171 FERC ¶ 61,035
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Neil Chatterjee, Chairman;
Richard Glick, Bernard L. McNamee,
and James P. Danly.

Calpine Corp.; Dynegy Inc.; Eastern Generation, LLC; Homer City Generation, L.P.; NRG Power Marketing LLC; GenOn Energy Management, LLC; Carroll County Energy LLC; C.P. Crane LLC; Essential Power, LLC; Essential Power OPP, LLC; Essential Power Rock Springs, LLC; Lakewood Cogeneration, L.P.; GDF SUEZ Energy Marketing NA, Inc.; Oregon Clean Energy, LLC; and Panda Power Generation Infrastructure Fund, LLC
v.
PJM Interconnection, L.L.C.

Docket Nos. EL16-49-002

PJM Interconnection, L.L.C.

EL18-178-002
(Consolidated)

ORDER ON REHEARING AND CLARIFICATION

(Issued April 16, 2020)

Paragraph Numbers

1. This order addresses requests for rehearing and clarification of the order issued in the above-captioned proceeding on December 19, 2019, which established a replacement rate addressing state support for entry, or continued operation, of preferred generation resources in the capacity market administered by PJM Interconnection, L.L.C. (PJM).[1] For the reasons discussed below, we grant, in part, and deny, in part, requests for rehearing and clarification, and direct PJM to submit a further compliance filing within 45 days of issuance of this order, as discussed in the body of this order.

I. Background

2. Acting on both a complaint filed by Calpine Corporation and additional generation entities[2] and a filing by PJM to amend its Tariff, the Commission issued an order on June 29, 2018, finding that PJM's Tariff was unjust and unreasonable because it failed to protect the integrity of competition in PJM's wholesale capacity market against unreasonable price distortions and cost shifts caused by out-of-market support to keep existing uneconomic resources in operation, or to support the uneconomic entry of new resources.[3] In the June 2018 Order, the Commission also *sua sponte* initiated a proceeding under section 206 of the Federal Power Act (FPA)[4] and established a paper hearing to determine a just and reasonable replacement rate. Upon review of the testimony filed in the paper hearing, the Commission issued the December 2019 Order directing PJM to implement a replacement rate, consistent with the Commission's guidance in that order. Specifically, the December 2019 Order directed PJM to retain its current mitigation of new natural gas-fired resources under the existing MOPR, while extending the MOPR to include both new and existing resources, internal and external,

[1] *Calpine Corp. v. PJM Interconnection, L.L.C.*, 169 FERC ¶ 61,239 (2019) (December 2019 Order).

[2] Calpine Corp. was joined by Dynegy Inc.; Eastern Generation, LLC; Homer City Generation, L.P.; NRG Power Marketing LLC; GenOn Energy Management, LLC; Carroll County Energy LLC; C.P. Crane LLC; Essential Power, LLC; Essential Power OPP, LLC; Essential Power Rock Springs, LLC; Lakewood Cogeneration, L.P.; GDF SUEZ Energy Marketing NA, Inc.; Oregon Clean Energy, LLC; and Panda Power Generation Infrastructure Fund, LLC.

[3] *Calpine Corp. v. PJM Interconnection, L.L.C.*, 163 FERC ¶ 61,236, at P 150 (2018) (June 2018 Order).

[4] 16 U.S.C. § 824e (2018).

that receive, or are entitled to receive, State Subsidies,[5] subject to certain exemptions.[6] These exemptions include the Self-Supply Exemption, the Demand Response, Energy Efficiency, and Capacity Storage Resources Exemption, the Renewable Portfolio Standards Exemption, the Unit-Specific Exemption, and the Competitive Exemption.

II. Rehearing and Clarification Requests

3. Requests for rehearing and clarification of the December 2019 Order were submitted by the entities identified in the appendix to this order. The substance of these requests is summarized below.[7]

III. Procedural Matters

4. Motions to intervene out-of-time were submitted on January 17, 2020, by the Office of the Attorney General of Maryland and the Maryland Energy Association, and on January 21, 2020, by The Hershey Company, Longroad Development Company, LLC, and the Energy Storage Association (together, Late Intervenors). In ruling on a motion to intervene out-of-time, we apply the criteria set forth in Rule 214(d) of the Commission's Rules of Practice and Procedure,[8] and consider, *inter alia*, whether the movant had good

[5] The December 2019 Order defined State Subsidy as "[a] direct or indirect payment, concession, rebate, subsidy, non-bypassable consumer charge, or other financial benefit that is (1) a result of any action, mandated process, or sponsored process of a state government, a political subdivision or agency of a state, or an electric cooperative formed pursuant to state law, and that (2) is derived from or connected to the procurement of (a) electricity or electric generation capacity sold at wholesale in interstate commerce, or (b) an attribute of the generation process for electricity or electric generation capacity sold at wholesale in interstate commerce, or (3) will support the construction, development, or operation of a new or existing capacity resource, or (4) could have the effect of allowing a resource to clear in any PJM capacity auction." December 2019 Order, 169 FERC ¶ 61,239 at P 67.

[6] *Id.* P 2.

[7] On April 16, 2020, Commissioner Bernard L. McNamee issued a memorandum to the file documenting his decision not to recuse himself from these dockets, based on memoranda dated April 13, 2020, December 13, 2019, October 11, 2019, January 28, 2019, and January 2, 2019, (and attachments thereto, including email communications dated June 17 and September 17, 2019) from the Designated Agency Ethics Official and Associate General Counsel for General and Administrative Law in the Office of General Counsel.

[8] 18 C.F.R. § 385.214 (2019). Enerwise Global Technologies, Inc., d/b/a CPower (CPower) also filed a motion of intervene out-of-time. Because CPower timely filed a

cause for failing to file the motion within the time prescribed. Parties seeking to intervene after issuance of a Commission determination in a case bear a heavy burden. Where, as here, late intervention is sought after the issuance of a dispositive order, the prejudice to other parties and burden upon the Commission of granting the late intervention may be substantial. Thus, movants bear a higher burden to demonstrate good cause for granting such late intervention. Late Intervenors have failed to demonstrate the requisite good cause. Generally, Late Intervenors do not claim they did not have notice of the proceeding. Rather, they claim they were not aware of how the December 2019 Order would impact them or that they would like to advocate for themselves. We do not find these reasons to be sufficient to meet the higher burden to show good cause for granting intervention following a dispositive order. Accordingly, we deny Late Intervenors' motions for leave to intervene out-of-time.

5. On January 21, 2020, the Virginia State Corporation Commission filed a motion for reconsideration and clarification that incorporated by reference its previously-filed comments. The Virginia State Corporation Commission's filing does not meet the Commission's requirements for submission of a rehearing request of a Commission order. As set forth in the Commission's Rules of Practice and Procedure, the Virginia State Corporation Commission's filing does not include a required "Statement of Issues," listing each issue with representative citations to the Commission and court precedent on which the Virginia State Corporation Commission is relying.[9] For this reason, we reject the Virginia State Corporation Commission's request for rehearing.

6. On February 10, 2020, Edison Electric Institute filed a motion for reconsideration, and on March 9, 2020, Dominion filed a motion to supplement its request for rehearing. EKPC submitted an answer in support of Dominion's supplemental request for rehearing on March 19, 2020. We find that these motions constitute untimely requests for rehearing of the December 2019 Order, and therefore reject them.[10] Under section 313 of

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motion to intervene in Docket No. ER18-1314-000, CPower is already a party to this consolidated proceeding.

[9] 18 C.F.R. § 385.713(c)(2) (2019); *see Revision of Rules of Practice & Procedure Regarding Issue Identification*, Order No. 663, 112 FERC ¶ 61,297, *order on reh'g*, Order No. 663-A, 114 FERC ¶ 61,284 (2006); *see also N.C. Waste Awareness & Reduction Network, Inc. v. Duke Energy Carolinas, LLC*, 153 FERC ¶ 61,189, at P 12 (2015) ("[T]he purpose of this requirement is to ensure that the filer, the Commission, and all other participants understand the issues raised by the filer, and to enable the Commission to respond to these issues and avoid wasteful litigation.")).

[10] We evaluate a pleading based on its substance, rather than its style or form. *See, e.g.*, *Light Power & Gas of N.Y. LLC v. N.Y. Indep. Sys. Operator, Inc.*, 169 FERC

the Federal Power Act, an aggrieved party must file a request for rehearing within 30 days after the issuance of a Commission decision.[11] Because the 30-day rehearing deadline is a statutory requirement, it cannot be waived or extended. We also dismiss the rehearing requests submitted by the Office of the Attorney General of Maryland and Longroad Development Company, because, as non-parties, they are not eligible to seek rehearing.[12]

7. Talen PJM Companies; Old Dominion Electric Cooperative; the Market Monitor; EDF Renewables, Inc.;[13] and Longroad Development Company each filed answers to the requests for rehearing. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure[14] prohibits answers to a request for rehearing, and we will, therefore, reject them.

8. Motions for clarification were filed on January 24, 2020, by Advanced Energy Management Alliance (AEMA), and on February 19, 2020, by Monitoring Analytics, LLC, acting as PJM's Market Monitor (Market Monitor). On February 24, 2020, the Maryland Commission filed an answer to the Market Monitor's February 19, 2020 motion for clarification. We grant the Market Monitor's motion for clarification and discuss those clarifications below. We grant, in part, AEMA's motion for clarification, and reject it, in part, as an untimely request for rehearing.[15]

¶ 61,216, at P 26 & n.63 (citing *Stowers Oil & Gas Co.*, 27 FERC ¶ 61,001, at 61,002 n.3 (1984) ("Nor does the style in which a petitioner frames a document necessarily dictate how the Commission must treat it.").

[11] 16 U.S.C. § 825*l*(a) (2018); 18 C.F.R. § 385.713(b) (2019).

[12] *See* 16 U.S.C. § 825*l*(a).

[13] Although styled as comments, the pleading is essentially an answer to a request for rehearing.

[14] 18 C.F.R. § 385.713(d)(1) (2019).

[15] Specifically, AEMA asks the Commission to clarify that a $0/MW-day default offer price floor for energy efficiency capacity resources is appropriate, *see* AEMA Motion at 5-7, which we reject as an out-of-time request for rehearing of the December 2019 Order's findings on the default offer price floor for energy efficiency resources. *See* December 2019 Order, 169 FERC ¶ 61,239 at PP 144-145.

IV. Substantive Matters

A. Jurisdiction

1. Requests for Rehearing and Clarification

9. Parties argue that the December 2019 Order violates the FPA by intruding into the states' exclusive jurisdiction over generation resources, attempting to unduly influence state decisions over resource mix decisions, and violating principles of cooperative federalism.[16] Parties state that the Commission's reach "extend[s] only to those matters which are not regulated by the States," and the power to shape the mix of generation resources is exclusively reserved to the states.[17] Clean Energy Associations further state that states have authority to enact laws and policies that protect their citizens from environmental harm.[18]

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[16] Maryland Commission Rehearing and Clarification Request at 8-9, 11, 14 (citing *Hughes v. Talen*, 136 S. Ct. 1288, 1300 (2016) (Sotomayor, J. concurring) ("In short, the Federal Power Act, like all collaborative federalism statutes, envisions a federal-state relationship marked by interdependence.")); DC Attorney General Rehearing Request at 3, 9-14; Clean Energy Associations Rehearing and Clarification Request at 1, 6; Advanced Energy Entities Rehearing and Clarification Request at 3; Exelon Rehearing and Clarification Request at 24-26; Public Power Entities Rehearing and Clarification Request at 11; OPSI Rehearing and Clarification Request at 3; New Jersey Board Rehearing and Clarification Request at 10-12; West Virginia Commission Rehearing Request at 1-2; Ohio Commission Rehearing Request at 7; Illinois Commission Rehearing Request at 6; PSEG Rehearing Request at 6-8; FES Rehearing Request at 2; AEP/Duke Rehearing and Clarification Request at 3, 5-10.

