



Statement of F. Stuart Bresler III on  
Behalf of PJM Interconnection, L.L.C.

**ILLINOIS HOUSE OF REPRESENTATIVES**  
**PUBLIC UTILITIES COMMITTEE**

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## I. Introduction

Good morning Chairman Walsh, Vice-Chairman Thapedi, Spokesperson Wheeler and distinguished members of the House Public Utilities Committee. Thank you for the opportunity to appear before you today. My name is Stu Bresler, and I am the Senior Vice President of Market Services for PJM.

As a Regional Transmission Organization (RTO), PJM's primary role is to provide wholesale electric generation and transmission reliability at the lowest reasonable cost. In this role, PJM, which is regulated by the Federal Energy Regulatory Commission (FERC), is responsible for the reliable operation of the power grid for all or parts of 13 states and the District of Columbia. In Illinois, we serve the Commonwealth Edison region of the state while the "downstate" region is operated within the Midcontinent ISO (MISO). Across the PJM territory, our member utility companies serve 65 million people. PJM ensures safe and reliable regional grid operations – keeping the lights on – for those we serve. The competitive, wholesale markets PJM operates efficiently reinforce grid reliability and do so at the lowest reasonable cost. Altogether, PJM's operations and markets provide an annualized value of approximately \$3 to \$4 billion in cost savings to its members.

This background is important to scale the issue that we are discussing here today. PJM's first and most important job is keeping the lights on for the 65 million people in the PJM footprint. This is a highly complex pursuit that involves all of PJM's core business functions, including the deep engineering expertise in our planning and operations divisions along with individuals experienced in protecting the grid from cyber and physical security threats. These scientific functions represent a very large chunk of the overall PJM value proposition.

Importantly, we also administer wholesale markets, which include the capacity, energy and ancillary services markets. The market that is the subject of this hearing today, the capacity market, helps to ensure adequate resources are available to meet peak demand years into the future, and represents approximately 20 percent of average generator revenue. I bring this up not to diminish the subject of this hearing today, especially not the FERC order's impact on state energy policy, about which we share many of your concerns. However, in looking at this purely from the perspective of PJM's core business functions, the capacity market represents just a portion of a portion of those functions and PJM's overall value proposition.

As I sit before the Public Utilities Committee, it is also important to note that, as an RTO and market operator, PJM does not take advocacy positions on state legislation. PJM recognizes and respects Illinois' prerogative to set forth policies regarding environmental protection, workforce retention and local tax base. PJM also recognizes that state policy plays a significant role in determining the assets and fuel mix used to meet the state's resource adequacy needs. Rather than advocate, PJM seeks to be a neutral party and provider of factual information on the planning and operation of the bulk electric power system, the operation and evolution of the wholesale power markets that help ensure reliability at the lowest reasonable wholesale cost and the continuing value proposition of PJM as an RTO.

My testimony today will provide information on the FERC orders and rulings over the past few years that are currently impacting PJM's capacity markets and the steps that PJM must take to comply with FERC's direction on those

markets. This includes consideration of when to hold the next capacity auction. My testimony will also discuss an alternative to our capacity auction called the Fixed Resource Requirement (FRR).

## II. FERC Rulings on the PJM Capacity Market

In June 2018, FERC issued an order in response to a complaint from a PJM member that sought relief from what the member characterized as capacity market price suppression caused by state-approved, out-of-market payments to certain generators. FERC found in favor of the complainant. The concern over the impacts created by these potential price distortions led FERC to declare that PJM's capacity market is unjust, unreasonable and unduly discriminatory.

The finding that PJM's capacity market is unjust and unreasonable required PJM to address and remedy the underlying causes cited by FERC for the finding. In response, PJM submitted a proposal to FERC that included an expansion of the current rules that prevent these kinds of price distortions in the capacity market, called the Minimum Offer Price Rule (MOPR). Under the MOPR, a capacity resource receiving a state subsidy would offer into the capacity auction on the basis of its actual costs, as opposed to a reduced value made possible by the subsidy. If the resulting offer is too high, the resource will likely not clear the auction, and thus will not receive capacity revenue. Recognizing the potential impact on state policy objectives of expanding the MOPR, the PJM proposal included certain exemptions to the MOPR for renewable generation, energy efficiency and subsidies that would not be material to a generator's bidding behavior. At FERC's direction, the PJM proposal also offered an alternative "carve out" option for capacity resources that receive material subsidies from a state, through which they could avoid application of these expanded rules. FERC, in an order issued in December of last year, adopted the expanded MOPR rules but largely rejected PJM's proposed accommodations that would have incorporated many state policy preferences into the capacity market.

The order issued by FERC this past December implemented a relatively broad definition of state subsidies for generation and then broadly applied the MOPR to new, and in some cases existing, generation eligible to receive those subsidies. The FERC order established a limited number of MOPR exemptions, which included exemptions for:

- i. Existing self-supply resources
- ii. Existing energy efficiency/demand response/storage resources
- iii. Existing renewable generation that fulfills state-mandated Renewable Portfolio Standard (RPS) requirements
- iv. Resources that choose to voluntarily forego state subsidies
- v. Resources that can demonstrate their actual costs are below a default value that applies to their particular class of resource.

FERC directed PJM to file modifications to its capacity market in compliance with the order in mid-March of this year.

