FERC's Decision on PJM Capacity Market Reforms to Accommodate State Policies

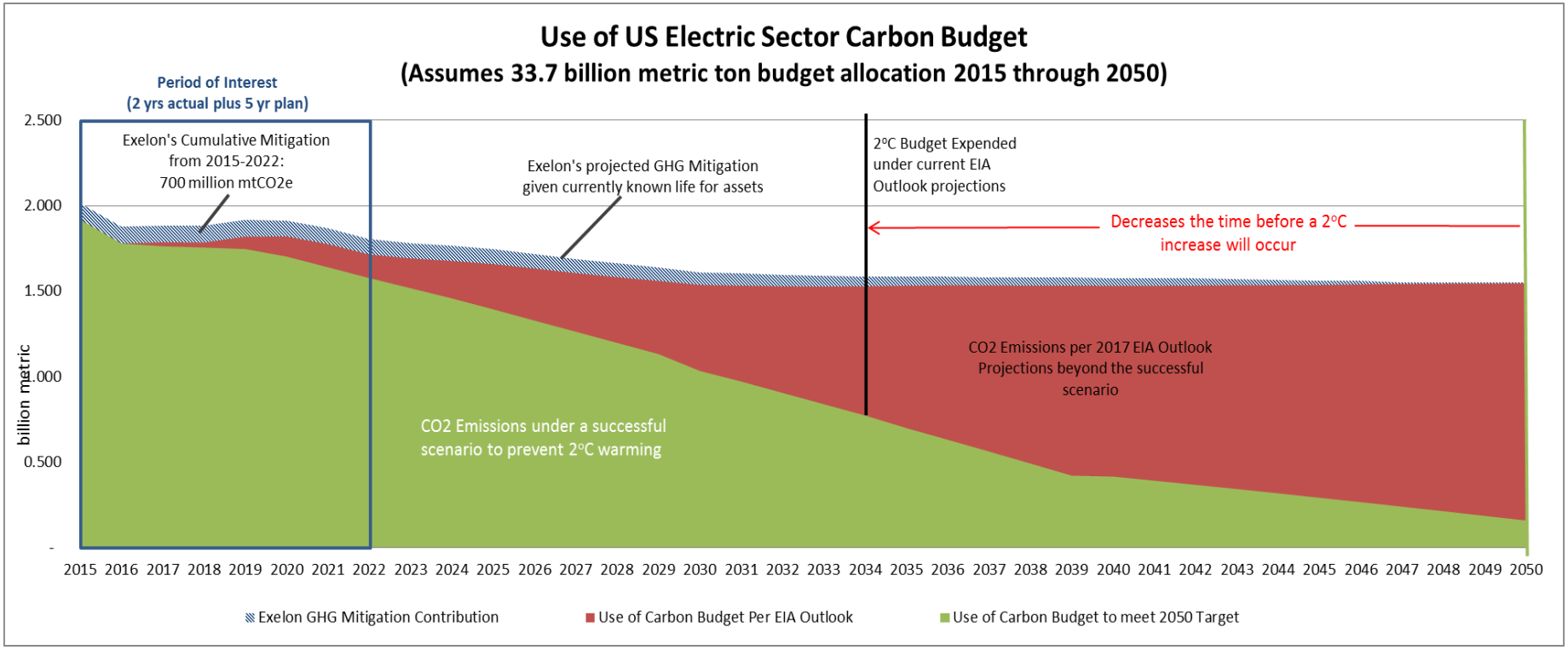
Mason Emnett

Vice President, Competitive Market Policy

October 31, 2018

Electric Sector Contribution to Meeting 2-degree C Target

The red shaded area depicts the work yet to be done for the electric sector to reach needed societal carbon goals to avoid a 2-degree C increase in global temperatures.