[17] DC Attorney General Rehearing Request at 9, 13 & n.45; AEP/Duke Rehearing and Clarification Request at 9 & n.20; Exelon Rehearing and Clarification Request at 24 (citing *Coal. for Competitive Elec. v. Zibelman*, 906 F.3d 41, 57 (2d Cir. 2018) (*Zibelman*) (discussing dual regulatory scheme)); Maryland Commission Rehearing and Clarification Request at 10-11 (citing *Pac. Gas & Elec. v. State Energy Res. Conservation & Dev.*, 461 U.S. 190, 208 (1985)); PSEG Rehearing Request at 6; *see* 16 U.S.C. § 824(a), (b) (2018).

[18] Clean Energy Associations Rehearing and Clarification Request at 6 (citing 33 U.S.C. § 1251(b) ("It is the policy of Congress to recognize, preserve, and protect the primary responsibilities and rights of States to prevent, reduce, and eliminate pollution . . . ."); *Cal. Coastal Comm'n v. Granite Rock Co.*, 480 U.S. 572, 582–84 (1987)); Ohio Commission Rehearing Request at 5 (averring that states have the responsibility to

10. Parties argue that the courts and the Commission have recognized states' authority over generation matters and decisions concerning fuel type, even if the state action affects the market clearing price. Recognizing that actions within the Commission's and states' jurisdictional realms may affect matters within the other's jurisdiction, parties argue that the FPA's dual jurisdiction is limited by the principle that neither the states nor the Commission may impose measures that target or otherwise aim at the other's areas of exclusive jurisdiction.[19] Exelon argues that while the December 2019 Order does not directly regulate generation, the Commission may not attempt to override state choices concerning the generation mix by refusing to consider and compensate the capacity provided by state-preferred resources, just as states may not attempt to adjust wholesale rates by linking state payments to participation in, and clearing, the capacity market.[20] The New Jersey Board argues that, if FPA section 201(b) is to have any meaning, there must be a limit as to how far the Commission can encroach on state jurisdiction,[21] adding that the December 2019 Order creates a regulatory gap by disavowing an intent to control environmental externalities, while effectively preventing states from addressing climate change and pollution.[22]

11. The Maryland Commission contends the Commission improperly intrudes into an area of traditional and exclusive state jurisdiction, namely the valuation of the environmental attributes of generation for state health and welfare purposes.[23] The Maryland Commission argues the expanded MOPR is intended to impede or prevent state-supported resources, including renewable resources, from clearing the capacity market, thereby thwarting state public policy decisions affecting environmental

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consider the health, safety, and welfare of the public and cannot make decisions based on the Commission's narrow focus).

[19] PSEG Rehearing Request at 6-7 (citing *FERC v. Elec. Power Supply Ass'n*, 136 S. Ct. 760, 776 (2016) (*EPSA*); *Oneok, Inc. v. Learjet, Inc.* (*Oneok*), 135 S. Ct. 1591, 1600 (2015); *Coal. for Competitive Elec. v. Zibelman*, 272 F. Supp. 3d 554, 576 (S.D.N.Y. 2017), *aff'd sub nom*. *Zibelman*, 906 F.3d 41); *see also* Illinois Commission Rehearing Request at 6; Clean Energy Associations Rehearing and Clarification Request at 12 (citing *Hughes*, 136 S. Ct. at 1298-99; *Oneok*, 135 S. Ct. at 1600).

[20] Exelon Rehearing and Clarification Request at 25-26.

[21] New Jersey Board Rehearing and Clarification Request at 14.

[22] *Id*. at 18 (citing *EPSA*, 136 S. Ct. at 780 (stating that the FPA makes state and federal powers complementary, disavowing a regulatory "no man's land")).

[23] Maryland Commission Rehearing and Clarification Request at 8.

attributes.[24] The Maryland Commission specifically contends that the December 2019 Order unlawfully asserts Commission authority over renewable energy credits (RECs). The Maryland Commission alleges that the Commission has found it lacks jurisdiction over credits unbundled from wholesale energy because they do not affect wholesale electricity rates, and that the December 2019 Order reflects an unsupported departure from Commission precedent.[25] Likewise, the Illinois Commission argues that the Commission has previously "concluded that state programs that incentivize clean energy generation are consistent with FERC's policy objectives."[26] The Illinois Commission faults the Commission for treating zero emission credits (ZECs) as an instrument of price suppression rather than recognizing that the purpose of state statutes authorizing ZECs and renewable portfolio standards (RPS) policies is to obtain public health and welfare objectives.[27]

12. Parties argue that the December 2019 Order unlawfully intrudes on the states' jurisdiction over generation resources by adopting market rules that counteract state preferences for certain types of generation.[28] Parties contend that the December 2019 Order nullifies state policies regulating in-state generation facilities by erecting an entry barrier that many, if not most, new generation resources will be unable to surmount,

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[24] *Id.*at 8, 10.

[25] *Id.* at 6, 12 (citing *WSPP Inc.*, 139 FERC 61,061, at PP 18, 21 (2012); *Grand Council of Crees v. FERC*, 198 F.3d 950, 956-57 (D.C. Cir. 2000)).

[26] Illinois Commission Rehearing Request at 7 (citing *Coal. for Competitive Elec.*, 272 F. Supp. 3d at 577).

[27] Illinois Commission Rehearing Request at 13. The Illinois Commission explains that the payment of one ZEC is equal to the social cost of carbon and is designed to compensate the environmental attributes associated with one MW hour of zero emitting nuclear generation, which is not valued in the PJM capacity market. *Id.*

[28] Exelon Rehearing and Clarification Request at 25; Maryland Commission Rehearing and Clarification Request at 6, 8, 10; West Virginia Commission Rehearing Request at 2; PSEG Rehearing Request at 8; Public Citizen Rehearing Request at 3 (citing December 2019 Order, 169 FERC ¶ 61,239 (Glick, Comm'r, dissenting at P 7)); Clean Energy Advocates Rehearing Request at 87-88 (citing *Conn. Dep't of Pub. Util. Control v. FERC*, 569 F.3d 477, 481-82 (D.C. Cir. 2009) (*Connecticut PUC*)); AEP/Duke Rehearing and Clarification Request at 9 & nn.19-20 (citations omitted) (mitigating retail rate riders violates the FPA by targeting states' authority over generation facilities and what generation costs are appropriate to include in retail rates).

meaning that states will not be able to use their preferred generation resources,[29] and instead induces new entry and continued operation of the Commission's preferred resources.[30] The end result, parties assert, is that the December 2019 Order makes it far less likely that state-preferred resources will be developed because they likely would not clear in the capacity market.[31] Pointing out that the Commission determined it could not apply the MOPR in a way that nullifies federal law, so too, these parties argue, the Commission may not implement the MOPR to nullify state laws.[32]

13. This intrusion was further unlawful, parties contend, because the December 2019 Order did not establish that the State Subsidies at issue actually affect wholesale rates.[33] Clean Energy Associations argue that, because virtually all indirect and tangential inputs to generation or requiring a jurisdictional utility to build a power plant could be said to affect wholesale electric rates, the Supreme Court adopted "a common-sense construction

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[29] Clean Energy Associations Rehearing and Clarification Request at 8-10; Exelon Rehearing and Clarification Request at 25; Maryland Commission Rehearing and Clarification Request at 6, 8, 10; West Virginia Commission Rehearing Request at 2; PSEG Rehearing Request at 8; Public Citizen Rehearing Request at 3 (citing December 2019 Order, 169 FERC ¶ 61,239 (Glick, Comm'r, dissenting at P 7); AEP/Duke Rehearing and Clarification Request at 3, 5-10; Clean Energy Advocates Rehearing Request at 87-88; OPSI Rehearing and Clarification Request at 4 (citing December 19 Order, 169 FERC ¶ 61,239 at PP 37-38; *Hughes*, 136 S. Ct. at 1299 ("Nothing in this opinion should be read to foreclose [states] from encouraging production of new or clean generation through measures 'untethered to a generator's wholesale market participation.'")); *see* 16 U.S.C. § 824(b).

[30] Exelon Rehearing and Clarification Request at 25; *see also* Clean Energy Advocates Rehearing Request at 85.

[31] *See, e.g.*, Clean Energy Associations Rehearing and Clarification Request at 8; AEP/Duke Rehearing and Clarification Request at 3, 5-10; Clean Energy Advocates Rehearing Request at 87-88; OPSI Rehearing and Clarification Request at 4.

[32] Clean Energy Associations Rehearing and Clarification Request at 10-11 (citing December 2019 Order, 169 FERC ¶ 61,239 at PP 7, 89); FES Rehearing Request at 9 (citing December 2019 Order, 169 FERC ¶ 61,239 at PP 7, 10, 19-20); OPSI Rehearing and Clarification Request at 5; Public Power Entities Rehearing and Clarification Request at 16; Maryland Commission Rehearing and Clarification Request at 9-13 (arguing that state jurisdiction is a function that Congress reserved to the states); *see also infra* PP 118-124 (Federal Subsidies) (responding to similar arguments).

[33] Public Power Entities Rehearing and Clarification Request at 15; Clean Energy Associations Rehearing and Clarification Request at 35.

of the FPA's language, limiting [the Commission's] 'affecting' jurisdiction to rules or practices that directly affect the wholesale rate,"[34] while simultaneously preserving a state's right to enact generation policies and to offer incentives that are "untethered to how the affected generators are to perform in the wholesale market."[35] As a result, Clean Energy Associations contend, states "may regulate within the domain Congress assigned to them even when their laws incidentally affect areas within [the Commission's] domain,"[36] and state policies that affect auction prices by increasing the quantity of power available are permissible.[37]

14. Disagreeing with the Commission's reasoning that "a State Subsidy need not be facially preempted to require corrective action,"[38] the Illinois Commission states that nothing in *EPSA* suggests that the Commission may zero out state environmental policies related to energy regulation, and that, rather than accommodating states, the December 2019 Order sets forth a rate that prevents states from exercising such powers contrary to the courts in *EPSA* and *Hughes*.[39] Likewise, the New Jersey Board points out, unlike the

[34] Clean Energy Associations Rehearing and Clarification Request at 6-7 (citing *EPSA*, 136 S. Ct. at 774 (emphasis omitted) (internal quotations and citations omitted)).

[35] Clean Energy Associations Rehearing and Clarification Request at 7 (citing *Hughes*, 136 S. Ct. at 1299 (citation omitted); *see also Vill. of Old Mill Creek v. Star*, No. 17 CV 1163, 2017 WL 3008289, at *11 (N.D. Ill. July 14, 2017) ("EPSA explained that FERC cannot take action that transgresses states' authority over generation, no matter how direct, or dramatic, the program's impact on wholesale rates." (internal quotations and citations omitted; emphasis added)), *aff'd sub nom. Elec. Power Supply Ass'n v. Star*, 904 F.3d 518 (7th Cir. 2018) (*Star*), *cert. denied*, 139 S. Ct. 1547 (2019)); *see also* SMECO Rehearing Request at 3, 6 (asserting that, by not exempting self-supply resources, the Commission usurps states' authority over generation resources).

[36] Clean Energy Associations Rehearing and Clarification Request at 7 (citing *Hughes*, 136 S. Ct. at 1298).

[37] Clean Energy Associations Rehearing and Clarification Request at 7 (citing *Star*, 904 F.3d at 523-24; *Zibelman*, 906 F.3d at 54).

[38] December 2019 Order, 169 FERC ¶ 61,239 at P 68.

