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Thank you for the opportunity to provide brief remarks about the recent FERC decision on the mitigation of subsidized resources in the capacity market. My name is Jeff Stein and I cover electricity markets for the American Petroleum Institute (API). For a quick background, API is the national trade association for the American oil and gas industry and includes more than 600 member companies throughout the value chain. Through the lens of electricity markets, API members include both leaders in natural gas production as well as large energy users. API works to promote the use of natural gas for power generation by promoting a level playing field where any and all resources can compete for market share. API furthermore believes that all market players ought to play by the same rules.

API has been following and commenting on the integration of state subsidized resources into the PJM capacity construct, in its various forms, nearly since the issue first arose. While the proposals offered by both PJM and FERC have changed throughout the process, API's principled approach has been a consistent support of PJM's competitive capacity construct that allows a fair and balanced market for resources to meet the reliability needs of the system at the lowest cost to consumers. API agreed with the unjust and unreasonable finding by FERC in June of 2018 and through our various comments before the Commission sought to demonstrate that the integrity of the PJM auction can only be maintained if subsidized units are not able to distort the market for those capacity resources that rely solely on market revenues to be economic. This concept is at the heart of buyer side mitigation throughout the RTOs and is critical in ensuring the proper signals are sent so markets can procure the needed capacity at least cost.

As detailed in the order, applying buyer side mitigation to subsidized resources that distort the Base Residual Auction, FERC is sending a strong signal to PJM that it wants to integrity of the capacity markets preserved. As such, API is generally satisfied with the FERC decision that right sizes the MOPR's applicability and updates the construct to consider the wave of state subsidies to favored resources.

In 2018, API submitted initial comments to FERC that supported the concept of an extended, or clean MOPR. API still believes that the extension of MOPR to any and all resources that can distort the Base Residual Auction to be consistent with the fair and competitive market framework that governs the justness and reasonableness of the PJM tariff. At its heart, the order is based on a fundamental conclusion – all subsidized resources, regardless of fuel type, can distort the market. Natural gas is provided no special treatment from this fundamental principle. API is not asking for a blanket end to the MOPR application to new natural gas units, but rather that they do not stand alone in mitigation as states continue to subsidize more costly resources. There is no reason to confine the MOPR applicability to one resource when policies, especially resource specific state subsidies, also have a distorting effect on the BRA. API will also note that the growth of natural gas as the fuel of choice for new builds in PJM has been driven by economics and not by subsidies. While the FERC decision goes further in its mitigation than the originally proposed MOPR-Ex, API still believes that this approach provides clarity and simplicity on incorporating subsidized resources into a competitive capacity procurement structure.

API disagrees with assertions that the decision is an attack on certain energy resources like renewables or nuclear. First, the order grandfathers in previously cleared renewable resources. Second, the order gives any and all generators the ability to pursue a unit-specific exemption and demonstrate that they are competitive below the assigned floor price. Furthermore, the FRR mechanism remains an option for those utilities and states that would prefer not to pursue the benefits of competitive capacity markets. Nothing about this order precludes states from continuing the

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implementation or development of new resource specific procurement policies or subsidies—what the order does is update the longstanding capacity construct to properly reflect and incorporate such actions.

API also agrees with the order's incorporation of PJM's state subsidy definition in the order, specifically connecting the state benefit towards the resource to its procurement in interstate wholesale electricity markets. API appreciates the difficulty in drawing a box around what is and is not a subsidy but believes that by tethering it to directly making a resource or unit more competitive in wholesale electricity markets, the definition can best achieve its intention.

While API is generally supportive of the FERC decision, there remain a few questions;

1) API has consistently called for federal subsidies to be deemed a material subsidy. We see no reason to exclude existing or potential federal subsidies, which do have the ability to distort market signals in the Base Residual Auction, from triggering a MOPR requirement.
2) API would urge a timely restart of the Base Residual Auction and a clear signal of future regular auctions

Overall, this order goes a long way in advancing the goals of the PJM Base Residual Auction in procuring sufficient capacity at least cost through a competitive and transparent mechanism. Thank you for the opportunity to speak briefly about this order and we look forward to working constructively with PJM and stakeholders in incorporating the order into the PJM Tariff.