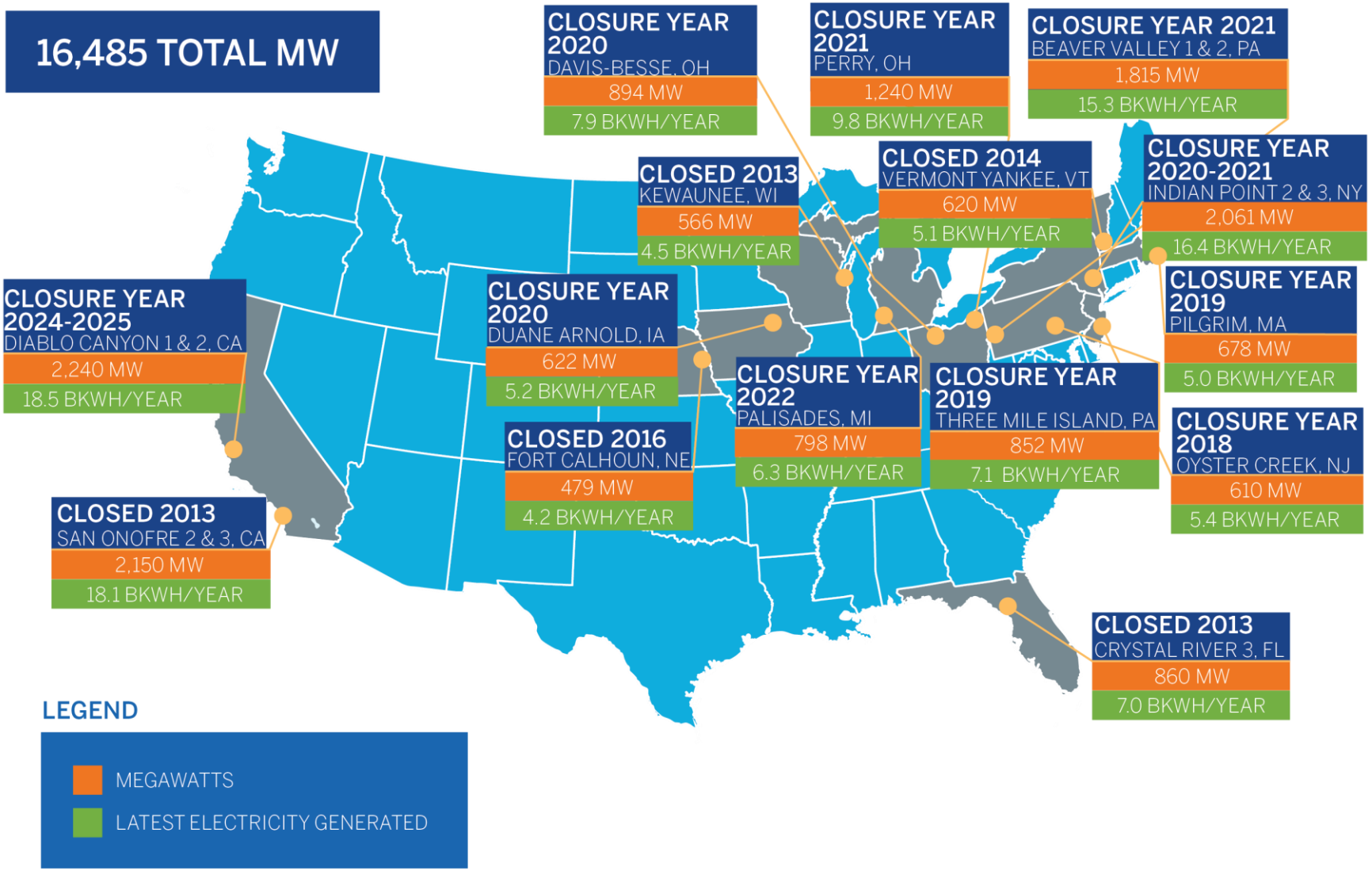


Why a 2°C target? A 2°C global average temperature increase is the internationally agreed upon threshold representing the measure beyond which significant climatic changes would occur and be disruptive to earth's systems currently relied on to meet basic societal needs. Two degrees of warming is twice the historical global average variation over the past 10,000 years.

1 – Based on the Science-based Target Initiative's Sector Decarbonization Model for meeting a successful 2°C pathway.