[39] Illinois Commission Rehearing Request at 8 (citing *Star*, 904 F.3d at 524; *Hughes*, 136 S. Ct. at 1299).

state programs found to be federally preempted, the state programs at issue in the December 2019 Order are not "directed at" or "tethered to" the capacity market.[40]

2. Commission Determination

15. We deny rehearing requests asserting that the December 2019 Order improperly intrudes on matters within the states' jurisdiction and affirm the December 2019 Order's findings on this matter. The Commission has jurisdiction to regulate the regional transmission organization's (RTO) procurement of capacity.[41]

16. The court's decision in *NJBPU* demonstrates that the findings from the December 2019 Order are within the Commission's jurisdiction. There, the U.S. Court of Appeals for the Third Circuit upheld the Commission's decision in 2013 to eliminate the MOPR's state mandate exemption, thus subjecting state-sponsored new natural gas-fired resources to the MOPR, finding that the Commission acted within its jurisdiction.[42] Rejecting similar arguments that the Commission exceeded its jurisdiction by subjecting state-supported resources to PJM's MOPR, the court found that the Commission acted within its jurisdiction over wholesale markets because New Jersey's subsidization of natural gas-fired resources affected wholesale capacity prices.[43] The relevant facts are the same here. State support for generation resources directly affects wholesale rates and practices in the FERC-regulated PJM capacity market, falling squarely within the Commission's exclusive jurisdiction, requiring the Commission to act to ensure just and reasonable

[40] New Jersey Board Rehearing and Clarification Request at 12.

[41] *Connecticut PUC*, 569 F.3d at 482 ("Petitioners are thus compelled to concede that the Commission may directly establish prices for capacity—or much the same, prices for failing to acquire enough capacity—even for the express purpose of incentivizing construction of new generation facilities."); *Muns. of Groton v. FERC*, 587 F.2d 1296, 1301 (D.C. Cir. 1978) (affirming the Commission's jurisdiction to impose a deficiency charge for failing to meet capacity requirements because that charge "affects the fee that a participant pays for power and reserve service").

[42] *N.J. Bd. of Pub. Util. v. FERC*, 744 F.3d 74, 96-98 (D.C. Cir. 2014) (*NJBPU*).

[43] *Id*.

capacity market prices.[44] Under these circumstances, the Commission is within its jurisdiction to set wholesale rates in response to state policy decisions.[45]

17. Further, subjecting resources that receive a State Subsidy (hereinafter referred to as State-Subsidized Resources) to the default offer price floors does not amount to the direct regulation of generation facilities, nor does it prohibit states from using preferred resources. In *NJBPU*, the court determined that the Commission did not intrude on the state's jurisdiction to determine its resource mix or prevent the state from promoting chosen resources because, in applying the MOPR to State-Subsidized Resources, the Commission did not stop the state from supporting preferred resources, but only required that if State-Subsidized generation is used to meet capacity obligations through PJM's capacity market, the resource must clear the capacity market on a competitive basis.[46]

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[44] *See* 16 U.S.C. §§ 824, 824d, 824e (2018); *PJM Interconnection, L.L.C.*, 135 FERC ¶ 61,022, at P 143 (2011 MOPR Order), *reh'g denied*, 137 FERC ¶ 61,145, at P 3 (2011) (2011 MOPR Rehearing Order) ("While the Commission acknowledges the rights of states to pursue legitimate policy interests, and while, as we have said, any state is free to seek an exemption from the MOPR under section 206, it is our duty under the FPA to ensure just and reasonable rates in wholesale markets. . . . Because below-cost entry suppresses capacity prices, and because the Commission has exclusive jurisdiction over wholesale rates, the deterrence of uneconomic entry falls within the Commission's jurisdiction, and we are statutorily mandated to protect the [capacity market] against the effects of such entry."), *aff'd sub nom*. *NJBPU*, 744 F.3d 74, *cited in Hughes*, 136 S. Ct. at 1296.

[45] Indeed, the U.S. Court of Appeals for the Seventh Circuit, in discussing the Commission's actions in this very proceeding, stated that the Commission "has taken [state subsidy decisions] as givens and set out to make the best of the situation they produce." *Star*, 904 F.3d at 524; *see also EPSA*, 136 S. Ct. at 776 ("When FERC sets a wholesale rate, when it changes wholesale market rules, when it allocates electricity as between wholesale purchasers—in short, when it takes virtually any action respecting wholesale transactions—it has some effect . . . on retail rates. That is of no legal consequence.").

[46] *NJBPU*, 744 F.3d at 97-98. We disagree with Clean Energy Advocates that the court's decision in *Connecticut PUC* leads to a different conclusion. In *Connecticut PUC*, the court held that the Commission did not directly regulate generation facilities by requiring resources to meet installed capacity requirements. 596 F.3d at 481-82. The capacity rules at issue in *Connecticut PUC*, like here, did not actually require states to build new capacity or impose other specific requirements on states. Rather the rules at issue in Connecticut PUC merely set peak demand estimates for capacity and sought to create a price through market forces that was sufficient to meet demand. The replacement rate at issue here likewise determines wholesale capacity market rules, i.e.,

Likewise, under the replacement rate, the Commission is neither requiring nor prohibiting state action. States remain free to support preferred resources; the replacement rate only ensures that state choices do not adversely affect the wholesale capacity market and that capacity prices appropriately incent the entry and exit of resources. As the Commission stated in the December 2019 Order, "[n]or does this order prevent states from making decisions about preferred generation resources: resources that states choose to support, and whose offers may fail to clear the capacity market under the revised MOPR directed in this order, will still be permitted to sell energy and ancillary services in the relevant PJM markets."[47]

18. Nor, as parties contend, has the Commission asserted jurisdiction over unbundled REC transactions, or acted contrary to the Commission's decision in *WSPP*,[48] by finding that State-Subsidized Resources participating in the capacity market must offer at a competitive price. The Commission determined in *WSPP* that an unbundled REC transaction was independent of a wholesale electric energy transaction and thus did not affect wholesale electricity rates such as to trigger the Commission's jurisdiction over the sale of unbundled RECs.[49] In this proceeding, the Commission did not find that it has jurisdiction over unbundled REC transactions, nor does the December 2019 Order dictate how RECs are managed. The orders in this proceeding only find that REC revenues, like other out-of-market support, permit a resource to offer below its costs, thereby affecting the wholesale capacity price. Under these circumstances, REC revenues can no longer be characterized as "independent" from jurisdictional sales.

19. Parties assert that State-Subsidized Resources are not likely to clear the capacity auction, thwarting state decisions about the generation mix and state policies aimed at achieving particular public health and welfare objectives, and nullifying the capacity offered by these resources. However, if a State-Subsidized Resource does not clear the capacity auction, it is because it was not competitive in the multi-state wholesale capacity market and not needed for regional resource adequacy. States may still support resources

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the default offer price floors at which State-Subsidized Resources must offer, subject to exemptions to demonstrate competitiveness, so that the price for capacity meets the regions' resource adequacy objectives. *See* December 2019 Order, 169 FERC ¶ 61,239 at P 7.

[47] December 2019 Order, 169 FERC ¶ 61,239 at P 7.

[48] *See WSPP*, 139 FERC ¶ 61,061 at P 24 (finding, based on the facts in *WSPP*, that transactions for unbundled RECs are outside the Commission's jurisdiction because unbundled REC transactions do not affect wholesale electricity rates and the charge for the unbundled REC is not a charge in connection with a wholesale electric transaction).

[49] *Id*.

that do not clear the capacity auction even if such resources may not be used to satisfy PJM capacity market obligations.[50] Moreover, the replacement rate provides vehicles to demonstrate competitiveness and avoid mitigation through the Competitive Exemption and Unit-Specific Exemption.

20. Parties contend that the December 2019 Order unlawfully intrudes on state jurisdiction because the Commission failed to find that State Subsidies actually distort wholesale rates, which they assert is a prerequisite to Commission jurisdiction. However, the June 2018 Order squarely found that out-of-market payments, which include all State Subsidies, distort wholesale capacity prices, compromising market integrity.[51] The December 2019 Order establishes a just and reasonable replacement rate to address the effects of State Subsidies on the wholesale capacity market.

21. The Illinois Commission contends that *Star* stands for the proposition that the Commission may not zero out state environmental policies related to energy regulation and the December 2019 Order ran afoul of this prohibition.[52] We disagree and find that the December 2019 Order falls squarely within the confines of *Star*. As an initial matter, the court in *Star* dealt only with the question of preemption, not with Commission jurisdiction. *Star*, however, confirmed that, to the extent state efforts to support certain resource types in pursuit of state policy goals affect interstate sales, which is "an inevitable consequence of a system in which power is shared between state and national governments," the Commission may make adjustments based on those effects.[53] The Commission has exclusive regulatory authority over wholesale rates, and a statutory obligation to ensure that wholesale capacity rates in the multi-state PJM region are just and reasonable.[54] As such, "when subsidized [resources] supported by one state's or

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[50] *Connecticut PUC*, 569 F.3d at 481 (explaining that states are free to make their own decisions, but they will bear the costs of those decisions).

[51] *Calpine Corp. v. PJM Interconnection, L.L.C.*, 171 FERC ¶ 61,034 at PP 26-27 (June 2018 Rehearing Order); June 2018 Order, 163 FERC ¶ 61,236 at PP 153-154; December 2019 Order, 169 FERC ¶ 61,239 at PP 37-38.

[52] Illinois Commission Rehearing Request at 8 (citing *Star*, 904 F.3d at 524).

[53] *Star*, 904 F.3d at 524. The court specifically pointed to the June 2018 Order and explained that, rather than deeming state programs such as the ZEC program preempted, the Commission in the June 2018 Order "has taken them as givens and set out to make the best of the situation they produce." *Id.*

[54] 16 U.S.C. § 824e(b); *Hughes*, 136 S. Ct. at 1291; *Nantahala Power & Light Co. v. Thornburg*, 476 U.S. 953, 966 (1986); *see also* December 2019 Order, 169 FERC ¶ 61,239 at P 7 n.23 (citing authorities).

locality's policies has the effect of disrupting the competitive price signals that PJM's [capacity auction] is designed to produce, and that PJM as a whole, including other states, rely on to attract sufficient capacity," our statutory mandate requires the Commission to intervene.[55] Nothing in the December 2019 Order forecloses states from sponsoring resources of any type, including new, renewable, or zero-emission resources. The December 2019 Order only finds that where states are permissibly acting within their jurisdiction, and those actions directly affect the wholesale market, then the Commission has jurisdiction to respond in order to ensure just and reasonable wholesale rates.

B. Expanded MOPR

1. Procedural Arguments

a. Requests for Rehearing and Clarification

22. The Maryland Commission argues that the Commission erred in establishing a replacement rate by expanding PJM's MOPR-Ex proposal, a proposal the Commission found unjust and unreasonable, without first ruling on the rehearing requests in Docket No. ER18-1314-000. The Maryland Commission contends that this procedural error prevents aggrieved parties from seeking judicial review of the Commission's underlying decisions.[56] The Maryland Commission also avers that due process is being denied if the Commission does not act on rehearing of both the June 2018 Order and the December 2019 Order prior to the next capacity auction.[57] Parties assert that the Commission must act within thirty days of the receipt of rehearing requests challenging the underlying orders since refunds are not being issued in this proceeding and there is no other form of remediation.[58] Similarly, Clean Energy Associations argue that the Commission failed to show that PJM's existing capacity market is unjust and unreasonable in the June 2018 Order and has not yet acted on the June 2018 Order rehearing requests.[59] This is a

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[55] December 2019 Order, 169 FERC ¶ 61,239 at P 68 (quoting 2011 MOPR Rehearing Order, 137 FERC ¶ 61,145 at P 3).

[56] Maryland Commission Rehearing and Clarification Request at 6-7, 16-17 (citing *Allegheny Def. Project v. FERC*, 932 F.3d 940 (D.C. Cir. 2019)); *see also* New Jersey Board Rehearing and Clarification Request at 10.

