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PJM Files Capacity Market Proposals on Generator Subsidies*Seeks to protect benefits of competition while accommodating states' policies*

(Valley Forge, Pa. – April 9, 2018) – PJM Interconnection today requested the Federal Energy Regulatory Commission to determine how the wholesale electric capacity market should address state subsidies of electric generators. PJM's filing presents both a proposal to accommodate state policies while maintaining competitive capacity market prices and one to mitigate offer prices for subsidized resources.

In February, the PJM Board directed PJM to file both proposals at the FERC. At the time, PJM President and CEO Andrew L. Ott said in a letter, "Deciding between these policy options requires a balancing of federal and state interests, raising questions of federalism and comity that have already presented themselves before the courts, including the U.S. Supreme Court. Accordingly, the Board concluded that this question should fall to the Commission as the federal policymaker."

For more than a year, PJM stakeholders have discussed how to address the growing issue of state public policy programs that promote state-specific environmental, social or political objectives through some form of subsidy for generation that participates in PJM's competitive wholesale electricity markets. PJM has noted that generation subsidies mask prices that otherwise would signal uneconomic resources to exit and suppress prices that otherwise would retain efficient resources.

"Left unaddressed the subsidies will crowd out efficient, competitive resources and shift to consumers the investment and operational risks of generation," Ott said. "We seek the appropriate balance that respects state policy while avoiding policy impacts of a state's subsidies on the market as a whole and on other states."

The PJM recommended proposal, called Capacity Repricing, creates a two-stage capacity auction process to accommodate state subsidies without distorting market prices:

- The Capacity Repricing proposal first establishes which set of resources will receive a capacity commitment, and then establishes the clearing price for such resources.
- Capacity Repricing allows a resource obtaining state support to clear in the first stage of the capacity auction and receive a capacity commitment from PJM based on its submitted offer.
- A subsidized offer that cleared the first stage would be repriced in the second stage to remove the effects of the subsidy – resulting in a competitive price for all resources.

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The other proposal, known as MOPR-Ex, effectively extends the existing Minimum Offer Price Rule (MOPR) to require a subsidized generation resource to remove the effect of the subsidy from its offer into the capacity market.

- A screening process would be applied to subsidized offers into the annual capacity auction. Generally, offers would be mitigated – changed to adhere to a minimum offer price set to reflect the actual cost of that type of particular generation without a subsidy.
- MOPR-Ex potentially could result in subsidized units failing to receive a capacity commitment.

PJM requested a FERC order by June 29 and an effective date for tariff changes in January 2019, which would allow sufficient time to implement the changes for the May 2019 annual capacity auction. Also, PJM suggested a settlement judge process for any outstanding issues the FERC identifies.

[PJM Interconnection](#), founded in 1927, ensures the reliability of the high-voltage electric power system serving 65 million people in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia. PJM coordinates and directs the operation of the region's transmission grid, which includes over 84,042 miles of transmission lines; administers a competitive wholesale electricity market; and plans regional transmission expansion improvements to maintain grid reliability and relieve congestion. PJM's regional grid and market operations produce annual savings of \$2.8 billion to \$3.1 billion. For the latest news about PJM, visit PJM Inside Lines at insidelines.pjm.com.

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