EPSA

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September 6, 2019

The Honorable Charles E. Schumer U.S. Senator
The Honorable Richard J. Durbin, U.S. Senator
The Honorable Thomas R. Carper, U.S. Senator
The Honorable Christopher A. Coons, U.S. Senator
The Honorable Benjamin L. Cardin, U.S. Senator
The Honorable Chris Van Hollen, U.S. Senator
The Honorable Cory A. Booker, U.S. Senator
The Honorable Sheldon Whitehouse, U.S. Senator
The Honorable Brian Schatz, U.S. Senator
The Honorable Robert P. Casey Jr., U.S. Senator
United States Senate
322 Hart Senate Office Building
Washington, DC 20510

Dear Senators,

We write to you to express our concern over a recent analysis that was completed by Grid Strategies which produced multiple figures referenced in a letter addressed to FERC Chairman Neil Chatterjee dated August 29, 2019. Launched over 20 years ago, EPSA is the national trade association representing leading independent power producers and marketers. EPSA members provide reliable and competitively priced electricity from environmentally responsible facilities using a diverse mix of fuels and technologies. Power supplied on a competitive basis collectively accounts for 40 percent of the U.S. installed generating capacity. EPSA seeks to bring the benefits of competition to all power customers. This letter represents the position of EPSA as an organization, but not necessarily the views of any particular member with respect to any issue.

The Grid Strategies report cherry-picks a 2018 PJM Market Monitor report to find the highest possible capacity price increase – produced in a completely unrelated analysis – and applies it as justification for its conclusion that a potential policy by FERC could increase capacity costs in PJM by $5.7 billion annually. The report also contains the following flaws:

- The lofty figure is based on one of 14 scenarios estimating price changes associated with the retention of uneconomic resources that would otherwise close, including over 17,000 MW of the aging coal fleet; just two of those 14 scenarios resulted in price increases.

- Not one the scenarios used as a basis for the $5.7 billion figure attempted to distinguish between subsidized and unsubsidized resources, a key piece of the Grid Strategies report.
- The basis of the figure assumes the auction price would be determined after nearly 24,000 MW of subsidized resources are removed from the market – a fundamentally different policy than the one at issue in the Grid Strategies report.

The Grid Strategies report conflates two completely different policies that results in an apples-to-oranges comparison and a startling cost estimate to the market that is both incorrect and disingenuous.

What is conspicuously missing from the Grid Strategies report are the known costs of the state subsidies that are allowing certain resources to bid into PJM capacity markets well below their costs or at zero (rendering PJM's capacity rates unjust and unreasonable). Based on public data, the current annual cost of the subsidies paid to the resources listed in Table 3 of the Grid Strategies report is at least $2.2 billion above the market price for capacity. Combined subsidies in Illinois, Ohio and New Jersey for nuclear power plants could approach $600 million in 2020. Moreover, the current RPS compliance costs estimated by the PJM Market Monitor to be nearly $1 billion per year do not include ORECs for offshore wind projects in New Jersey and Maryland which will cost consumers at least $3.7 billion over the next twenty years; tack on the costs of the new transmission infrastructure that will be necessary and the figure will likely exceed $4 billion. Yet this figure only represents the costs associated just over 25% the New Jersey and Maryland offshore wind targets and will dramatically increase over the next few years as states make additional out-of-market procurements to meet their goals. These costs must be considered in any thorough evaluation of any policy proposal, because in the end your constituents will have to pay the costs associated with whatever policies are implemented. A substantive comparison of *all* key variables instead of selectively chosen data will help ensure the best policy outcomes can be achieved.

Competitive electricity markets have been a fundamental tenant of FERC's approach to regulation for over twenty years. FERC has a congressionally mandated obligation to ensure just and reasonable wholesale rates, and a component of that has been FERC's support for minimum offer price rules to protect consumers from costly, inefficient, and distortive state subsidies. This approach to regulation is not new; the only thing that has changed is the magnitude of the state subsidies. The markets overseen by FERC must ensure the bulk power system remains reliable in light of the ever-changing resource mix, and FERC must take appropriate action to ensure the markets continue to do so in a competitive, least-cost manner.

Competitive electricity markets also are key to sustainable environmental progress. Legislatively mandated, resource specific policies are temporary and inefficient; upon expiration, should a state choose not to recommit resources to said policies, a resource retirement would *increase* carbon emissions despite consumers spending billions of dollars. Alternatively, restructured electricity markets in the PJM footprint have seen carbon emissions reductions of 30% since 2005 while at the same time delivering lower costs to consumers of all types. These reductions were not the result of state mandates, but rather private investment, innovation, and competition. If the policy goal is to achieve sustainable carbon reductions, policy makers should consider long-term, economy wide solutions to a national and global issue instead of high-cost, one-off, temporary fixes that fail to meaningfully address the problem.

We welcome the opportunity to discuss the contents of this letter with you or your staff members. EPSA and its members are eager to address this issue in a sustainable manner.

Sincerely,

Todd A. Snitchler
President & CEO
Electric Power Supply Association

cc: The Honorable Neil Chatterjee
Chairman, FERC

The Honorable Richard Glick
Commissioner, FERC

The Honorable Bernard L. McNamee
Commissioner, FERC