[57] Maryland Commission Rehearing and Clarification Request at 17.

[58] *Id.* at 17 & n.37 (citing *Allegheny Def. Project*, 932 F.3d at 950-56 (Millet, J., concurring)); New Jersey Board Rehearing and Clarification Request at 42 & n.239 (same).

[59] Clean Energy Associations Rehearing and Clarification Request at 18.

problem, parties contend, because the December 2019 Order selectively re-affirmed conclusions from the June 2018 Order, while dodging issuance of a formal rehearing order of the June 2018 Order, which prevents parties from being able to seek judicial review.[60] Accordingly, Clean Energy Associations argue that the Commission should avoid finalizing any obligation imposed on PJM in this proceeding until parties receive a final decision on petitions for rehearing of the June 2018 Order.[61]

b. Commission Determination

23. We disagree with assertions that the timing of the Commission's actions violated parties' due process rights[62] or compromised the reasonableness of the Commission's expansion of the MOPR to establish a just and reasonable replacement rate. In issuing the orders in this proceeding, the Commission took the time needed to "thoroughly

[60] Clean Energy Advocates Rehearing Request at 36; Clean Energy Associations Rehearing and Clarification Request at 56 (citing December 2019 Order, 169 FERC ¶ 61,239 at P 5 ("We affirm our initial finding that '[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.'" (quoting June 2018 Order, 163 FERC ¶ 61,236 at P 158)); *id*. P 32 ("In the June 2018 Order, the Commission preliminarily found that PJM should expand the MOPR to cover out-of-market support to all new and existing resources, regardless of the resource type, with few or no exceptions. We reaffirm that finding."); *id*. P 72 ("Consistent with Commission precedent, the June 2018 Order is premised on the finding that, as a general matter, resources receiving out-of-market support are capable of suppressing market prices. We continue to uphold that finding here.").

[61] Clean Energy Associations Rehearing and Clarification Request at 57-58.

[62] "Due process generally requires a 'meaningful opportunity' to be heard before one is deprived of life, liberty or property." *Blumenthal v. FERC*, 613 F.3d 1142, 1146 (D.C. Cir. 2010) (citing *BSNF Ry. Co. v. Surface Transp. Bd.*, 453 F.3d 473, 486 (D. C. Cir. 2006) (quoting *Matthews v. Eldridge*, 424 U.S. 319, 349 (1976)).

consider"[63] the issues raised.[64] Contrary to the Maryland Commission's contention, the Commission did not err by installing a replacement rate before acting on rehearing requests in Docket No. ER18-1314-000. The statute does not require the Commission to act on rehearing requests contesting the finding that an existing rate is unjust and unreasonable before setting a just and reasonable replacement rate in an FPA section 206 proceeding.[65] The December 2019 Order's directive concerning the issues to be addressed in the compliance filing implementing the replacement rate also are not related to, or dependent on, whether the Commission grants rehearing of the June 2018 Order, as the rehearing requests are limited to whether the Commission arbitrarily or capriciously

[63] *Blumenthal*, 613 F.3d at 1147. In *Blumenthal*, among other things, Connecticut argued that it was denied due process because it did not have an opportunity to respond to ISO New England's executive compensation filings before the Commission issued its initial decision. Noting that Connecticut had such an opportunity and took advantage of it when filing its petition for rehearing, "which [the Commission] in turn thoroughly considered," the Court dismissed this argument. *Id.* at 487. Similarly, we find parties were not denied due process because they had the opportunity and availed themselves of the opportunity to seek rehearing of both the June 2018 Order and the December 2019 Order. Furthermore, the Maryland Commission has not identified the constitutionally-protected interest it is seeking to protect. But, in any event, even assuming arguendo there is a constitutionally-protected interest, the Maryland Commission's contention that due process is violated unless the Commission acts on rehearing of these orders before the next Base Residual Auction (BRA) is moot, as the Commission has acted on rehearing of both orders prior to the next BRA.

[64] Parties note a recent decision regarding the Commission's use of tolling orders, which grant rehearing for the purpose of further consideration. *See, e.g.*, Maryland Commission Rehearing and Clarification at 17 & n.37 (citing *Allegheny Def. Project*, 932 F.3d at 950-56 (Millet, J., concurring). The *Allegheny* case is still pending on rehearing en banc before the D.C. Circuit Court of Appeals, however, and the Commission is following existing precedent that allows reliance on tolling orders. *See*, *e.g.*, *Cal. Co. v. FERC*, 411 F.2d 720 (D.C. Cir. 1969).

[65] 16 U.S.C. § 824e(a) (authorizing the Commission to change an existing rate "[w]henever the Commission . . . shall find that [the] rate . . . is unjust[ ] [or] unreasonable"); *see Emera Me. v. FERC*, 854 F.2d 9, 24 (D.C. Cir. 2016) (stating the Commission has "undoubted power under section 206" to change an existing rate "*whenever it determines such rate*[ ] *to be unlawful*") (quoting *FPC v. Sierra Pac. Power Co.*, 350 U.S. 348, 353 (1956) (emphasis in *Emera Maine*)).

found PJM's existing Tariff unjust and unreasonable.[66] This rehearing order relates only to the second prong of the Commission's duty under FPA section 206—choosing the just and reasonable replacement rate to be thereafter observed.[67] The Commission has broad discretion over how to manage its proceedings[68] and reasonably prioritized the establishment of a just and reasonable replacement rate.[69]

24. In any event, we are denying rehearing of the June 2018 Order in a contemporaneously issued order.[70] Having now, via this order and the order on rehearing of the June 2018 Order, addressed parties' rehearing requests on both prongs of section 206 of the FPA, the Commission has fulfilled its statutory obligations.[71]

2. Justification for Expanded MOPR

a. Requests for Rehearing and Clarification

25. Parties contend that application of the expanded MOPR to all new and existing State-Subsidized Resources, absent exemption, is unjust and unreasonable, unduly discriminatory, arbitrary and capricious and lacking substantial evidence, in violation of

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[66] No parties objected to the Commission's determination to reject PJM's initial filing in Docket No. ER18-1314-000.

[67] *See Md. Pub. Serv. Comm'n v. FERC*, 632 F.3d 1283, 1285 n.1 (D.C. Cir. 2001) ("It is the Commission's job . . . to find a just and reasonable rate.").

[68] *See, e.g.*, *Mobil Oil Expl. & Prod. Se. Inc. v. United Distrib. Cos*., 498 U.S. 211, 230 (1991) ("An agency enjoys broad discretion in determining how best to handle related, yet discrete, issues in terms of procedure . . . [such as] where a different proceeding would generate more appropriate information[.]") (citations omitted); *see also Stowers Oil & Gas Co.*, 27 FERC ¶ 61,001 at n.3 ("It is within the Commission's purview to determine how best to allocate its resources for the most efficient resolution of matters before it.").

[69] We further note that, as this proceeding was consolidated, and the Commission had the benefit of a full record before acting in the December 2019 Order, the timing of the Commission's actions did not affect the reasonableness of the replacement rate established in the December 2019 Order.

[70] June 2018 Rehearing Order, 171 FERC ¶ 61,034 (2020).

[71] *See FirstEnergy Serv. Co. v. FERC*, 758 F.3d 346, 353 (D.C. Cir. 2014) (stating that the Commission is required to shoulder the dual burden when it institutes a section 206 proceeding).

the FPA. Parties argue that expanding the MOPR based on the theory that out-of-market support suppresses capacity prices is not based on sufficient evidence because the December 2019 Order failed to show that State Subsidies suppress capacity prices. AES argues that the fact that many market participants offer in to the PJM capacity market as price takers does not, in itself, indicate that out-of-market revenues exist or that price suppression is occurring.[72] According to Clean Energy Associations, the December 2019 Order's reliance on a 2011 Commission order in an ISO New England, Inc. proceeding to justify the finding that out-of-market support suppresses capacity prices is misplaced, as that order primarily addressed whether the capacity market provided sufficient income to incentivize market entry and mitigate market power, and did not mitigate as many subsidies as the December 2019 Order.[73]

26. ELCON argues the Commission erred in not providing a quantitative assessment of price suppression.[74] ELCON further contends that PJM's analysis of its MOPR-Ex proposal is not sufficient evidence to justify the replacement rate, because the two applications of the MOPR differ.[75]

27. Parties claim that the capacity market is functioning well, indicating that out-of-market support does not suppress prices. For example, parties argue that the 2018 annual capacity auction produced a higher clearing price than prior years despite the existence of State Subsidies.[76] The Illinois Attorney General offers the example of the ComEd Locational Deliverability Area (LDA) in which prices *increased* after the provision of ZECs to certain nuclear facilities by the Illinois General Assembly in early 2017.[77]

28. Parties also argue that the PJM capacity market has excess capacity or a high reserve margin and that there is therefore no immediate problem to remedy by the

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[72] AES Rehearing and Clarification Request at 11.

[73] Clean Energy Associations Rehearing and Clarification Request at 31 (citing *ISO New England Inc.*, 135 FERC ¶ 61,029, at P 15 (2011) (2011 ISO-NE MOPR Order) (resources receiving out-of-market support are capable of suppressing market prices, regardless of intent); *see* December 2019 Order, 169 FERC ¶ 61,239 at P 72 (reiterating June 2018 Order statement that out-of-market support suppresses capacity prices).

[74] ELCON Rehearing Request at 4; Ohio Commission Rehearing Request at 6.

[75] ELCON Rehearing Request at 8-9.

[76] Illinois Attorney General Rehearing Request at 6.

[77] *Id*. (citing McCullough Aff. at 11-20; McCullough Responsive Aff. at 2, 5-7).

replacement rate.[78] The Pennsylvania Commission argues the Commission failed to consider evidence that an expanded MOPR will worsen the existing over-procurement of capacity because State-Subsidized Resources will continue to be developed regardless of whether they clear the capacity market.[79] The Illinois Attorney General argues the Commission ignored evidence and arguments illuminating the fact that PJM has a large number of natural gas-fired resources in its generation interconnection queue in advanced stages of development, indicating that new generation is being incented at current capacity prices.[80]

29. The Ohio Commission also argues that it is arbitrary and capricious to increase costs today to stave off a speculative and hypothetical future concern regarding price suppression.[81] Exelon argues that the Commission may make predicative judgments, but such judgments must still be grounded in record evidence and consider evidence contradicting that prediction, contending that the Commission failed to explain why allowing public policy concerns to guide entry and exit decisions renders the capacity market unjust and unreasonable, or cite evidence that the growth of State Subsidies erodes investor and consumer reliance on capacity market price signals.[82]

30. Exelon argues that the basis in the December 2019 Order for applying the MOPR is premised on the idea that an efficient market is one unaffected by state environmental attribute payments, and that a competitive offer price is based solely on a resource's production costs, ignoring economic principles that an efficient market must account for externalities of production like pollution.[83] Arguing that emitting generators are not more

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[78] Ohio Commission Rehearing Request at 9, 12-13 (asserting that because PJM has a capacity abundance, clearing prices are not unjust and unreasonably suppressed); FES Rehearing Request at 15 n.60; Exelon Rehearing and Clarification Request at 10-15 (noting the 22% reserve margin, that the auction attracts new entry despite low prices and oversupply, 40 GW of new gas in development); Clean Energy Advocates Rehearing Request at 80-81; DC Attorney General Rehearing Request at 13-14 & n.47 (citing evidence that PJM's capacity market reflects "high prices, high reserve margins, and 'strong new entry despite relatively flat demand'").

[79] Pennsylvania Commission Rehearing and Clarification Request at 7; Illinois Attorney General Rehearing Request at 9.

[80] Illinois Attorney General Rehearing Request at 8-9.

[81] Ohio Commission Rehearing Request at 14.

