UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

PJM Interconnection, L.L.C.	)))	**Docket No. EL18-178-000**

COMMENTS OF
THE AMERICAN COALITION FOR CLEAN COAL ELECTRICITY AND
THE NATIONAL MINING ASSOCIATION
OCTOBER 2, 2018

The American Coalition for Clean Coal Electricity (ACCCE) and the National Mining Association (NMA) respectfully submit these comments in accordance with the Commission's July 2 "Notice of Institution of Section 206 Proceeding and Refund Effective Date" and its June 29 "Order Rejecting Proposed Tariff Revisions, Granting in Part and Denying in Part Complaint, and Instituting Proceeding Under Section 206 of the Federal Power Act" (June 29 Order). ACCCE represents 31 companies and associations that are involved in the generation of electricity from coal. NMA's membership is comprised of more than 325 corporations and state mining associations that span the entire spectrum of the mining industry.

We commend the Commission for taking this step to improve the functioning of PJM's market. However, this step does not remedy other major shortcomings in PJM's market that need to be addressed expeditiously. In particular, PJM's current market design is contributing to the loss of fuel-secure electricity resources, while encouraging reliance on pipeline-dependent and intermittent resources.

Our comments that follow support a properly expanded Minimum Offer Price Rule (MOPR), as well as urge the Commission and ISO/RTOs to establish a market-based mechanism for valuing fuel security.

Fuel-secure electricity resources are retiring at an alarming rate. As the Commission is aware, the nation's coal fleet possesses a number of attributes that are essential to maintaining a reliable and resilient electricity grid. Fuel security is one of these attributes. Fuel security is essential to resilience because it enables the grid to absorb and recover quickly from manmade or natural disturbances that could have severe, possibly catastrophic, consequences. The

coal fleet provides fuel security by maintaining large stockpiles of coal at each power plant. Over the past five years, coal stockpiles have averaged 75 days of burn for plants using subbituminous coal and 81 days of burn for plants using bituminous coal.[i]
We are deeply concerned that almost 40 percent of the coal fleet nationwide has retired or has announced plans to retire. In ISO/RTO regions, almost 63,000 megawatts (MW) of coal-fired generation will have retired by 2020.[ii] Some 17,900 MW are expected to retire over the period 2018-2020. Among these regions, PJM has the largest amount (32,400 MW) of coal-fired capacity that has retired or is retiring.[iii] Flawed market rules are responsible for some of these retirements. In PJM alone, the Independent Market Monitor estimates that up to 21,000 MW of coal-fired generating capacity are at risk of retiring because they are unable to recover sufficient costs to operate.[iv]

Because the coal fleet provides fuel security, coal retirements also may be jeopardizing national security. According to an addendum drafted for the National Security Council, "… resources that have a secure on-site fuel supply … including coal-fired power plants … are essential to support the Nation's defense facilities, critical energy infrastructure, and other critical infrastructure … The Department of Defense (DOD) relies on the electric grid to support military operations at home and abroad. In 2008, a Defense Science Board report stated that DOD installations are 99% dependent on the commercial power grid."[v]

PJM has undertaken an initiative to value fuel security: "PJM now seeks to isolate one type of resilience risk: fuel security. Fuel security focuses on the vulnerability of fuel supply and delivery to generators and the risks inherent in increased dependence on a single fuel-delivery system."[vi] We commend PJM for undertaking this initiative "… to define fuel security and establish fuel security criteria and then use market forces to allow all resources to compete to meet those criteria." We urge PJM to complete its work in time for the May 2019 Base Residual Auction, as PJM has indicated it hopes to do.

