



## CUSTOMERS WIN WHEN COMPANIES COMPETE: EXPLAINING THE MINIMUM OFFER PRICE RULE

On December 19, the Federal Energy Regulatory Commission (FERC) [took action](#) to ensure the 65 million Americans served by the nation's largest wholesale electricity market continue to enjoy the many benefits of competitive power generation. Competition among power generators has saved consumers money, spurred innovation, and resulted in lower emissions.

Specifically, FERC directed PJM Interconnection to extend the Minimum Offer Price Rule (MOPR), a price floor, in [its capacity market](#), following a long effort to address an unsustainable trajectory for customers, taxpayers, and reliable power availability spurred by out-of-market interventions. The initial public responses to the MOPR Order and its impacts have been largely overstated and alarmist. We offer a more reasoned reading of the Order's intent and its impacts on all market participants.

**FERC's action helped resolve regulatory uncertainty and uphold competitive markets, which are the best path to a cleaner energy future while providing reliability and value to customers.**

**Competitive markets deliver the best outcomes for consumers.** The FERC Order emphasizes this truth and resolves regulatory uncertainty. The Order does not stand in the way of continued renewable integration or our shared environmental goals; it simply directs us to do so using tools consistent with the competitive market.

**Environmental Progress Through Competition:** Competitive power suppliers in the PJM region have competed within the capacity market framework without subsidies or a guaranteed return on investment from ratepayers to provide Americans with reliable electricity at the least cost, while also making strides to reduce emissions and provide clean energy. EPSA members including [Vistra Energy](#), [NRG Energy](#), [Calpine](#), [Competitive Power Ventures](#), [BP](#), and others have adopted emissions reductions goals, joined the [Climate Leadership Council](#), and supported tools such as carbon-pricing to help advance clean energy objectives. At the national level, EPSA members have invested in generation facilities that today include nearly 4,000 MW of capacity from renewable resources in addition to increasingly efficient natural gas plants.

We share Americans' collective goals when it comes to building a reliable, affordable, and clean energy future. That is exactly why we must keep competitive markets intact—well-functioning, transparent, competitive energy markets are the most effective way to encourage sustainable environmental progress without harming reliability or burdening consumers with unnecessarily high costs.

**As our energy landscape evolves, so too must the market.** Work may be needed to reach a market design that blends environmental goals with consumer benefits. However, FERC's Order is a necessary first step toward that goal, and provides a balanced approach for our transition to a clean energy future.



**Capacity markets exist to ensure reliable power for homes, businesses, and emergency services. Renewable resources are highly effective, cost-competitive energy resources, but their intermittent nature reduces their value as capacity resources.**

Our modern way of life, including critical life-saving systems, depends on the availability of power when it is needed. As the regional system operator, PJM is responsible for ensuring reliability at the lowest cost to consumers—which is the central goal of its capacity market, the Reliability Pricing Model (RPM). In recent years, a patchwork of out-of-market actions by states to advance preferred electricity resources including 50-year old, costly nuclear and coal plants have undermined the integrity, transparency, and effectiveness of that market.

FERC directed PJM to extend the MOPR in order to ensure reliability—to keep the lights on even during an emergency. This Order pertains solely to PJM’s *capacity market*, and does not directly impact the energy or ancillary services markets.

While the the grid continues to evolve and include new resources, keeping the lights on today and into the future will require the use of options that ensure reliable power delivery, not just those supported by specific state actions. Market-based procurement mechanisms are more efficient than one-off subsidies, out-of-market interventions, or other contracts (e.g., RMR contracts).

**A Cautionary Tale in California:** The California ISO is leading other large U.S. power markets in its renewable transition, but reveals the pitfalls of relying on intermittent resources as a substitute for firm capacity. As California has added more intermittent wind and solar, the ineffectiveness of those resources as firm resources has forced the grid operator to utilize Reliability Must Run (RMR) contracts to obtain firm capacity. As the net load peak continues to shift towards evening hours, solar is much less effective for the typical summer months of August and September. A [June 2019 study](#) estimated that California ISO would need 17-35 GW of firm capacity to reliability serve California load in light of the state’s aggressive GHG reduction goals.