[82] Exelon Rehearing and Clarification Request at 14-15.

[83] *Id*. at 16-18.

efficient simply because they can submit lower priced offers, Exelon states that, in reality, emitting generators are not efficient because they do not internalize the costs of their pollution and that the December 2019 Order did not reconcile how counteracting state programs addressing externalities could result in greater inefficiencies.[84]

31. Parties argue that the December 2019 Order does not address evidence that an expanded MOPR might result in unnecessary price increases.[85] ELCON argues that the Commission erred in not providing any actual demonstration of monopsony power or other market failure, or quantitative assessment or economic theory explaining why the replacement rate will correct price suppression and not simply raise prices above the competitive level.[86]

32. The Illinois Attorney General argues that the December 2019 Order is not based on substantial evidence because the Commission ignored evidence that PJM's existing market is rife with the exercise of market power and that a broadly-applied MOPR would exacerbate the problem because, by forcing some resources to offer above a level likely to clear, it reduces the number of resources available to offer supply.[87] The Illinois Attorney General argues that existing market power can be seen in the ComEd LDA in which generators that control roughly 40% of that market can strategically offer up to PJM's offer cap through portfolio bidding, driving capacity clearing prices above competitive levels.[88] The Illinois Attorney General then adds that, because the expanded MOPR sets prices administratively and publicly, market participants will have additional

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[84] *Id*. at 17-18 (contending that if forced to bear costs of pollution, aging emitting generators would exit the market, rather than being permitted to remain in the market because they can submit offers below what would be truly competitive factoring in pollution costs).

[85] OPSI Rehearing and Clarification Request at 6 (citing OPSI Comments at § B; *New England Power Generators Ass'n v. FERC*, 881 F.3d 202, 212 (D.C. Cir. 2012)).

[86] ELCON Rehearing Request at 4.

[87] Illinois Attorney General Rehearing Request at 3 (citing Illinois Attorney General Initial Testimony at 8-17 (filed Oct. 2, 2018)); *see also* ELCON Rehearing Request at 9 (arguing the replacement rate would limit competition by removing suppliers from the market, by virtue of requiring them to offer higher, which will tend to increase prices).

[88] Illinois Attorney General Rehearing Request at 4 (citing Market Monitor Initial Testimony at 15-16 (filed Oct. 2, 2018)).

knowledge regarding the offers of their competitors, allowing them to offer above their costs, especially if the State-Subsidized Resource is marginal.[89]

33. Clean Energy Associations assert that the Commission provided no economic theory for its broad application of MOPR in the December 2019 Order, arguing that application of buyer-side market power mitigation in the absence of anticompetitive concerns could hamper low offers that are competitive and reflect truly low costs, where costs include offsets of subsidies based on positive environmental externalities that are not otherwise reflected in market operations.[90]

34. The Ohio Commission argues that the Commission misstated facts regarding Ohio House Bill 6, which the December 2019 Order cited as evidence of increased out-of-market support.[91] The Ohio Commission explains that the cumulative effect of House Bill 6 is instead to reduce the total amount of state support available.[92]

b. Commission Determination

35. We find substantial record evidence supporting the December 2019 Order, and affirm that the expanded MOPR, as modified on rehearing, is a just and reasonable approach to "protect[ing] 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."[93] We affirm our conclusion that a replacement rate that retains PJM's current review of new natural gas-fired resources under the MOPR and expands the MOPR to include both new and existing resources, internal and external, that receive or are entitled to receive State Subsidies, is a just and reasonable and not unduly

[89] Illinois Attorney General Rehearing Request at 4-5.

[90] Clean Energy Associations Rehearing and Clarification Request at 21-22.

[91] Ohio Commission Rehearing Request at 19 (citing December 2019 Order, 169 FERC ¶ 61,239 at PP 7, 8, 16).

[92] *Id*. at 22.

[93] December 2019 Order, 169 FERC at P 5 & n.11 (quoting June 2018 Order, 163 FERC ¶ 61,236 at P 158). We note that parties made many of the same, if not identical, arguments on rehearing of the June 2018 Order, which are also addressed in the June 2018 Rehearing Order issued concurrently with this order.

discriminatory or preferential solution to address the price-distorting effect of State-Subsidized Resources.[94]

36. The extensive record in this consolidated proceeding documents the increase in State Subsidies in the PJM region, beginning with the complaint filed by Calpine and others, which, among other things, cited the Illinois ZEC program (ZECs payable to a 1,400 MW nuclear facility) as evidence of a State Subsidy that will have a price suppressing effect on PJM's capacity market.[95] In its section 205 filing in Docket No. ER18-1314-000, PJM explained that many of the same states that chose to restructure their electricity services and introduce greater competition 20 years ago are now increasingly seeking to support capacity outside PJM's wholesale capacity market to encourage development or retention of select resources with attributes they favor.[96] In addition to Illinois' ZEC program, PJM identified the following examples of these state programs: (1) pending (now existing) legislation in New Jersey that would provide similar payments for up to 3,360 MW at the Salem and Hope Creek nuclear facilities; (2) off-shore wind procurement programs in Maryland (250 MW) and New Jersey (1,100 MW); and (3) RPS programs in various states in the PJM region, including New Jersey, Delaware, and the District of Columbia, requiring load-serving entities to meet a certain percentage of their load with RPS-eligible facilities, or buy RECs from such facilities.[97] PJM stated that, cumulatively, these programs have provided, or will provide, subsidies to thousands of MWs of PJM capacity and that similar programs are likely to be implemented in other PJM states.[98]

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[94] On the basis of the record in this proceeding, the December 2019 Order applies the MOPR to renewable and self-supply resources differently than the Commission recently determined in NYISO. *See N.Y. Indep. Sys. Operator, Inc.*, 170 FERC ¶ 61,121 (2020). The NYISO order addressed NYISO's compliance with a 2015 order, which predated the December 2019 Order by over four years. Moreover, the Commission has explained that "regional markets are not required to have the same rules. Our determination about what rules may be just and reasonable for a particular market depends on the relevant facts." December 2019 Order, 169 FERC ¶ 61,239 at P 204 n.431.

[95] *See* June 2018 Order, 163 FERC ¶ 61,236 at P 15 & n.21 (citations omitted).

[96] *Id.* P 130.

[97] *Id.* P 131.

[98] *Id.* P 131 & n.254 (citing PJM 2018 April Filing at 26-27, Attach. F (Affidavit of Dr. Anthony Giacomoni at 9-10, attach. 1) (showing both the current and projected increases in the quantity of RPS resources)).

37. The December 2019 Order reiterated how the record in this proceeding indicates that State Subsidies for both existing and new resources are increasing, especially out-of-market state support for renewable and nuclear resources,[99] and noted how states had also passed legislation subsidizing resources after the June 2018 Order.[100]

38. Having established that the record reveals the increase in State Subsidies in PJM, the Commission explained that State Subsidies are problematic because they suppress capacity prices in the PJM market, and explained how the expanded MOPR was designed to address this problem.[101] We reiterate that State-Subsidized Resources need less revenue from the capacity market than they otherwise would, and the rational choice for such resources is to reduce their offers commensurately to ensure they clear the market. Thus, State Subsidies permit a resource to offer below its costs, distorting the clearing price, which investors and resources rely on in order to plan entry and exit.[102]

39. The December 2019 Order is grounded both on record evidence of increasing out-of-market support and economic theory concerning the effect of that support on prices, meeting the substantial evidence standard.[103] Courts have affirmed the Commission's ability to make judgments based on economic theory, provided the Commission "applie[s] the relevant economic principles in a reasonable manner and adequately explain[s] its reasoning."[104] As the U.S. Court of the Appeals for the District of

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[99] *See* December 2019 Order, 169 FERC ¶ 61,239 at PP 37-38 & n.85 (citing June 2018 Order, 163 FERC ¶ 61,236 at PP 151-155; Calpine Initial Comments at 3).

[100] *Id*. P 38 & n.85; s*ee also id.* P 22 & n.55 (listing new state legislation enacted since the June 2018 Order to subsidize new or existing resources).

[101] December 2019 Order, 169 FERC ¶ 61,239 at PP 37-38.

[102] *See* June 2018 Order, 163 FERC ¶ 61,236 at PP 150-156; June 2018 Rehearing Order, at PP 27-29.

[103] Substantial evidence is "more than a scintilla, but can be satisfied by something less than a preponderance of the evidence." *Fla. Mun. Power Agency v. FERC*, 315 F.3d 362, 365 (D.C. Cir. 2003) (quoting *FPL Energy Me. Hydro LLC v. FERC*, 287 F.3d 1151, 1160 (D.C. Cir. 2002). "Substantial evidence 'is such relevant evidence as a reasonable mind might accept as adequate to support a conclusion."' *S.C. Pub. Serv. Auth. v. FERC*, 762 F.3d 41, 54 (D.C. Cir. 2014) (quoting *Murray Energy Corp. v. FERC*, 629 F.3d 231, 235 (D.C. Cir. 2011)).

[104] *Cent. Hudson Gas & Elec. Corp. v. FERC*, 783 F.3d 92, 109 (2d Cir. 2015); *see, e.g.*, *NextEra Energy Res., LLC v. FERC*, 898 F.3d 14, 23 (D.C. Cir. 2018) (dismissing argument that the Commission did not quantify price suppression resulting from MOPR exemption, deferring to Commission's predictive judgment); *Sacramento*

Columbia Circuit has stated, "[p]rice suppression is not a scientific determination, but rather an economic construct" and the Commission may "base its market predictions on basic economic theory" as long as it "explained and applied the relevant economic principles in a reasonable manner."[105] The court has also recognized that the requirement for the Commission to support its findings with substantial evidence "does not necessarily mean empirical evidence."[106] And, courts typically defer to the Commission's reasoning when the Commission relies on substantial evidence to make "a predictive judgment in an area in which it has expertise, such as power markets."[107] Thus, we disagree that the Commission is required to show that each out-of-market payment directly suppresses capacity prices by a particular amount before finding that State-Subsidized Resources can suppress PJM capacity market prices and then addressing that problem.

40. Nor does evidence regarding the current status of the market – including evidence of new generation in development, current strong reserve margins and new entry – call into question the Commission's finding that State Subsidies distort capacity market signals. As explained in the June 2018 Rehearing Order, PJM's capacity market is forward looking, so the current status of the market is not dispositive.[108] Moreover, the evidence cited by parties seeking rehearing does not demonstrate whether additional new entry is being deterred by out-of-market subsidies that allow less economic resources to enter or remain in the market while simultaneously suppressing the prices paid to competitive resources.

41. Regardless of the purpose of the State Subsidy, it can still have the effect of keeping uneconomic resources in operation, or supporting uneconomic entry of new

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Mun. Util. Dist. v. FERC, 616 F.3d 520, 531 (D.C. Cir. 2010) (Commission may make findings "based on generic factual predictions derived from economic theory").

[105] *NextEra*, 898 F.3d at 23 (internal quotations and citations omitted).

[106] *S.C. Pub. Serv. Auth.*, 762 F.3d at 65, 76 ("[A]t least in circumstances where it would be difficult or even impossible to marshal empirical evidence, the Commission is free to act based on reasonable predictions rooted in basic economic principles.").

[107] *Wis. Pub. Power Inc. v. FERC*, 493 F.3d 239, 260-61 (D.C. Cir. 2007) ("It is well-established that an 'agency's predictive judgments about areas that are within the agency's field of discretion and expertise are entitled to *particularly deferential review*, as long as they are reasonable.'") (quoting *Earthlink, Inc. v. FCC*, 462 F.3d 1, 12 (D.C. Cir. 2006)) (emphasis in original).

