



**Calpine Corporation**

## **Calpine Presentation**

### **PJM MIC January 8, 2020**

Brief introduction of Calpine and our interest in PJM

FERC's order was the correct outcome to address the impact of state subsidies on PJM's capacity market

- Calpine and many other generators filed a complaint in 2016, highlighting the problems caused by states subsidizing certain generators selling into PJM's competitive capacity market
- We also challenged state subsidies in federal court, arguing that the states were impermissibly interfering with FERC's exclusive jurisdiction over wholesale markets
  - The courts rejected our cases, finding that FERC has the necessary tools it needs to address any interference in its markets
  - FERC's December 19 order uses those tools by expanding the MOPR to apply to subsidized existing units
- State subsidies have been growing since the 2016 complaint was filed
- Competitive generators such as Calpine depend exclusively on PJM's competitive markets for their revenue
- Although people may disagree with PJM's capacity market structure, arguing it should be eliminated or should only be a voluntary, residual market, it is a well-known precept that subsidies harm competitive markets
- FERC has an obligation to ensure that prices are just and reasonable in its regulated markets; recognizing that state subsidies were resulting in unjust and unreasonable prices, FERC issued the December 19 order to ensure that the capacity market is once again on a level playing field and producing just and reasonable prices
- The order is not a war on renewables nor is it a preference for certain technologies over others; rather, it is a clear indication by FERC that it will not permit the competitive markets that it oversees to be undermined by state actions

FERC's order is clear and straight forward

- FERC has determined that but for a few exceptions, all resources, new and existing, receiving subsidies should be subject to PJM's MOPR rules. PJM is directed to submit a compliance filing in 90 days, which must include dates and timelines for when PJM intends to run the 2019 BRA.

- PJM should run the 2019 auction as soon as possible as the ruling does not require substantial changes to PJM's current market structure
- There is nothing to debate – FERC issued its order, an order we have been waiting for over a year, and it's time to proceed
- The forward capacity market is an important reliability tool in PJM. It provides needed price signals indicating to suppliers when new capacity should be built, when capital improvements should be made to existing facilities, and when it is time to retire older facilities.
  - For example, Calpine just recently placed into service the York 2 Energy Center, a 828-megawatt, dual-fueled, combined-cycle power plant at a cost of more than \$800 million, an investment we would not have made without PJM's capacity market
- Implications for not running the auction include retirement with little advance notice of the intended retirement, thereby preventing timely buildout of transmission upgrades (which could result in RMR contracts to keep those units open) as well as preventing competition of new entry resources with transmission upgrades in the retirement vicinity.
- Investment and retirement decisions cannot be made until the BRA is run; 18 months have passed, and it is now PJM's responsibility to hold the auction as soon as possible