Capacity markets are designed to procure firm capacity from resources in a regional, least-cost manner. This Order provides a pragmatic approach to avoid the challenges currently being faced by California.



**FERC's Order is fuel neutral—it is not intended to favor or establish preferential treatment for any one type of resource. It continues to apply to all new natural gas resources and is now expanded to include coal resources as well.**

The MOPR levels the playing field for *all* resources to compete in the capacity market. Competitive power suppliers have invested in renewable resources in PJM at their own risk without subsidies or a guaranteed rate of return from customer bills. Moreover, the FERC Order does not apply to existing renewable resources, whether state sponsored or not.

- **No Bailouts for Coal and Nuclear:** The Order applies to any resource receiving a state subsidy, including outdated, costly nuclear and coal facilities such as those recently granted support in Ohio.
- There already exists a **Unit Specific Exemption** process that remains in place for resources that believe their true costs, excluding subsidy payments, are below the minimum price floor established by PJM. If a resource's true cost is below the floor price (the "MOPR level"), those resources may be permitted to offer into the auction at their lower price.
- **Toward the Grid of the Future:** FERC and PJM have made extensive efforts and significant adjustments to the market to accommodate evolving energy needs over the past decade. Those efforts are likely to continue as the grid's evolution continues.

**Renewable energy growth and its many benefits will continue.**

Renewable power generation has seen remarkable [growth](#) nationally and become significantly more [cost-competitive](#) in the past decade. In fact, [many agree](#) that wind and solar energy no longer need subsidies. FERC's Order is unlikely, nor does it appear to be intended, to slow this trend as has been suggested by some of those receiving subsidies and others. Here's why.

- If a resource is cost-competitive, it will be used as a capacity resource. Recent numbers have shown renewables are on par with, if not less expensive, than other types of generation (see [Lazard, Nov. 2019](#)).
- This order only impacts the capacity portion of the market for *new* renewables—which currently accounts for a small portion of revenue for those developers.
  - Out of 180,000 MW of generation in PJM, including 15,000 MW of installed wind and solar capacity, only 2,000 MW of renewables [cleared](#) in the capacity market in the 2018 auction—accounting for just one percent of capacity being sourced from wind and solar.



**FERC's Order establishes a needed balance between federal authority over wholesale power markets and state control over power generation resources.**

Tension between federal and state policy goals is expected and natural, and it is FERC's ongoing responsibility to respect its jurisdictional mandate—as it has done in this Order.

The Order does not, as some suggest, infringe on states' rights; it does address state policies' impact on federally regulated wholesale power markets.

It bears remembering a bit of history when understanding the origins of FERC's Order. In January 2018, FERC submitted a letter to the 7<sup>th</sup> Circuit Court of Appeals supporting the Court's later finding that zero-emission credits (ZECs) did not preempt federal law. However, in that same letter, FERC argued that the appropriate place to mitigate the effects of state subsidies was in the FERC jurisdictional markets. So, while the ZECs and other subsidies may be legal, FERC still has a mandate to ensure that the wholesale market is just and reasonable. The December 19 Order does just that.

Ultimately, a state cannot determine whether the interstate wholesale market is just and reasonable—only FERC can do that. There must be a balanced evaluation of the costs and benefits of the impacts of state policy decisions on interstate wholesale markets.

