

Unit Specific MOPR for OOM Arrangements

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Objective: Best Indicator of Unit MOPR–Competitive Award

- ▶ OOM Agreements of concern typically awarded via competitive process
- ▶ Participants in such competitions have strong incentive to “reveal” their true costs to gain award
- ▶ This should be starting point for unit MOPR
- ▶ Similarly, representations of costs after award are suspect: The objective of the OOM is to make the supplier indifferent to market results so after-the-fact there is no incentive to accurately display costs.



Objective: Indicator of Unit MOPR – Competitive Award

- ▶ OOM payments may also be output of regulatory review and approval, e.g. state administrative proceeding
- ▶ Again, would expect cost reviews *ex ante* to regulators to be best representation of “true” costs
- ▶ Therefore, should rely on these representations as starting point of unit specific MOPR



How Should This Information be Used?

- ▶ General approach would be in several steps
 - Isolate the capacity component of the OOM facility (contract payments linked to capacity or inferred to be capacity related)
 - Determine cost of funds advantage associated with reduced risk of OOM payments: Non-bypassable recovery; rate base
 - Increase capacity component to reflect market based cost of funds
 - Calculate “adjusted” gross CONE, net CONE, and unit MOPR value



Isolate Capacity Component

- ▶ May be directly transparent or need to be “extracted”
- ▶ E.G. If separate capacity payment and buyer pays all fuel and O&M and receives all energy and ancillary payments, then the capacity payment stream is gross CONE.
- ▶ E.G. If above, but seller gets all E&AS margin, then payment is indicative of net CONE
- ▶ Other arrangements – e.g. single payment for energy, can be decomposed using IMM/PJM procedure for E&AS estimates
- ▶ Above market energy payments attributed to capacity



Determine Cost of Funds Advantage

- ▶ OOM Agreements backed by state, non-bypassable surcharges etc. are much lower risk and have much lower cost of funds; likely lower than intermediate counterparty, e.g. distribution company.
- ▶ Several options to estimate cost, e.g. cost of debt only to supporting entity (state)
- ▶ Can use this information to determine implied cost of funds



Cost of Funds Advantage

- ▶ For market cost of funds use result of stakeholder process, PJM and IMM review for reference unit
- ▶ The advantage is represented by difference



Adjust Capacity Payments for Advantage

- ▶ Establish present value of payment stream using advantaged rate
- ▶ Convert to nominal levelized stream using market rate
- ▶ Adjusted payment stream using market rate is the unit specific MOPR