Exelon

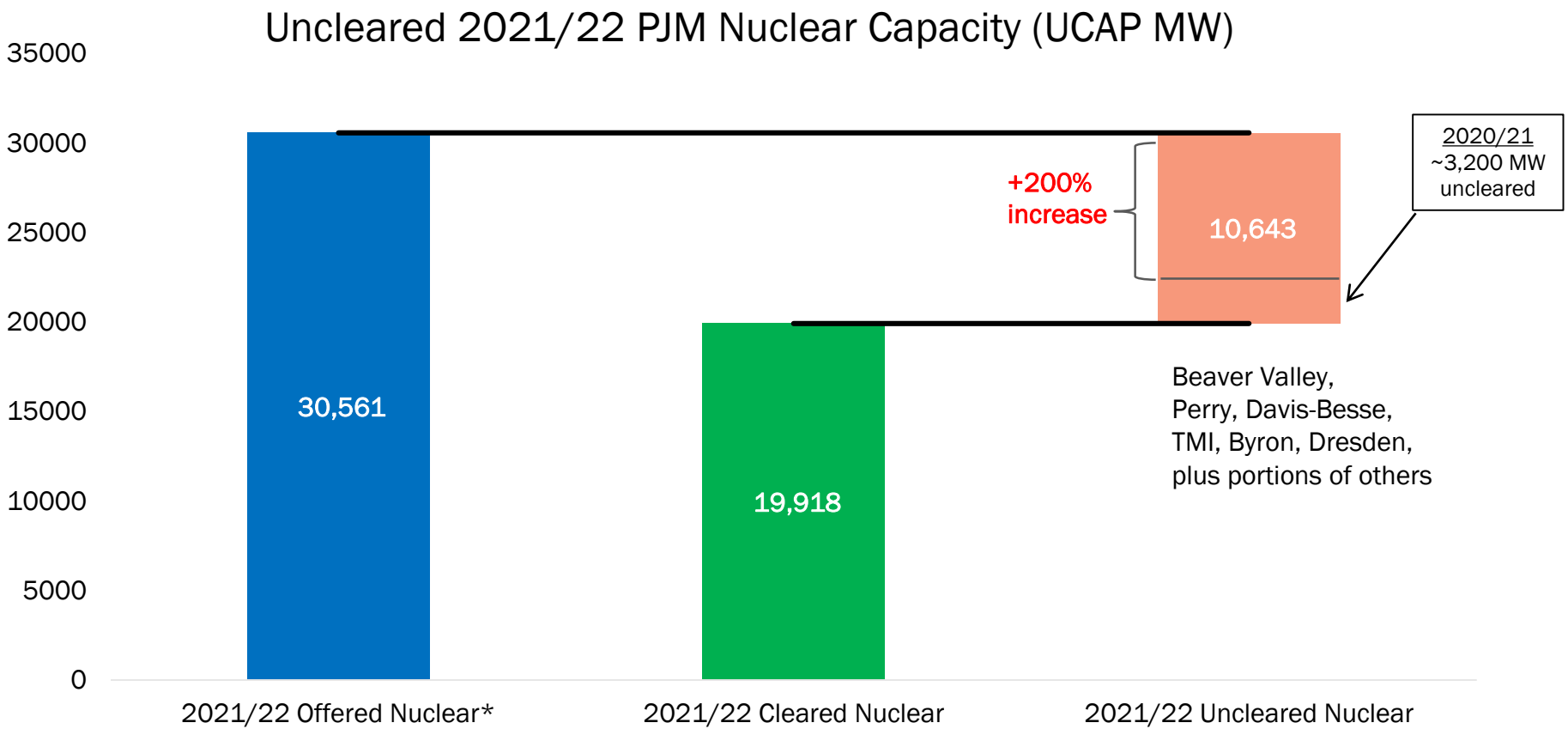
ANNOUNCED PREMATURE NUCLEAR PLANT SHUTDOWNS



Exelon.

Clean Generation is Being Pushed out of the Capacity Market…

34% of offered PJM nuclear capacity failed to clear the 2021/22 PJM capacity auction

