

PSEG Nuclear, LLC
ZEC 2 – Salem I
Docket No: ER20080557

Response to Discovery Request: SI-SSA-0004
Date: 10/1/2020

Question:

Documentation and analysis on the impact on the Unit of FERC's Minimum Offer Price Rule decisions on State Subsidies.

Attachments Provided Herewith: YES - CONFIDENTIAL

Response:

The Hope Creek, Salem 1, and Salem 2 Units, because of their participation in the ZEC process, are deemed to be a resources receiving a state subsidy under FERC's PJM Minimum Offer Price Rule (MOPR) decisions. As such, the unit will be subject to mitigation in all upcoming PJM Capacity Auctions. The mitigation directs the unit to reflect a "competitive offer" in the capacity auction process, effectively creating a floor price the unit cannot offer below. If the floor price is above the auction clearing price, the units will not clear and thus will not receive any capacity revenue in that energy year, further harming their economic viability.

PJM will calculate and announce the default offer floor for nuclear units 150 days prior to the start of each Base Residual Auction (BRA). The attached spreadsheet details the applicant's interpretation of how default offer floors for the nuclear units will be calculated for the upcoming 22/23 BRA. As indicated in the spreadsheet, based on a West Hub forward price of \$27.38, which reflects current market conditions, we believe the default offer floor price of the applying unit would be \$74.32/MW-Day. However, PJM will use forward energy prices derived across the month just prior to the publication of the default offer prices. Market conditions could change, potentially significantly, between now and then. Thus, our estimate of the default offer floor price is inherently uncertain. Prior to the BRA for each subsequent year, PJM will recalculate the default offer floor price based on updated data. This data includes not only updated forward energy prices, but also updated costs from NEI, available annually in the spring, which can also change from current data. The uncertainty inherent in projecting default offer floors increases as we look further into the future.

It should be further noted, that the risk of not clearing is compounded by other factors. For example, if auction parameters such as import limits into EMAAC change, there is an increased likelihood that prices for EMAAC and MAAC are the same. If prices in EMAAC are lower, there will be an increased risk to the applicant of not clearing. In general, lower capacity market clearing prices will increase the risk that a unit subject to MOPR will not clear when subject to a price floor.