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CONTACT: Glen Thomas | 610.724.0659 | gthomas@gtpowergroup.com

Lack of clarity and stability in PJM's markets risk cost increases for consumers

Statement from the PJM Power Providers Group on
the cumulative impact of recent FERC orders

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MALVERN, Pa. – Through a series of recent decisions, FERC has made unprecedented changes to PJM's markets that will likely result in increased costs to consumers while jeopardizing the superior reliability that PJM consumers have historically enjoyed. As the opportunity for submitting feedback on recent technical conferences ([AD 21-10](#)) draws to a close and FERC evaluates additional [delay](#) to a capacity auction initially scheduled for May 2020 ([EL19-58](#)), P3 seeks to call attention to the cumulative impact FERC's choices will have on electricity customers by increasing risks that raise costs and remind stakeholders that stability and certainty are what make competitive markets work.

P3 President Glen Thomas released the following statement on the issue:

"The uncertainty that the commission has interjected into PJM's capacity construct as a result of its actions and non-actions have undermined the market stability that is necessary to achieve reliability at the least cost to consumers. Naturally, merchant capital is repelled by instability or uncertainty in any market, and, in that capital's absence, reliability will need to be achieved through non-market-based means – which certainly will cost consumers more money. P3 urges the Commission to recognize the impact that the totality of its decisions have had on PJM's capacity construct and understand that undermining the capacity construct will have an impact on resource adequacy and costs."

Thomas pointed to several recent FERC decisions as examples:

— **MOPR (minimum offer-price rule)**: The MOPR is intended to prohibit capacity resources from using below-cost bids (often made possible through subsidies) to artificially depress auction-clearing prices, force competition to flee in search of better returns and thereby reduce the vibrancy of the market in the future. However, last year — in response to public urging from FERC — PJM expedited MOPR revisions that the PJM Independent Market Monitor (IMM) described as "convoluted, unnecessarily complicated, unenforceable and incorrect." While FERC didn't directly rule on the proposal, enough time passed without action that, thanks to a recent federal law, it automatically went into effect. Thus, the market-power rules on the buyers' side effectively no longer exist, continuing to discourage unsubsidized investment in the market.

— **MSOC (market-seller offer cap)**: Meanwhile, sellers'-side market-power rules force traditional and renewable generators to endure a poorly-defined and ever-changing process in which PJM and its IMM put a price on their view of the seller's costs and risks, effectively robbing sellers of use of their own

judgment to weigh their own risks and set prices with which they are comfortable. This stripping of self-determination also discourages market participation.

— **10% adder:** All of PJM’s curves, calculations and methodologies are developed by combining them in mathematical formulas that logically balance all critical components; it is impossible to simply strip out pieces of the formulas and still retain confidence in the market outcome. However, that’s exactly what FERC did earlier this month — just weeks before an already-delayed capacity auction was set to occur — by simply excising outright a component known as the “10% adder” in response to a court order seeking only reevaluation of it. The ill-considered removal further erodes confidence, not only in PJM’s market calculations but that they will remain stable from year to year. Such instability raises costs over time as higher risks demand higher premiums.

— **Reserves pricing:** As the number of intermittent resources increase, setting an appropriate value for additional reserves beyond what is required — which allows for procuring extra when it makes economic sense — is a prudent step in addressing the grid’s evolution. To that end, PJM proposed (and FERC previously approved) market reforms that PJM says are necessary to maintain reliability as the grid evolves. Those reforms, which were going to be in place in May, are now [scuttled](#). PJM estimated that, by the end of 2021, it would have already spent about \$2.3 million on this initiative ([Footnote 24](#)). The work funded by that money, which ultimately came from consumers’ pockets, will now simply be shelved.

— **Delayed auctions:** PJM’s capacity-market auction schedule is designed so that all market participants have time to decide on continued participation in PJM before any required action is necessary, ensuring PJM can avoid any potential for expensive, last-minute reliability emergencies. FERC has caused multiple delays to the auction for the 2023/2024 delivery year, now leaving market participants less than a year to make plans before they must operate or exit the market. Assuming FERC approves [PJM’s proposed reschedule](#) (and orders no more delays), upcoming delivery-year auctions will be rushed through on roughly a six-month cycle until it gets back on track for the 2027/28 BRA in May 2024, causing significant planning uncertainty for at least the next two years.

P3 reiterates that action needs to be taken now to secure the viability of and confidence in PJM’s capacity and energy markets if FERC endeavors to keep the lights on in the District of Columbia and everywhere else in PJM’s footprint. As P3 noted in its feedback on the technical conferences, “the Commission can continue discussions on ramping and flexibility products, but those discussions are akin to debating the brand of fiddle while Rome is burning.”

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P3 is a non-profit organization that supports the development of properly-designed and well-functioning markets in PJM’s operating region of the electricity grid, which encompasses 13 states and the District of Columbia. Combined, P3 members own more than 67 gigawatts of virtually all forms of electricity generation, provide demand-response services, serve end-use consumers through retail affiliates, and produce enough power to supply more than 50 million homes. For more information, visit www.p3powergroup.com.