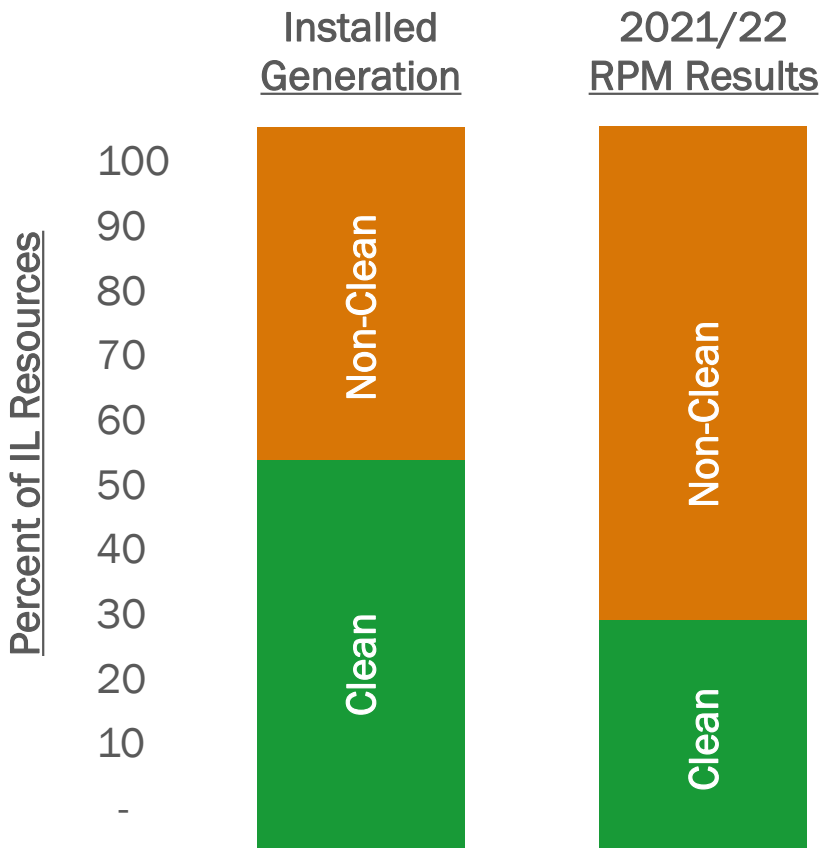


Source: www.pjm.com/-/media/markets-ops/rpm/rpm-auction-info/rpm-commitment-by-fuel-type-by-dy.ashx
*Note: Does not include Oyster Creek (615 MW retiring 2019) and Cook (2150 MW in FRR)

Exelon

… And Being Replaced by Emitting Generation

Although over 50 percent of the generation in Illinois is clean, only half of those carbon-free megawatts cleared in the 2021/22 auction.



Exelon

The Illinois Future Energy Jobs Act (FEJA)

- On December 1, 2016, Illinois lawmakers passed FEJA legislation that strengthened and expanded the state's renewable portfolio standard, expanded energy efficiency programs, and introduced a zero emission standard that recognized nuclear energy as important to meet Illinois' clean energy goals.

- FEJA saved thousands of jobs, protected ratepayers from hefty rate increases, and stimulated investment in development of renewable energy and energy efficiency.

- The legislation had broad support from diverse stakeholders.

Preserved Illinois' competitive energy rates for residents and businesses

Stimulated job creation with new investments in energy efficiency, renewables, and energy innovation

Enhanced Illinois' position as a leader in the clean energy economy, attracting investment to Illinois

The law strengthened the Illinois economy by taking important steps toward Illinois' clean energy future and preserving competitive rates.

Illinois Clean Energy Leadership

"The Future Energy Jobs Bill fixes and improves the broken Renewable Portfolio Standard, leading to $12 billion to $15 billion in private investment and the development of at least 3,000 megawatts of new solar and 1,300 megawatts of wind energy."

Jennifer Walling, Exc. Dir.
IL Environmental Council

"As a result of this landmark legislation that values nuclear's environmental benefits, Clinton and Quad Cities stations are prepared for long-term operations"

Dave Rhoades, Chief Operating Officer
Exelon Nuclear

"This groundbreaking legislation kept more than 800 people in the Quad Cities area working. Equally important, this shows that positive things can happen when local communities come together and leaders listen and follow through."

State Sen. Neil Anderson,

"This is a big win for consumers. It's Economics 101 – reducing demand for electricity also reduces the price. Illinois already enjoys some of the lowest rates in the nation because of energy efficiency, and this bill will drive further savings to homeowners."

Dave Kolata, Executive Director Citizens Utility

"This bill ensures we don't gamble with thousands of good paying jobs and gamble with our energy diversity. Thank you to those who negotiated in good faith to help make this bill a reality."