In response to the FERC order and in advance of the mandated compliance filing, PJM filed a request for rehearing and clarification. PJM stated in its rehearing application that the FERC order needlessly interferes with state resource policies, including policies related to the advancement of renewable generation, energy efficiency and demand response. Energy policy within the PJM footprint is increasingly being advanced in the states and our application on

rehearing acknowledges a trend that cannot be ignored and will likely continue to proliferate. Substantively, much of what we advocated for on rehearing was accommodative measures that were found in PJM's previous filings to FERC. Nonetheless, our tone upon rehearing very much leaned towards trying to achieve an equilibrium where the capacity market balances state policy initiatives through a market construct.

We hope to achieve this balance because PJM firmly believes in the positive outcomes that can be achieved through wholesale markets. The markets have kept energy prices flat for nearly two decades, they've driven down emissions by more than 30 percent over the last decade and they've ensured that investors, rather than consumers, bear the risks associated with power plant development and operation. So, again, the collective goal that PJM hopes to achieve is the balance of advancing state policies through a market construct. This is our long-term goal.

It's important to note that in the short-term, there will likely be little overall impact from the FERC order due to all of the existing resource exemptions adopted by FERC. The independent market monitor will discuss his analysis of the impacts of this order, but there is relatively broad consensus across the industry – from analysts and investors alike – that the near-term impact of the order on resources and pricing will be relatively minimal.

### **III. Capacity Auction Timing**

There remains an additional aspect to the FERC order that I want to address very specifically, and that is the issue of capacity auction timing. FERC directed PJM to include timing for the next several capacity auctions in its March compliance filing. As currently designed and as envisioned in the FERC order, PJM's capacity market is meant to be forward-looking with the provision of transparent price signals three years in the future. These forward price signals are used for investment and financing purposes and help guide generation owners to economically efficient market entry and exit decisions.

The transparency of these price signals also influences the costs associated with default service provision in retail competition states like Illinois. Reductions in forward capacity price transparency are likely to cause increases in risk premiums charged by default service providers that must bid on service that extends beyond cleared capacity auction periods. PJM has not held a capacity auction since 2018, before FERC made its unjust and unreasonable determination. As more time goes by without a capacity auction, the uncertainties facing market participants only increase.

PJM is in listening mode in regards to auction timing. In fact, we will hold no less than eight listening sessions with our stakeholder community through our Market Implementation Committee. These sessions are in addition to the numerous direct conversations we are having with states and stakeholders. The feedback that we are receiving on the subject is quite mixed. On one hand, those entities that rely on the price signals produced by the capacity auctions are asking PJM to hold the next auction as quickly as possible. On the other hand, those entities that want to work with their state legislators and policymakers on potential alternatives to the FERC order want PJM to delay as long as possible. PJM understands the basis for both positions but is also cognizant of not only the forward-looking nature of the auction but also the potential need to make up not only the 2019 auction but also the auctions slated for 2020 and beyond.

Practically speaking, PJM will need a minimum of six months after FERC approves our compliance filing before the next auction can be held. That means the earliest the next auction can be run is December 2020. That date could very well slip into 2021. Illinois will therefore have, at the least, much of this year to contemplate the FERC order and its reaction to it. PJM will continue to gather feedback from all of our stakeholders to ultimately determine the auction timing that balances market needs and state policy preferences on capacity.

## IV. PJM's Fixed Resource Requirement

It is my understanding that the concept of Fixed Resource Requirement (FRR) has been under discussion in Illinois for a number of months. For clarity's sake, please understand that the FRR option has been a part of PJM's governing documents for as long as we have had the capacity market itself. The FERC order did not create FRR nor did it make any material changes to it. FRR is available as an option today as it has been for the last several years.

At its simplest, FRR provides a defined load-serving area, like the ComEd Zone, an alternative to using the PJM capacity auction for its resource adequacy needs. That is to say, FRR allows a load-serving entity an opportunity to meet its mandated capacity requirements through a self-determined mechanism rather than by participating in the PJM capacity auctions. Selecting the FRR option does not mean that the related entities have left PJM. On the contrary, both the FRR load and the generation designated as FRR capacity would continue to participate in the PJM energy and ancillary services markets as well as the PJM transmission planning process.

Perhaps the most notable aspect of the FRR option is that it provides the load-serving entity, and ostensibly its regulating policymakers, much greater self-determination in how its resource adequacy needs will be met. PJM does not dictate the mechanism used to meet the capacity requirements under FRR. Rather the FRR entity creates a plan and submits it to PJM only to validate that its capacity requirements are fulfilled. While PJM believes that there has been, is, and will continue to be demonstrable value to centrally administered capacity auctions, we also understand that certain policy objectives could be deemed of higher value and priority. FRR election is a significant and complicated decision though, and therefore needs to be evaluated carefully. To that end, PJM is committed to working collaboratively with any entity interested in using the FRR option.

## V. Conclusion

PJM fully appreciates the significance of the FERC order and its potential impact on state preferences in regards to resource adequacy and generation fuel mix. While it is possible that the exemptions included in the order may obviate some of the short-term impacts to renewable and other forms of preferred generation in the states, PJM has concerns about the long-term durability of the order in its current form. We have, along with a large number of PJM stakeholders, filed rehearing requests at FERC in hope that a solution that provides more balance between market needs and state prerogatives can be found. PJM also appreciates both sides of the arguments regarding auction timing under the expanded MOPR. However, appreciation of these considerations does not change the fact that PJM must submit a compliance filing to FERC in March. To that end, PJM will continue to listen to and gather feedback from all of our stakeholders on how to move forward under the auspices of the FERC order so that we can meet the compliance requirements set forth by our regulators at the FERC.



Chairman Walsh, Vice-Chairman Thapedi, Spokesperson Wheeler and distinguished members of the Committee, I thank you for the opportunity to present my testimony today. I look forward to any questions you may have.