[108] June 2018 Rehearing Order, 171 FERC ¶ 61,034 at PP 34-36.

resources,[109] requiring mitigation under the expanded MOPR to produce just and reasonable capacity market outcomes. Exelon's argument that the December 2019 Order did not sufficiently consider environmental externalities in establishing a replacement rate is fundamentally mistaken.[110] The Commission is a "creature of statute, having no constitutional or common law existence or authority, but *only* those authorities conferred upon it by Congress."[111] The Commission's express statutory authority to set just and reasonable rates does not require consideration of the climate or other externalities of particular resources. Exelon cites no precedent, and we are aware of none, interpreting FPA section 206 as requiring the Commission to consider environmental externalities. When acting under FPA sections 205 and 206, the Commission operates as an economic regulator, not an environmental regulator.[112] The Commission does not regulate environmental externalities except where that authority is conferred in a statute it administers.[113] Moreover, Exelon offers no limiting principle for its argument that economic regulation must include environmental externalities, or any other externality that could be conceived. The Commission, like all other federal agencies, has a general duty under the National Environmental Protection Act (NEPA) to evaluate environmental impacts caused by "major Federal actions significantly affecting the quality of the human

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[109] *See* June Order, 163 FERC ¶ 61,236 PP 150, 155; June 2018 Rehearing Order, 171 FERC ¶ 61,034 at P 46.

[110] Exelon Rehearing and Clarification Request at 16-19.

[111] *Atl. City Elec. Co. v. FERC*, 295 F.3d 1, 8 (D.C. Cir. 2002) (quoting *Michigan v. EPA*, 268 F.3d 1075, 1081 (D.C. Cir. 2001) (internal quotation marks omitted).

[112] *See NAACP v. FPC*, 425 U.S. 662, 669-70 (1(76) (*NAACP*) ("Thus, in order to give content and meaning to the words 'public interest' as used in the Power and Gas Acts, it is necessary to look to the purposes for which the Acts were adopted. In the case of the Power and Gas Acts it is clear that the principal purpose of those Acts was to encourage the orderly development of plentiful supplies of electricity and natural gas at reasonable prices.").

[113] *See, e.g.*, *id.* at 670 n.6 (citing, *inter alia*, 16 U.S.C. § 803(a)(1) (directing the Commission to evaluate what hydroelectric projects "in the judgment of the Commission will be best adapted to a comprehensive plan for improving or developing a waterway or waterways for the use or benefit of interstate or foreign commerce, for the improvement and utilization of water-power development, for the adequate protection, mitigation, and enhancement of fish and wildlife (including related spawning grounds and habitat), and for other beneficial public uses, including irrigation, flood control, water supply, and recreational and other purposes referred to in [16 U.S.C. § 797(e)]").

environment."[114] However, this is a ratemaking proceeding under FPA section 206 and the Commission's orders in rate cases under FPA sections 205 and 206 are categorically exempt from that requirement.[115] The record in this case does not provide any basis for disregarding that longstanding categorical exemption.[116]

42. Clean Energy Associations argue that the December 2019 Order's finding that resources receiving out-of-market support are able to suppress prices is unsupported by

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[114] 42 U.S.C. § 4332(2)(C); *accord, e.g.*, *Sierra Club v. FERC*, 867 F.3d 1357, 1364 (D.C. Cir. 2017).

[115] *See* 18 C.F.R. § 380.4(a)(15) (exempting, *inter alia*, "[e]lectric rate filings submitted by public utilities under sections 205 and 206 of the Federal Power Act" and "the establishment of just and reasonable rates"); *Regulations Implementing National Environmental Policy Act of 1969*, Order No. 486, FERC Stats. & Regs. ¶ 30,783 (cross-referenced at 41 FERC ¶ 61,284), *order on reh'g*, Order No. 486-A, FERC Stats. & Regs. ¶ 30,799 (1988) (cross-referenced at 42 FERC ¶ 61,301).

[116] *See Grand Council of Crees v. FERC*, 198 F.3d 950, 959 (D.C. Cir. 2000) ("Because § 102(2)(C) does not impose any additional substantive requirements on FERC, [it] merely serves to ensure that FERC consider those environmental concerns that it is already authorized to consider . . . . Because we have decided that the Commission properly does not consider environmental concerns in the exercise of its ratemaking authority under FPA § 205, NEPA's procedural requirements (if they even apply to FERC's ratemaking decisions, which we do not decide) do not further petitioners' environmental interests in this instance."); *cf. Town of Norwood v. FERC*, 202 F.3d 392, 407 (1st Cir. 2000) ("FERC's own regulations, made in conformity with the governing regulations under NEPA, categorically classify such transfers of ownership and licensing as the kind of projects not likely to have a significant environmental impact or to require a NEPA environmental impact statement or smaller scale assessment.") (footnote omitted) (citing 18 C.F.R. § 380.4(a)(8), (16)); *Ne. Utils. Serv. Co. v. FERC*, 993 F.2d 937, 958 (1st Cir. 1993) (finding that is authorized to "create categorical exclusions" under NEPA, including the exclusion of "actions under sections 4(b), 203, 204, 301, 304, and 305 of the Federal Power Act" found in 18 C.F.R. § 380.4(a)(16), and further finding that the Commission "need not issue a 'finding of no significant impact' in cases concerning matters that fall into a categorical exclusion"). *See generally* James J. Hoecker, *The NEPA Mandate and Federal Regulation of the Natural Gas Industry*, 13 Energy L.J. 265, 270 & nn.25-29 (1992) ("[C]ourts understand that NEPA did not represent a limitless federal commitment to the study and protection of the environment. . . . NEPA entails neither alterations to the primary missions and obligations of federal agencies, nor expansion of their respective jurisdictions.").

precedent.[117] However, the Commission did not rely solely, or even primarily, on precedent to support this finding. Rather, the Commission relied on evidence that out-of-market support for resources not covered under PJM's then-existing Tariff is increasing[118] and the well-established economic principle that out-of-market support permits subsidized resources to offer below their costs and to suppress the price paid to other resources.[119] We also reject ELCON's argument that the Commission's action lacked basis because PJM's analysis of MOPR-Ex is not sufficient evidence to justify the replacement rate. That argument is a *non sequitur*. The Commission did not adopt MOPR-Ex as the replacement rate; thus, while the MOPR-Ex framework operated as a rough framework for the replacement rate, the December 2019 Order plainly did not rely solely on PJM's analysis of MOPR-Ex to set a different replacement rate.

43. We also reject arguments that the expanded MOPR will somehow set prices above a competitive level.[120] The risk that the expanded MOPR will result in prices that are above a competitive level is misplaced, as the default offer price floors are set at a competitive level and the replacement rate includes an exemption for competitive resources, as well as State-Subsidized Resources that can justify a lower competitive offer (Unit-Specific Exemption). For these reasons, the expanded MOPR will help ensure the use of competitive offers in the auction.

44. We do not agree that the expanded MOPR, which is designed to prevent distortion of the market by State-Subsidized Resources, will increase the risk of competitive market participants exercising supplier-side market power. As the December 2019 Order found, this concern is speculative and not supported in the record.[121] First, the Illinois Attorney General is mistaken in suggesting that any price increase resulting from prohibiting State-Subsidized Resources from offering below their costs would constitute an exercise of market power. Any such price increase would be the result of competitive pricing.

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[117] Clean Energy Associations Rehearing and Clarification Request at 31 (citing 2011 ISO-NE MOPR Order, 135 FERC ¶ 61,029 at P 15).

[118] *See* December 2019 Order, 169 FERC ¶ 61,239 at PP 37-38; June 2018 Order, 163 FERC ¶ 61,236 at PP 151-155 (discussing evidence of subsidies to existing nuclear resources and renewable resources); *see also* Calpine Initial Comments at 3. States also continued to pass legislation subsidizing resources after the June 2018 Order. December 2019 Order, 169 FERC ¶ 61,239 at P 22 n.55.

[119] *See* June 2018 Rehearing Order, 171 FERC ¶ 61,034 at PP 25-27.

[120] OPSI Rehearing and Clarification Request at 6; ELCON Rehearing Request at 4-5.

[121] *See* December 2019 Order, 169 FERC ¶ 61,239 at P 40.

Further, the Tariff already has existing provisions to address supplier-side market power, and the Illinois Attorney General has not demonstrated why the expansion of the existing MOPR renders such provisions ineffective. Therefore, we continue to find that the expanded MOPR is just and reasonable.[122]

45. We also reject Clean Energy Associations' argument that the Commission imposed buyer-side market power mitigation in the absence of anticompetitive concerns which could hamper low offers that are competitive and reflect low costs.[123] First, the expanded MOPR does not focus on buyer-side market power mitigation, but rather addresses the impact of State Subsidies on the market. The December 2019 Order left the existing MOPR in place to address buyer-side market power.[124] Therefore we disagree with Clean Energy Associations that the December 2019 Order applies buyer-side market power mitigation. Second, the expanded MOPR addresses a specific anticompetitive concern – below cost offers as a result of State Subsidies. The expanded MOPR requires that State-Subsidized Resources, which have the ability to offer below their costs because they receive or are entitled to receive State Subsidies, either offer at or above the default offer price floor or justify a lower offer through the Unit-Specific Exemption. The expanded MOPR therefore both addresses an identified anticompetitive concern – the fact that State-Subsidized Resources are able to offer into the capacity market below their actual costs – and ensures that offers reflect costs.

46. Further, we reject Illinois Attorney General's argument that the Commission ignored evidence that clearing prices increased in the ComEd LDA after passage of the Illinois ZEC legislation. Prices are a result of a myriad of factors and the record does not demonstrate a causal link between increased prices in the ComEd LDA and the provision of State Subsidies to certain generators.[125] We clarify that the December 2019 Order

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[122] Moreover, the effect of a State-Subsidized Resource being able to offer below its actual unsubsidized costs can have the same effect as predatory pricing where otherwise competitive resources are forced out of the market by below market competitors.

[123] Clean Energy Associations Rehearing Request at 21-22 & n.98 (citing Exelon Protest, Willig Declaration, Docket No. ER18-1314-000, at P 24 (May 7, 2018)).

[124] December 2019 Order, 169 FERC ¶ 61,239 at P 42.

[125] *See* June 2018 Rehearing Order, 171 FERC ¶ 61,034 at P 36 (explaining that Illinois failed to show "what the clearing price in the ComEd LDA would have been without the subsidy or demonstrate that the price was not suppressed" and further explaining "price differentials among auctions do not disprove" the Commission's finding "that subsidized resources would offer below their costs, all other things being equal").

stated only that Ohio House Bill No. 6 and the Ohio Clean Air program were examples of states expanding State Subsidies. The December 2019 Order did not find, as the Ohio Commission suggests, that the specific legislation would increase the total amount of State Subsidies available in Ohio.[126]

3. Resources Subject to the Expanded MOPR

a. Requests for Rehearing and Clarification

47. Parties contend that the December 2019 Order failed to show that certain resources subject to the expanded MOPR, like seasonal, energy efficiency, energy storage, demand response, and emerging technology resources, suppress prices and threaten capacity market competitiveness, and argue that such resources should thus be exempt.[127] Advanced Energy Entities assert that the June 2018 Order was based on evidence regarding support for only nuclear, solar, and wind resources, and therefore the Commission has not justified expanding the MOPR to other resource types, like demand response, energy efficiency, energy storage and emerging technologies, and thus did not meet its burden under section 206 to demonstrate that the pre-existing Tariff is unjust and unreasonable with regard to these resource types.[128] Advanced Energy Entities complain that the December 2019 Order did not point to any state laws providing support these resources or any evidence that these resources suppress capacity prices.[129] The Maryland Commission requests the Commission reconsider exempting limited amounts of emerging technology, as proposed in its paper hearing comments, because the Commission did not provide justification for why emerging technologies should be subject to the MOPR.[130] Advanced Energy Entities also contend that the Commission

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[126] *See* December 2019 Order, 169 FERC ¶ 61,239 at PP 8, 23 n.55.