Governor Bruce Rauner

Exelon

Attribute Payments Integrate Environmental Policy into Markets

The ZEC program builds on renewable energy credit programs that exist in the majority of states

- Both credits are for environmental attributes to meet a state environmental goal.
- Both RECs and ZECs are credits certifying that electricity was created using emission-free technology.

ZECs (and thus RECs) have withstood legal challenges in the 2nd and 7th Circuits:

- ZECs are "unbundled" from the energy and sold separately and not a charge in connection with a wholesale sale.
- ZECs are payments for the environmental attributes of production not for electricity sold in the wholesale markets.
- Payment for ZECs is not "tethered" to action in a FERC jurisdictional market.

But FERC has declared that PJM's capacity construct is not just and reasonable because it has been "untenably threatened by out of market payments provided or required by certain states for the purpose of supporting the entry or continued operation of preferred generation resources."

FERC Speaks

FERC's June 29 order, by 3-2 vote:

- Rejected two alternative PJM proposals ("repricing" and "MOPREx") designed to protect the capacity market from the effect of state subsidies;
- Found PJM's existing capacity market rules to be unjust and unreasonable given the price suppressive effect of state-subsidized resources;
- Preliminarily found that PJM should implement a new bifurcated capacity construct:
  - Expand Fixed Resource Requirement applicable to specific resources (RS-FRR) wherein resources that receive state subsidies can be withdrawn from the capacity market (no RPM payment) along with the associated load (no RPM charges),
  - Apply MOPR to any new or existing resource that receives state support but does not participate in an RS-FRR plan, with "few or no" exemptions; and,
  - Established a paper hearing process to develop this bifurcated construct.

Comments were filed on October 2:

- A broad coalition of stakeholders agreed that the RS-FRR mechanism will provide states a workable means to continue to support preferred resources by allowing them to remove a corresponding amount of load from PJM's market.
- Most fossil generators opposed RS-FRR outright while supporting MOPR expansion.
- Some commenters have suggested that FERC should direct PJM to integrate the value of carbon abatement into the PJM energy market.

Shared FRR-RS Principles Have Broad Support

Renewable Community

SEIA Solar Energy Industries Association®

MAREC Mid-Atlantic Renewable Energy Coalition

AWEA American Wind Energy Association

Consumer Advocates

OPC-DC Office of the People's Counsel — Advocacy | Education | Protection

CUB Citizens Utility Board — Fighting for Illinois Consumers

DPA Delaware Division of the Public Advocate

District of Columbia Office of the Attorney General

State of West Virginia

Maryland Office of People's Counsel

Shared Principles

An FRR-RS mechanism should:

- Protect customers from paying duplicate capacity
- Preserve states' abilities to achieve clean energy policy goals

FERC should:

- Require FRR-RS to allow load serving entities to buy capacity from all state-incentivized resources and receive full capacity credit for doing so
- Allow for a smooth transition by giving states enough time to work through any difficult implementation issues before fully imposing the MOPR

Industry Stakeholders

PSEG

TALEN ENERGY

NEI Nuclear Energy Institute

American Public Power Association

Exelon

FirstEnergy Solutions

Environmental NGOs

NRDC

Sierra Club

EARTHJUSTICE — Because the Earth needs a good lawyer

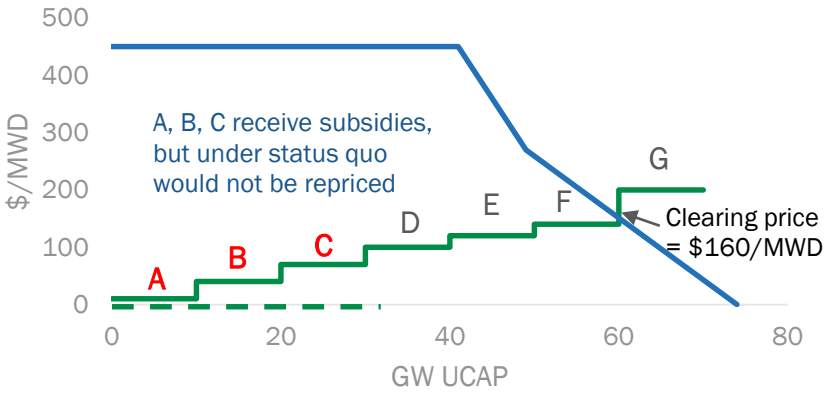
Numerous parties endorsed a shared set of principles and many others favorably cited those principles in their comments in Docket EL18-178