Mitigating price suppression is an incremental improvement to PJM's market, but fuel security must be valued. FERC has proposed an approach to mitigate price suppression in PJM's capacity market caused by out-of-market support. States within the PJM market subsidize or are expected to subsidize as much as 14,100 MW of nuclear generation, offshore wind, and other renewables.[vii] These subsidies are substantial. For example, the value of subsidies for nuclear generation in Illinois alone amounts to more than $135 million per year.[viii] Nationwide, renewables benefit from substantial tax credits. In particular, wind and solar will have received $36.5 billion in tax credits over the five-year period 2016-2020, according to the Joint Committee on Taxation.[ix]

Some forms of out-of-market support are an attempt to value attributes which PJM's market implicitly values at zero. A much better approach is to address the basic market flaws head-on by revising PJM's market design to value attributes that should be valued. Fuel security is critical to resilience and national security, but its implicit market value is zero. However, fuel security can be valued in the same manner PJM values other services and attributes.

The following are two concepts for valuing fuel security. Each would establish a two-tiered market structure for the procurement of capacity from fuel-secure electricity resources.

Under the *first* approach, resources could qualify to participate in a newly created auction for Fuel Secure Capacity (FSC) by guaranteeing that fuel will be available for a requisite number of days. On-site fuel supplies that can last for the required number of days would qualify as a guarantee of fuel availability. Resources would offer capacity and clear first through an auction conducted solely for FSC resources. Next, the FSC resources would offer capacity as they do now and clear again through the existing RPM auction. A resource that cleared both markets would be paid the higher of the two clearing prices. Regardless of whether an FSC resource clears the regular capacity market, its capacity would still be purchased if it clears the FSC auction.

Under the *second* approach, resources could offer capacity as they do now and clear through the existing RPM auction. However, fuel secure resources would participate in a second auction (an FSC auction), which would be conducted after the existing RPM auction. A fuel-secure resource would make an offer into this new FSC auction that reflects any revenue shortfall left after the fuel secure resource participates in the existing capacity market auction. Other things being equal, as gas prices rise, fuel secure resources would earn more revenue in PJM's existing capacity and energy markets, and the additional revenue that is needed through the FSC auction would diminish.

Either of these concepts would be consistent with the directives of the Commission's June 29 Order and responsive to the Commission's question as to how capacity market reforms will interact with PJM's fuel security initiative and ensure that PJM's tariff provides just and reasonable rates. In addition, valuing fuel-secure resources would minimize, or possibly even eliminate, the need for out-of-market support to preserve fuel-secure resources.

The MOPR should be expanded, but it should not counteract federal efforts to ensure grid resilience and promote national security. Because the Commission is seeking to establish a revised MOPR before more fundamental market changes — such as valuing fuel security — are likely to be made, ACCCE and NMA strongly support an expanded MOPR with few or no exceptions. The MOPR should apply to subsidies for both new and existing resources that are suppressing capacity prices. As discussed below, however, subsidies covered by the MOPR should not include federal support related to fuel security or national security.

The June 29 Order invited comment on "the appropriate scope of out-of-market support to be mitigated by the expanded MOPR …" We urge the Commission to reject any proposal that would narrow the scope of the MOPR and allow the subsidies addressed by the June 29 Order to escape mitigation. For example, some stakeholders have told PJM that the MOPR should not apply to subsidies that are "voluntary" in nature or that do not provide "material" benefits to resources. It was also proposed that even when subsidies provide material benefits, the offer floor established under the MOPR could be lowered to the extent that the benefits were not "significant." All such proposals would undermine the June 29 Order and allow subsidies to distort the market.

The June 29 Order also sought comment on whether federal sources of out-of-market support should be addressed by Commission action and how major capacity market reforms will interact with PJM's ongoing fuel security initiative. PJM has proposed to treat new federal support for fuel-secure generation as actionable subsidies unless "there is a clear statement of Congressional intent indicating otherwise in the law creating the subsidy." PJM indicated that this provision is meant to apply to actions that might be taken in the future by the Department of Energy (DOE) to value the resilience benefits of fuel-secure resources. FERC should reject PJM's proposal.

If DOE were to adopt such support under the emergency provisions in Section 202 of the Federal Power Act (FPA), it would be exercising its legitimate federal authority to remedy flaws in markets that the Commission regulates under other FPA provisions. It would be irresponsible to take steps to mitigate a lawful remedy adopted under the FPA, especially one intended to enhance national security. PJM's proposal to exempt such support from the MOPR only if there is a clear statement of Congressional intent is unreasonable. The relevant federal statutes that authorize DOE action were enacted decades before the MOPR and capacity markets existed. The Commission should not allow PJM to adopt tariff language that would frustrate DOE's statutory authority.