[127] Maryland Commission Rehearing and Clarification Request at 10; West Virginia Commission Rehearing Request at 2; Advanced Energy Entities Rehearing and Clarification Request at 4-19; Exelon Rehearing and Clarification Request at 10-18; EKPC Rehearing and Clarification Request at 17-18, 21; NRECA/EKPC Clarification and Rehearing Request at 60-61 (with respect specifically to electric cooperative demand response); Consumer Representatives Rehearing and Clarification Request at 31; Clean Energy Associations Rehearing and Clarification Request at 29.

[128] Advanced Energy Entities Rehearing and Clarification Request at 4-19 (citing June 2018 Order, 169 FERC ¶ 61,236 at PP 150-153).

[129] *Id*. at 8-10.

[130] Maryland Commission Rehearing and Clarification Request at 5, 22.

failed to address concerns that seasonal resources do not cause unjust and unreasonable price suppression because they are categorically economic.[131]

48. PJM argues the December 2019 Order is not adequately reasoned in rejecting PJM's proposed exemption for facilities whose primary purpose is not power generation because these resources have limited penetration, significantly complicated cost calculations for power generation, and are not vehicles used for price suppression.[132]

49. The Ohio Commission argues that it is unduly discriminatory and arbitrary and capricious that the Commission did not consider a screening process to evaluate whether a state-supported resource is actually causing an unjust and unreasonable end result, and therefore imposes a disadvantage on certain resources relative to others without demonstrating they cause harm.[133] The Illinois Commission states that focusing on the ability to suppress price is illogical and will result in counter-productive outcomes by disqualifying resources—with low costs unrelated to state policy—from clearing in capacity auctions, thereby reducing efficient competition and unjustly and unreasonably raising costs to consumers.[134]

50. DC Attorney General states that, while the Commission can send resource-neutral capacity-related price signals, the December 2019 Order is not resource neutral in its target and its effects.[135] DC Attorney General argues the Commission should not use the capacity market to send resource-specific price signals regarding which type of resource should continue to operate and whether a resource should come online. Clean Energy Associations assert that the December 2019 Order improperly limits competition for capacity by excluding resources from receiving capacity revenues.[136]

51. Consumer Representatives argue that extending the MOPR to existing resources constitutes retroactive ratemaking because states and resource owners that do not qualify for an exemption did not have advance notice that the December 2019 Order would impose the MOPR on these resources and abandon the proposed resource-specific Fixed

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[131] Advanced Energy Entities Rehearing and Clarification Request at 12-15.

[132] PJM Rehearing and Clarification Request at 16; *see also* Advanced Energy Entities Rehearing and Clarification Request at 10-12.

[133] Ohio Commission Rehearing Request at 15.

[134] Illinois Commission Rehearing Request at 14.

[135] DC Attorney General Rehearing Request at 13 & n.47.

[136] Clean Energy Associations Rehearing and Clarification Request at 23.

Resource Requirement (FRR) Alternative.[137] Consumer Representatives state that the final replacement rules will not be accepted until the Commission accepts PJM's compliance filing.[138] By subjecting existing State-Subsidized Resources to the expanded MOPR, Consumer Representatives contend the December 2019 Order establishes a new ratemaking scheme for existing resources that made decisions based on existing state policy under the assumption that the Commission would permit the resource-specific FRR Alternative.[139]

52. The Market Monitor requests clarification as to whether resources that are not subject to the Capacity Performance must-offer requirement will be treated as new resources if they skip auctions.[140] Similarly, Consumer Representatives request that the Commission direct PJM to establish rules that do not require renewable resources to offer in back-to-back auctions because such resources are not subject to the must-offer requirement and therefore do not raise market power concerns.[141]

53. The Market Monitor requests clarification that price responsive demand would be subject to the expanded MOPR if it receives or is entitled to receive a State Subsidy.[142] The Maryland Commission responds that price responsive demand response is not a capacity resource and does not compete or offer to supply capacity in the capacity auction, rather price responsive demand response operates "as price-sensitive demand in the energy market."[143] The Maryland Commission states that load-serving entities participating in price responsive demand response receive reduced energy bills and capacity service bill credits.[144]

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[137] Consumer Representatives Rehearing and Clarification Request at 16-19.

[138] *Id*. at 17.

[139] *Id*. at 19.

[140] Market Monitor First Clarification Request at 5.

[141] Consumer Representatives Rehearing and Clarification Request at 46.

[142] Market Monitor Second Clarification Request at 2.

[143] Maryland Commission Answer at 2-3 (citing *PJM Interconnection, L.L.C.*, 167 FERC ¶ 61,268, at P 4 (2019)).

[144] *Id*.

b. Commission Determination

54. We affirm our finding in the December 2019 Order that, in addition to continuing to apply the current MOPR to new natural gas-fired resources, PJM must apply the expanded MOPR (with limited exemptions) to all new and existing, internal and external, State-Subsidized Resources that participate in the capacity market, regardless of resource type.[145] Parties contend that the Commission did not cite evidence supporting expanding the MOPR to seasonal, energy efficiency, energy storage, emerging technologies, and demand response resources, for example, and thus the Commission did not meet its FPA section 206 burden to find the pre-existing Tariff unjust and unreasonable with regard to these resource types. However, the Commission explained that when these resources receive a State Subsidy, such resources have the same ability as other State-Subsidized Resources to suppress capacity market prices, and we see no reasonable basis in this record to distinguish them on this point.[146] The Commission can rely on economic theory to draw logical conclusions.[147] Regardless of the type of technology used, the resource still has the ability to distort capacity prices if it receives or is entitled to receive a State Subsidy. Moreover, as we pointed out in the December 2019 Order, these resources, like any other resource subject to the expanded MOPR as a result of State Subsidies, are free to seek a Unit-Specific or Competitive Exemption if they wish to offer lower than the resource-specific default offer price floors. Contrary to Advanced Energy Entities' argument that the Commission did not explain why seasonal resources should be mitigated, the December 2019 Order responded to their arguments that seasonal resources are "economic."[148]

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[145] December 2019 Order, 169 FERC ¶ 61,239 at P 50 & n.17 (citing June 2018 Order, 163 FERC ¶ 61,236 at P 158).

[146] *Id*. PP 52-54.

[147] *See NextEra*, 898 F.3d at 23; *Sacramento Mun. Util. Dist.*, 616 F.3d at 531 (Commission may make findings "based on generic factual predictions derived from economic theory"). The June 2018 Order cited support for nuclear and renewable resources as evidence that out-of-market support is growing, not as an exclusive list of subsidies or resources that warrant mitigation. The economic theory underpinning the June 2018 Order is that out-of-market support causes price suppression, regardless of the resource type. December 2019 Order, 169 FERC ¶ 61,239 at PP 51, 54; *see also* June 2018 Order, 163 FERC ¶ 61,236 at PP 150, 155, 156; June 2018 Rehearing Order, 171 FERC ¶ 61,034 at PP 25-28 (discussing the economic theory that out-of-market support causes price suppression and dismissing arguments that the Commission is required to demonstrate that subsidized resources actually suppress clearing prices).

[148] December 2019 Order, 169 FERC ¶ 61,239 at P 53.

55. In response to PJM, we continue to find that it is just and reasonable not to distinguish capacity resources[149] based on whether their primary purpose is electricity production.[150] Even State-Subsidized Resources with limited penetration, have the ability to suppress capacity prices in a single price auction construct, regardless of whether these resources are intended to be instruments of price suppression.[151]

56. We continue to conclude that it is reasonable to subject all State-Subsidized Resources to the expanded MOPR, rather than evaluate, on a case-by-case basis, whether each offer is likely to impact clearing prices.[152] Because all resources that receive subsidies have the ability to suppress the price paid to unsubsidized resources, a case-by-case analysis would be unnecessarily complicated and burdensome. The Illinois Commission asserts that the expanded MOPR will disqualify resources with low costs unrelated to state policies from clearing in capacity auctions, thereby reducing efficient competition and unjustly and unreasonably raising costs to consumers.[153] However, if a resource truly has low costs regardless of any State Subsidies, it can seek a Unit-Specific Exemption. The replacement rate does not bar resources from participating in the capacity market, but rather requires State-Subsidized Resources to demonstrate that they are, in fact, competitive, independent of the State Subsidy.

57. We disagree with DC Attorney General's contention that the December 2019 Order does not adhere to our bedrock principle of resource neutrality.[154] States, not the Commission, determine which resources obtain out-of-market support. The replacement rate's definition of State Subsidy is neutral and not limited to any specific type of

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[149] Capacity resource, as used in this order, means all resource types that seek to participate in PJM's capacity market, including seasonal resources. December 19 Order, 169 FERC ¶ 61,239 at P 51.

[150] PJM Rehearing and Clarification Request at 16; Advanced Energy Entities Rehearing and Clarification Request at 10-12.

[151] December 2019 Order, 169 FERC ¶ 61,239 at P 51.

[152] *See id*. PP 72, 98-99.

[153] Illinois Commission Rehearing Request at 14; *see also* Ohio Commission Rehearing Request at 15.

[154] *See* DC Attorney General Rehearing Request at 13-14 (citing *ISO New England, Inc*., 162 FERC ¶ 61,205, at P 26 (2018) (capacity market rules evaluated as resource-neutral) (CASPR Order)).

resource that receives a State Subsidy.[155] The Commission explained, "[t]he type of resource is immaterial if the resource receives a State Subsidy and thus has the ability to suppress capacity prices."[156] Moreover, while the pre-existing MOPR only applied to new natural gas-fired resources, the expanded MOPR, with limited exemptions, applies to all new and existing resources that receive or, are entitled to receive, a State Subsidy regardless of resource type.[157] Recognizing that State-Subsidized Resources, regardless of resource type and intent, can suppress or otherwise distort market prices, the expanded MOPR not only adheres to, but also enhances, resource neutrality.

58. Contrary to Clean Energy Associations' assertion that the December 2019 Order improperly limits competition for capacity by excluding resources from receiving capacity revenues,[158] we find the expanded MOPR will enhance competition by ensuring that capacity market offers are competitive.[159] We reiterate that the replacement rate does not bar competitive resources from participating in the capacity market or receiving capacity revenues.

59. With regard to Consumer Representatives' argument that the December 2019 Order violates the rule against retroactive ratemaking, we fail to see how this is the case. The rule against retroactive ratemaking provides that the Commission, or utilities, may not adjust current rates to make up for past errors or rates later found unjust and unreasonable.[160] In this order, the Commission has not made the replacement rate effective retroactively, but the Commission will set the effective date for the replacement rate when it acts on the compliance filing and fixes the just and reasonable replacement rate pursuant to FPA section 206.[161] To the extent Consumer Representatives argue that

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[155] December 2019 Order, 169 FERC ¶ 61,239 at P 67.

[156] *Id.* P 51.

[157] *Id.* P 37.

[158] Clean Energy Associations Rehearing and Clarification Request at 23.

[159] December 2019 Order, 169 FERC ¶ 61,239 at P 5 (stating the replacement rate concentrates on the "core problem presented in the Calpine complaint and in PJM April 2018 rate proposal—that is, the manner in which subsidized resources distort prices in a capacity market that relies on competitive auctions to set just and reasonable rates").

[160] *Town of Norwood v. FERC*, 53 F.3d 377, 381 (D.C. Cir. 1995).

