Comments of Calpine Corporation
In Response to PJM's July 9, 2018 Request for Comments
July 27, 2018

In response to your July 9, 2018 *Member Notification and Summary of Commission Order*, Calpine Corporation ("Calpine") offers the following comments and proposals for PJM's consideration. As you know, Calpine has been an unwavering supporter of competitive markets, and we believe PJM's markets have proven to be the best competitive energy markets in the country. We also believe that with the appropriate level of commitment and dedication, we can retain the benefits that PJM's markets have delivered over the last 20 years.

On June 29, the Commission issued an order finding PJM's tariff to be unjust and unreasonable because it allows subsidized generation facilities to participate in PJM's capacity auction unmitigated. FERC concluded that such action impermissibly suppresses prices in PJM's capacity market and commenced a paper hearing to consider two proposals to address the deficiencies in PJM's tariff – the first being a strong MOPR and the second being an FRR Alternative option.[1]

Calpine fully supports the Commission's findings that PJM's current tariff is unjust and unreasonable and must therefore be revised because it does not "address the impact of subsidized existing resources on the capacity market"[2] and that these subsidies "allow resources to suppress capacity market clearing prices, rendering the rate unjust and unreasonable."[3] Calpine and most other competitive generators have been raising these concerns for over two years, and we are heartened that the Commission has come to the same conclusion. We similarly support the

[1] Calpine Corp, et al., 163 FERC ¶ 61,236 (June 29, 2018) ("Order").
[2] *Id*. at P 3.
[3] *Id*. at P 149.

Commission's determination that an expanded MOPR, applicable to all new and existing fuel types, with few or no exceptions, is needed to protect PJM's capacity market from out-of-market, government-funded subsidies. However, we strongly disagree with the Commission's additional, albeit preliminary, determination that in order to accommodate states' desires to provide out-of-market subsidies to certain generation facilities, PJM should create an FRR Alternative to allow those subsidized units to exit the capacity market along with a corresponding amount of load. This proposed approach undermines the benefits of a strong MOPR and will necessarily lead to a purely residual capacity market.

To the extent PJM believes it needs to develop a proposal to accommodate the states in addition to a strong MOPR, Calpine urges PJM to consider options other than the FRR Alternative, such as adopting a version of ISO-NE's CASPR or an alternative "two tier" capacity market construct that differs from the one previously filed at FERC.

Background

FERC's order makes one finding – that PJM's current tariff is unjust and unreasonable because it permits subsidized resources to participate unmitigated in the capacity market and therefore "fails to protect the integrity of competition in the wholesale market against unreasonable price distortions and cost shifts caused by out-of-market support…"[4] The remainder of FERC's order, including its proposals for a "replacement rate," does not comprise final decisions but rather simply proposes ideas to which FERC seeks input and comment. These proposals are to: 1) expand the MOPR to apply to all subsidized new and existing resource types with few or no exceptions in order to protect the capacity market from the price suppressive effects of subsidies;

[4] *Id.* at P 150.

and 2) implement a resource-specific FRR Alternative option which would allow subsidized units to exit the capacity market for a period of time, and take with them a commensurate amount of load and operating reserves, while remaining on the system to participate in the energy and ancillary services markets.[5]

Expanded MOPR

With regard to MOPR, FERC reasons that an expanded MOPR, applicable to all new and existing fuel types, with few or no exceptions, is necessary to ensure competitive results in PJM's capacity market. As FERC notes, "[a]n expanded MOPR, with few or no exceptions, should protect PJM's capacity market from the price suppressive effects of resources receiving out-of-market support by ensuring that such resources are not able to offer below a competitive price."[6]

Calpine fully supports this reasoning and urges PJM to propose tariff language to implement a strong MOPR. Dr. Roy Shanker's statement accompanying The PJM Power Provider Group's ("P3's") comments provides convincing support for a strong, or "Clean" MOPR, with no exceptions.[7] Calpine endorses P3's comments and Dr. Shanker's statement and urges PJM to implement this type of MOPR, consistent with Dr. Shanker's recommendations.