**The cost impacts of FERC's Order are speculative, while out-of-market subsidies are known to total at least \$1.7 billion each year, and often do not deliver desired results.**

While the cost impact of the MOPR expansion is still speculative, what *is* known is the price taxpayers shoulder for subsidies to specific resources, which include but are not limited to:

- Nearly **\$1 billion** annually awarded to renewables in PJM, according to [Monitoring Analytics](#).
- **\$685 million** granted to nuclear power plants in [Ohio](#), [Illinois](#), and [New Jersey](#).
- **\$50 million** to prop up Ohio coal plants built in 1955 through [Ohio House Bill 6](#).
- Approximately **\$4 billion** over the next twenty years for offshore wind compliance and transmission expansion costs in New Jersey.

**Cost of Abandoning the Market:** Capacity costs are projected to increase dramatically should states elect to pursue their own procurement mechanism or use the Fixed Resource Requirement (FRR) approach. PJM's Independent Market Monitor [estimated](#) the FRR option in Illinois could increase costs by **\$925 million** per year.



**In addition to being costly and often inefficient, state programs to boost preferred resources have not delivered the promised benefits. State procurements are falling well short of their goals.**

**Falling Short in Illinois:** The Illinois Power Agency [recently reported](#) that Illinois has only achieved 8% renewables and is currently projected to peak at around 10% through 2036—well short of the state’s 25% by 2025 goal.

**Competition offers a better path to clean energy:** State subsidies shift the risk of power generation investments onto consumers—rather than onto power generators. One of the primary motivations in moving to a competitive electricity marketplace two decades ago was to relieve captive customers of the risk of poor generation investment decisions. Competitive power suppliers will follow market signals to build clean energy at a lower cost to consumers. That shift in risk should not be abandoned.

**A Smarter Path: Transparent, fair markets will drive sustainable environmental progress.**

All Americans expect reliable service, affordable electricity, and a healthy environment. The best way to achieve that outcome is through a consumer-friendly transparent market design that pairs environmental goals with economics. The PJM capacity market has resulted in cost savings and reduced emissions, while a patchwork of state mandates obscures the true cost to consumers, props up uneconomic, preferred resources, and does not guarantee sustainable environmental progress.

- **Emissions Down:** Since 2005, emissions in the PJM region have [declined by 30%](#)—which accounts on average for more than 10 million fewer tons of CO2 released per year.
- **Cost Savings:** In that same time, PJM operations, markets and planning have resulted in annual savings of [\\$3.2-4 billion](#) for the 65 million people in its region.

**Economy-Wide Solutions:** If policymakers and others seek to achieve sustainable carbon reductions, they should not undermine the competitive market with costly, temporary interventions that fail to meaningfully address the pressing challenge of climate change—and burden consumers with high costs for decades. We should instead seek long-term, economy-wide solutions to a national and global issue.

Established to control and eliminate the high costs and inefficiencies created by regulated monopoly utilities, competitive markets have delivered tangible benefits for consumers and the environment—they should be preserved while addressing needed adjustments as the energy landscape evolves.



**Competitive suppliers power a reliable, affordable, and cleaner future.**

EPSA represents competitive power suppliers—the owners and operators of power generation and storage facilities providing nearly **150,000 MW** of capacity from a diverse range of resources. Our members are leaders in innovation, relying on clear and fair market signals to invest in new, efficient, and cleaner technologies.

**EPSA member companies have taken strides to build a clean energy future while maintaining reliable, least cost power availability.**

- EPSA members have adopted decarbonization commitments and proposed transparent market-driven pathways to emissions reductions such as an economy-wide price on carbon.
- EPSA member companies own nearly **4,000 MW** of renewable capacity nationwide with more in development, in addition to increasingly clean and efficient natural gas, nuclear, coal, and oil facilities that help ensure reliable, cost-competitive power availability.
- EPSA members also provide retail electricity solutions to customers and businesses, which create additional opportunities for renewable power generation.

Well-functioning, transparent, competitive energy markets are the most effective way to encourage sustainable environmental progress without harming reliability or burdening consumers with high costs.

**Customers win when companies compete.** EPSA's mission is to foster a durable market design that delivers the many benefits of competition to all Americans as our energy mix evolves.