MOPR Madness: 2 wrongs don't make a right

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Any day now, the Federal Energy Regulatory Commission (FERC) will issue a decision on a price control policy with profound implications for consumers and the future of electricity competition.

The policy before FERC is a broad application of the "minimum offer price rule" (MOPR) which administratively raises the bids of resources receiving state subsidies — potentially spanning coal, nuclear and renewable resources. Recently 10 senators wrote a letter to FERC urging that they reject the proposal. Energy-intensive consumers could not agree more.

The senators' letter references recent analysis from Grid Strategies which estimates that a broad MOPR would cost consumers $5.7 billion per year. The Electric Power Supply Association (EPSA), which represents competitive "merchant" power generators who would benefit from higher prices, released a letter and opinion piece this week arguing that the cost is lower. Grid Strategies just responded to the EPSA critique.

Large and unnecessary costs

Regardless of the exact number, the cost of this policy is large — almost certainly in the billions of dollars per year for the Mid-Atlantic and Great Lakes region alone — and totally unnecessary. Nobody is more sensitive to unnecessary increases in electricity costs than industrial consumers, who depend on low-cost electricity to maintain a global cost advantage.

Nobody, aside from the grid operator and its market monitor, has access to the confidential market offers needed to calculate the precise cost. And even they can't predict how the MOPR policy will be implemented, exactly how quickly renewable resources will expand, and future capacity market bidding behavior. The cost could be somewhat lower if FERC enacts some or all of the exemptions that are being considered. On the other hand, the cost could be even higher if FERC chooses to apply a broad MOPR to existing as well as new renewable resources.

The Grid Strategies estimate is not a worst case. The cost would be higher if the analysis accounted for localized capacity price increases. For example, New Jersey and Maryland are almost certain to be more severely harmed by the MOPR than Grid Strategies estimated, as they have many resources that would be affected by the policy and are already starting from higher capacity market prices.

In the end, the debate over the exact cost is immaterial to the policy decision at hand. Whatever the exact number, raising consumer costs by billions of dollars with an intervention that former

FERC Chairman Norman Bay correctly described as "unsound in principle and unworkable in practice" is simply bad policy.

A policy race to the bottom

A broad MOPR would severely undermine cooperative federalism and competitive markets. Economic history has made clear that one government using price controls to counteract another government's subsidies is a policy race to the bottom. As noted by the Cato Institute, one problem with price controls is that "no entity is well informed enough to be able to exactly identify the imperfection, choose the correct price to rectify the situation, and then provide ongoing adjustment and enforcement." This problem is already evident in PJM, where supply offers exempt from the current MOPR often come in at half or less of the administrative estimate.

Another pro-market group, the R Street Institute, noted that RTO rules to counteract subsidies "risks compounding unintended consequences as regulatory intervention to 'correct' for legislative intervention is a formula for multiplicative government failure." Specifically, the MOPR would set a precedent that unleashes endless debate over what constitutes a subsidy and how to administratively "fix" their price effects, creating ongoing regulatory inconsistency over corrective actions. Mechanistically, the MOPR transfers wealth from consumers to producers and *worsens* the total allocation of resources without addressing the core problem that merchants and consumers agree upon.

State subsidies harm merchants and consumers alike. One power plant bailout can raise electricity costs at a single manufacturing facility by over $1 million per year. Industrial consumers filed an amicus brief backing EPSA and NRG in their subsidy fight at the U.S. Supreme Court. We lost. Now we must work together on a future for competitive power that works for consumers.

Shifting investment risk

Industrial consumers led legislative efforts to unleash competitive power so that suppliers would internalize investment risk — both economic and policy. The MOPR would shift policy investment risk back to consumers and motivate merchants to focus on inflating administrative pricing estimates rather than containing subsidy proliferation. As such, the MOPR benefits merchants in the short-term but shrinks their long-term market by eroding consumer support for continued competitive reforms. Merchants should instead work to sell policymakers on the consumer merits of competition, of which there are plenty.

Electric competition is an under-appreciated success story. The Electricity Consumers Resource Council (ELCON) has made clear that power generation is not a natural monopoly, as generation investment is best left to market forces. Industrial customers will fight for truly competitive markets, but a "market" where generation is determined more by administrative pricing than economic forces is a tough sell and is not the market that consumers fought for.

All told, pancaking interventions is a dish that consumers cannot stomach. But merchants and consumers working together to paint a vision for competitive power is a recipe for success. Competitive power has a bright future, but we must get past this MOPR distraction.