Exelon

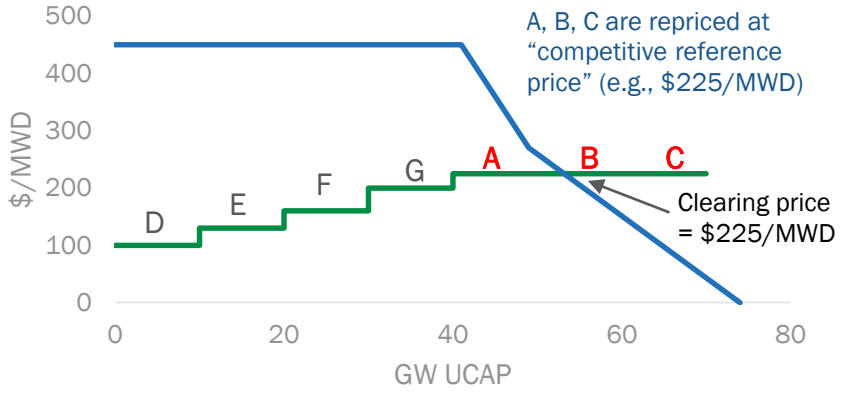
Repricing Walk-Through

ILLUSTRATIVE SIMPLIFIED SUPPLY AND DEMAND CURVES

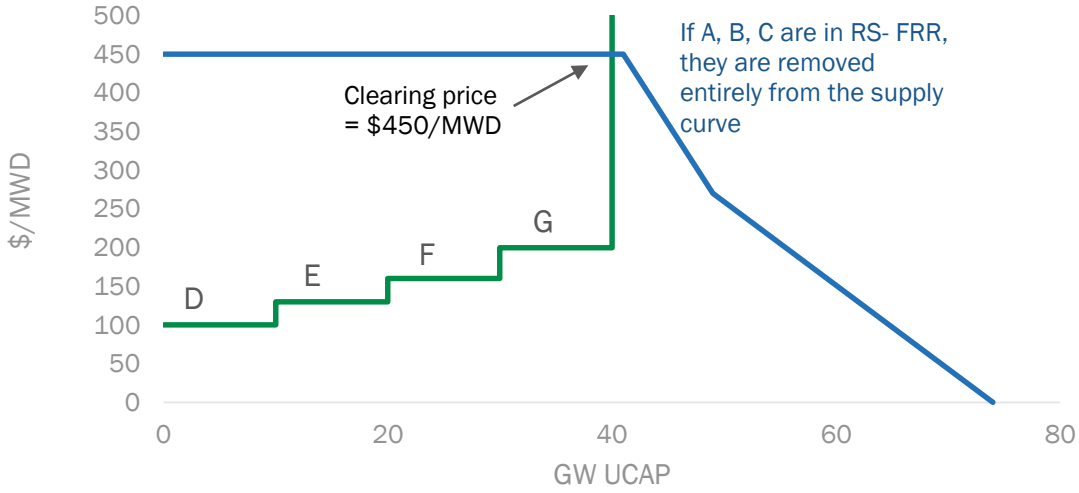
1) No Repricing



2) PJM Repricing Rejected By FERC



3) RS-FRR With New PJM Repricing



Exelon

Clean Energy State Policies at Stake Across the PJM Footprint

- States have the right to determine their generation supply, with authority affirmed by the 2nd and 7th Circuit affirmation of the New York and Illinois ZEC programs.

- Application of the MOPR to state-supported resources (RPS, ZEC, energy efficiency, etc.) could undermine state energy goals.

- Due to impact of the MOPR on existing state energy policies that support wind, solar, energy efficiency, nuclear, and other zero emissions generation, states will need to take steps to assure the intent of state policy is upheld at the lowest cost to customers.

STEP ONE: Engage with FERC to ensure that the changes to the capacity market structure and the resource-specific FRR alternative provide the state with maximum flexibility to respond.

STEP TWO: Evaluate state-level legislative and regulatory options for adjusting state clean energy programs to utilize the resource-specific FRR alternative.