Unlike state subsidies that were expressly addressed by the June 29 Order, there is no record evidence, and there has been no Commission finding, that support for fuel-secure resources would result in harmful price suppression. Moreover, ensuring that resources are properly compensated for fuel security and other resilience attributes goes directly to the Commission's statutory obligation to ensure just and reasonable rates under the FPA.

By contrast, state initiatives to promote renewable resources or to value environmental attributes are beyond the traditional scope of the FPA. Therefore, it is appropriate for the June 29 Order to direct PJM to use the MOPR to prevent state programs from disrupting federally-regulated markets, while respecting the boundaries between state and federal jurisdiction. However, it would not be appropriate for the MOPR to prevent federal policies to ensure fuel security and resilience from being accommodated within federally-regulated markets. Renewable resources cannot serve those federal policy objectives because they are not fuel secure. Moreover, renewable resources are thriving in the current market environment, in part because of substantial subsidies, and no longer need additional incentives.

The Commission should likewise reject any other proposal in this proceeding to expand the MOPR to cover support for fuel-secure resources for resilience or national security reasons. This would include support that might result from PJM's fuel security initiative, or other future programs to value resilience attributes.

If support for coal-fired generation is subject to an expanded MOPR, PJM should adopt an FRR Alternative or a similar mechanism such as ReCO. For the reasons explained above, ACCCE and NMA do not believe that federal support for fuel security or national security should be classified as a material subsidy. If, however, the Commission decides that the expanded MOPR should apply to out-of-market support for resources that provide fuel security or that enhance national security, PJM should adopt a Fixed Resource Requirement Alternative (FRRA) or similar mechanism. Therefore, ACCCE and NMA support PJM's Resource-specific Carve Out (ReCO) proposal, provided it does not frustrate efforts to promote national security or preserve fuel secure resources.

We thank the Commission for the opportunity to submit these comments.

Sincerely,

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President & CEO
American Coalition for Clean
Coal Electricity

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding in accordance with the requirements of Rule 2010 of the Rules of Practice and Procedure, 18 C.F.R. § 385.2010 (2018).

Dated at Washington, DC this 2nd day of October, 2018.

By:____________________________

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[i] EIA, "Electricity Monthly Update with data for May 2018, July 24, 2018" (issued).

[ii] ACCCE, "Retirement of Coal-Fired Electric Generating Units (as of September 26, 2018)." www.americaspower.org.

[iii] The regions with the most coal retirements through 2020 are PJM (32,400 MW), MISO (14,700 MW), ERCOT (5,100 MW) and SPP (5,100 MW).

[iv] "PJM State of the Market Report 2017," page 309. ("In 2017, most units did not achieve full recovery of avoidable costs through net revenue from energy markets alone … There are between 38 and 46 coal units, with between 17,302 MW and 21,039 MW, at risk [of retirement]."

[v] The draft addendum is dated 5/29/18 and was reported widely in trade press.

[vi] PJM, "Valuing Fuel Security," April 30, 2018.

[vii] Order Rejecting Tariff Revisions, Granting in Part and Denying in Part Complaint, and Instituting Proceeding Under Section 206 of the Federal Power Act, June 29, 2018.

[viii] According to PJM testimony, the nuclear credit for IL is $96,797/MW-yr, or $135,515,800 for 1,400 MW of nuclear generating capacity. PJM Filing, *Capacity Repricing or in the Alternative MOPR-Ex Proposal: Tariff Revisions to Address Impacts of State Public Policies on the PJM Capacity Market*, April 9, 2018, Attachment 2 to Affidavit of Dr. Anthony Giacomoni.

[ix] Staff of the Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2016-2020*, Prepared for the House Committee on Ways and Means and the Senate Committee on Finance, January 30, 2017.