PJM? Please explain and provide supporting evidence if possible. Please also explain how this consideration bears on the Commission's responsibilities under the Federal Power Act.
- a. Should PJM's capacity market address this concern, and if so, how? Is there an option to address potential financing challenges by adjusting the parameters that establish the capacity market demand curve, such as changes to the net cost of new entry (Net CONE) estimate? For example,

incurred from the out-of-market contract with the seller.

Net CONE estimates could be adjusted by reducing the expected economic life of the reference unit used to establish Net CONE, increasing the reference unit's cost of capital to reflect higher risks, or through changes to the shape of the demand curve.

- b. Many state policies related to electric generation (e.g., renewable portfolio standards) are specified in statute and include timelines (often decades into the future) that investors can use to estimate the timing, type, and quantity of state supported resources entering PJM's markets and potential market impacts. To what extent does the transparency of such state policies mitigate or reduce these risks to merchant resources?
 - c. Would a capacity market with a Targeted MOPR provide a sufficient incentive for capacity to enter the PJM market when needed to ensure resource adequacy?
- (20) What changes are needed to ensure PJM's energy and ancillary services markets send appropriate price signals and ensure sufficient incentives for investment?
- (21) What is FERC's responsibility toward states in the PJM region that have chosen a state policy of not subsidizing their preferred resources in light of the competitive capacity market?
- (22) How urgent is the need to reconcile PJM's capacity market rules and state policies? Could PJM or the Commission adopt a phased approach with short-term and long-term solutions? For example, could short-term actions include eliminating the Expanded MOPR and replacing it with a Targeted MOPR? What long-term solutions are needed, if any?

For further information, please contact individuals identified for each topic:

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