FRR Alternative and Other Options to Accommodate State Actions

In Calpine's view, the Commission was attempting to find a balance between accommodating the desire of certain states to provide out-of-market subsidies to particular

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5 *Id.* at P 157.
6 *Id.* at P 158.
7 *See P3 Comments, Statement of Dr. Roy J. Shanker on Behalf of the PJM Power Providers*, July 26, 2018.

generating facilities with the need to preserve competitive markets which have delivered overwhelmingly positive results. In looking for this balance, the Commission proposed the FRR Alternative as a possible solution. While well-intended, we believe this proposed solution will have devastating consequences and must be rejected outright, or at a minimum significantly altered, in order to preserve the other side of the equation – workably competitive markets.

Even with revisions, the FRR Alternative is not just imperfect; it is unworkable and will suffer from the same fatal flaw as the existing system which FERC has found to be unjust and unreasonable. The Commission, however, has not limited PJM to the FRR Alternative option. The Commission purposefully did not predetermine the outcome of the paper hearing, including the creation of the FRR Alternative, stating, "we are not able, based on the existing record in Docket Nos. EL16-49-000 and ER18-1314-000, *et al.*, to make a final determination regarding the just and reasonable replacement rate for the PJM Tariff."[8] The Commission notes that the FRR Alternative is a proposal only and is seeking industry input, not only on the mechanics of that proposed option, but on other ways to accommodate the states: "As noted, the Commission is initiating a paper hearing to address the just and reasonable replacement rate for PJM's existing MOPR, including the proposal identified above *or any other proposal that may be presented*."[9]

With this in mind, Calpine believes the only way to preserve PJM's capacity market while also accommodating the states is to develop a different approach, such as a CASPR-like structure, similar to that approved for the ISO-NE market, or some other type of a two-tiered pricing proposal, both of which we believe could gain traction with the Commission.

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[8] *Id.* at P 157.
[9] *Id.* (emphasis added).

Perhaps the most appealing characteristic of a CASPR-like approach is the fact that the Commission has already approved the approach for ISO-NE's capacity market. In rejecting PJM's repricing proposal, the Commission compared PJM's proposal with CASPR, highlighting the benefits of CASPR over PJM's proposal:

> While both PJM's Capacity Repricing and ISO-NE's CASPR proposal use two-tier auctions to address the impacts of resources receiving out-of-market support on capacity prices, the two proposals are otherwise distinguishable. CASPR seeks to maintain the connection between resource selection and price, because CASPR pays the first stage price to all resources committed in that stage. Only Sponsored Policy Resources committed in the second stage pay the second stage price as a one-time severance to a matched retiring resource. CASPR does not allow Sponsored Policy Resources unfettered access to the market (it retains and strengthens ISO-NE's MOPR for all new resources, by phasing out the Renewable Technology Resource exemption) and contemplates that Sponsored Policy Resources may be unable to find partners willing to give up their capacity commitment. For these reasons, we find that PJM's Capacity Repricing, as proposed, is not comparable to ISO-NE's CASPR.[10]

A CASPR-like approach that incorporates the attributes highlighted by the Commission as necessary for a two-tiered pricing system could be an accommodation program that meets the Commission's requirements. Calpine urges PJM to consider such a structure as a substitute for the FRR Alternative.

Similarly, an appropriately structured two-tiered pricing program could also address some, if not all of the deficiencies identified by FERC in its rejection of PJM's repricing proposal.

The Commission was clear when it rejected PJM's repricing proposal that it was not condemning other accommodation approaches, stating, "[w]e confine our finding here, however, to PJM's Capacity Repricing proposal, as submitted, as a stand-alone solution to address the impact of resources receiving out-of-market support in PJM's capacity market."[11] Consequently,

[10] *Id.* at P 71 (citation omitted).
[11] *Id.* at P 65.

Calpine believes that the Commission is open to other options and would welcome a well thought out proposal that addresses the deficiencies it identified with PJM's repricing and MOPR Ex proposals.

Calpine believes that either a CASPR-like approach or another form of two-tiered pricing could be structured in a way to ensure that PJM's capacity market will produce just and reasonable rates while allowing the states to pursue their out-of-market activities. Calpine stands ready to work with PJM and its stakeholders to develop such an approach.