[161] December 2019 Order, 169 FERC ¶ 61,239 at P 3; *Verso Corp. v. FERC*, 898 F.3d 1, 11 (D.C. Cir. 2018) ("Section 206(a) authorizes FERC to 'fix' rates prospectively, after it concludes that a rate is inappropriate upon a complaint by a market participant or on FERC's own impetus."). The refund effective date under FPA section 206 operates

they were deprived of notice that certain existing resources would be mitigated and not able to elect the proposed resource-specific FRR Alternative, we disagree that a mere proposal by the Commission later requires the Commission to implement the proposal to avoid a due process violation.[162]

60. In response to the Market Monitor's clarification requests, we clarify that resources that are not subject to the Capacity Performance must-offer requirement will be treated as new resources if they seek to re-enter the capacity market after choosing not to participate in a particular auction, including intermittent renewable resources. We reiterate, as we found in the December 2019 Order, resources not subject to the Capacity Performance must-offer requirement seeking to re-enter the capacity market for any reason will be treated as new, consistent with the treatment of repowered resources.[163] After the next BRA, any resource seeking to re-enter the capacity market will be treated as new, regardless of whether it is subject to the must-offer requirement.

61. We reject Consumer Representatives' request to establish rules that do not require renewable resources to offer in back-to-back auctions. The December 2019 Order did not change the must-offer requirement; resources not subject to that requirement may still skip auctions, but they will face the appropriate mitigation.

62. Finally, we clarify that price responsive demand resources do not participate in the capacity market as supply and thus are not subject to the MOPR.

4. Definition of State Subsidy

a. Requests for Rehearing and Clarification

63. Parties assert that the Commission's definition of State Subsidy is vague and overly-broad, providing no guidance to PJM in discerning which state policies may trigger the expanded MOPR, and implicating programs that are beyond the Commission's

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differently: the refund effective date is set no earlier than the date a complaint is made to the Commission or initiated by the Commission *sua sponte*, and it is set no later than five months after a complaint is made to the Commission or initiated by the Commission *sua sponte*. *See* 16 U.S.C. § 824e(b).

[162] *See infra* Section IV.G.1 at P 352 (addressing arguments that the Commission did not violate notice requirements in declining to implement the resource-specific FRR Alternative).

[163] December 2019 Order, 169 FERC ¶ 61,239 at P 209.

jurisdiction.[164] Clean Energy Advocates assert that the lack of clarity and vagueness in the definition have the effect of unconstitutionally delegating the Commission's authority to PJM and the Market Monitor, asserting that the ambiguous definition will create perpetual uncertainty and litigation.[165] Clean Energy Associations argue that the definition of State Subsidy creates a new dual burden whereby PJM must classify subsidies and then resources must attempt to justify their offers, defying Commission precedent allowing resources to offer at or below their marginal costs.[166]

64. Clean Energy Associations argue that the December 2019 Order does not address how PJM will determine which resources are entitled to a State Subsidy or how such determinations would be reviewed and considered,[167] which means that PJM and the Market Monitor will be tasked with becoming the "subsidy police," evaluating myriad

[164] New Jersey Board Rehearing and Clarification Request at 25; Dominion Rehearing and Clarification Request at 8, 17; Clean Energy Associations Rehearing and Clarification Request at 14 (such as local land use); AEP/Duke Rehearing and Clarification Request at 3 & n.3; AEP/Duke Rehearing and Clarification Request at 5-10; DC Attorney General Rehearing Request at 1, 6, 9; Illinois Commission Rehearing Request at 20-21; Advanced Energy Entities Rehearing and Clarification Request at 3; OPSI Rehearing and Clarification Request at 5; Clean Energy Advocates Rehearing Request at 37-38; Consumers Coalition Rehearing Request at 42; ELCON Rehearing Request at 3, 9.

[165] Clean Energy Advocates Rehearing Request at 38, 40; *see also* Dominion Rehearing and Clarification Request at 17-18.

[166] Clean Energy Associations Rehearing and Clarification Request at 23-24 (citing *Tejas Power Corp. v. FERC*, 908 F.2d 998, 1004 (D.C. Cir. 1990) ("In a competitive market, where neither buyer nor seller has significant market power, it is rational to assume that the terms of their voluntary exchange are reasonable, and specifically to infer that the price is close to marginal cost, such that the seller makes only a normal return on its investment."); *ISO New England Inc.*, 158 FERC ¶ 61,138, at P 36 (2017) (allowing bidding below marginal costs, and emphasizing that resources bidding below marginal cost will experience the same "downside risk," which "acts as a disincentive for such offering behavior") [sic]; *San Diego Gas & Elec. Co. v. Sellers of Energy & Ancillary Servs.*, 142 FERC ¶ 63,011, at P 95 (2013) ("As discussed in our prior orders, our mitigation plan is intended to replicate the price that would be paid in a competitive market, in which sellers have the incentive to bid their marginal costs.")).

[167] *Id*. at 26.

state programs, an administratively burdensome process.[168] Given the use of "or" in the definition, Consumers Coalition argue it is unclear if all four prongs of the definition must be met to qualify as a State Subsidy.[169]

65. Parties argue that the replacement rate is arbitrary and capricious because the Commission has not demonstrated that the State Subsidy definition targets policies that actually result in price suppression or allow a resource to enter and remain in the market when it otherwise would not have.[170] This is important, parties contend, because the Commission may only regulate subsidies that have a material effect on wholesale rates. Clean Energy Associations assert that the State Subsidy definition is directly contrary to the Supreme Court's ruling in *EPSA*, where the court acknowledged that "if indirect or tangential impacts on wholesale electricity rates" were sufficient to trigger the Commission's jurisdiction, "[the Commission] could regulate now in one industry, now in another, changing a vast array of rules and practices to implement its vision of reasonableness and justice."[171]

66. Parties argue that the definition of State Subsidies exceeds the scope necessary to address the Commission's alleged concerns of price suppression in the capacity market,[172] resulting in over-mitigation, a harm the December 2019 Order failed to consider.[173] Noting that the Commission's jurisdiction does not have infinite breadth, parties contend that the State Subsidy definition includes "indirect" support or support that "could have the effect of allowing a resource to clear," which could include any

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[168] Clean Energy Associations Rehearing and Clarification Request at 26-27; Dominion Rehearing and Clarification Request at 17-18.

[169] Consumers Coalition Rehearing Request at 43.

[170] *See, e.g.*, Clean Energy Advocates Rehearing Request at 44, Illinois Commission Rehearing Request at 20-21; Dominion and Clarification Rehearing Request at 8-9; *see also* Ohio Commission Rehearing Request at 5 (mitigating state actions that may be just and reasonable based on the broader public interest is unduly discriminatory).

[171] Clean Energy Associations Rehearing and Clarification Request at 14-15 (citing *EPSA*, 136 S. Ct. at 774).

[172] OPSI Rehearing and Clarification Request at 5; Illinois Rehearing Request at 20-21.

[173] Clean Energy Advocates Rehearing Request at 38; Consumers Coalition Rehearing Request at 44-47.

number of state programs.[174] Dominion requests that the Commission revise the definition of State Subsidy to include only those state-sponsored programs that provide direct financial benefits to the generation resource, such that those resources might be prompted to lower their offer price in a way that correlates to the subsidy, noting these are the subsidies likely to significantly affect the market.[175] The Illinois Commission states that the definition must be narrowly designed to address legally impermissible effects of seller offers on suppressing clearing prices.[176]

67. Challenging the December 2019 Order's reasoning, parties argue that the Commission has not shown that the State Subsidy definition is limited to state policies that directly affect capacity market prices.[177] Clean Energy Associations argue that, by defining a State Subsidy so broadly as to include "direct or indirect" benefits, those that "could" result in a resource clearing PJM's capacity market, and ignoring the operational connection between a state subsidy and the wholesale market's operation, the Commission has "crossed the jurisdictional divide" and exceeded its authority.[178]

68. Parties further challenge the December 2019 Order's reasoning that the definition includes subsidies that are "most nearly directed at, or tethered to, new entry or continued

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[174] DC Attorney General Rehearing Request at 10, 16 & n.58 (citing December 2019 Order, 169 FERC ¶ 61,239 at P 67); *see also* Illinois Commission Rehearing Request at 19-20; OPSI Rehearing and Clarification Request at 5.

[175] Dominion Rehearing and Clarification Request at 18; *see also* ELCON Rehearing Request at 9 (requesting a strict definition of State Subsidy limited to only those subsidies that fundamentally compromise the market).

[176] Illinois Commission Rehearing Request at 21.

[177] *See, e.g.*, Clean Energy Associations Rehearing and Clarification Request at 13; *see also* Clean Energy Advocates Rehearing Request at 44 (Commission's claim that it is targeting policies that "squarely" impact the production of electricity or supply-side participation in PJM's capacity market and therefore require corrective action is belied by the breadth of the definition); DC Attorney General Rehearing Request at 15 (asserting the definition "encompasses nearly all state clean energy programs, not just ones that influence the market").

[178] Clean Energy Associations Rehearing and Clarification Request at 13; s*ee also* DC Attorney General Rehearing Request at 16 (noting that a resource is included in the definition if it qualifies for the state program, even if it does not participate in it, or the program merely "*could* have the effect of allowing a resource to clear") (quoting December 2019 Order, 169 FERC ¶ 61,239 at P 67) (emphasis added).

operation of generating capacity" in the capacity market.[179] Parties contend that neither *Oneok* nor *Hughes* support the Commission's determination to apply the MOPR to resources receiving State Subsidies because neither decision refers to state subsidies "nearly" directed at or tethered to Commission-regulated capacity markets.[180] Parties argue this is an all or nothing analysis: either a state law is targeted at the wholesale markets or it is not, and this can be discerned from the state law.[181] Noting the Commission identifies no specific state statute or regulation that is "nearly directed at or tethered to the PJM capacity market," parties object that, instead, with limited exception, the December 2019 Order impermissibly ascribes such intent to any state law that affords a subsidy (or revenue stream) to state-favored resources.[182] Advanced Energy Entities state that unless the Commission can demonstrate that subsidies received by these resources are directed at PJM capacity market participation, the Commission must grant rehearing.[183]

69. Parties further contend that the state programs targeted by the definition of State Subsidy are not designed to influence wholesale market prices and are neither directed at, nor tethered to, the wholesale capacity market, but rather, for example, are designed to promote new and clean generation and economic development.[184] For example, the Ohio Commission points out that House Bill 6 supports industrial and economic retention and growth in the regions that would have been negatively impacted by retiring nuclear

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[179] *See* December 2019 Order, 169 FERC ¶ 61,239 at P 68 (internal quotations omitted); New Jersey Board Rehearing and Clarification Request at 12; AEP/Duke Rehearing and Clarification Request at 5-6; Consumers Coalition Rehearing Request at 17; Ohio Commission Rehearing Request at 21-22; Clean Energy Associations Rehearing and Clarification Request at 15.

[180] Consumers Coalition Rehearing Request at 17-18 (citing *Hughes* and *Oneok*, likewise noting that the "tethering" discussed in *Hughes* was for a state law that conditioned payments based on capacity revenues, which is not at issue with the State Subsidies in the December 2019 Order).

[181] *Id*. at 17.

[182] *Id.* at 18.

[183] Advanced Energy Entities Rehearing and Clarification Request at 11.

[184] New Jersey Board Rehearing and Clarification Request at 12; *see also* West Virginia Commission Rehearing Request at 3; Ohio Commission Rehearing Request at 21; DC Attorney General Rehearing Request at 11-12.

plants.[185] Advanced Energy Entities argue that resources whose primary purpose is not energy production and seasonal resources are not built with the intention of participating in the capacity market, and therefore payments to these resources are not directed at or tethered to the new entry or continued operation of generating capacity.[186] Advanced Energy Entities contend that state laws and policies supporting energy efficiency, energy storage, emerging technologies, and demand response resources are not directed at or tethered to the wholesale markets, but rather to regulate generating resources, reduce emissions, and provide retail services and benefits.[187] Advanced Energy Entities also argue that any out-of-market revenue energy efficiency and demand response resources receive is likely related to providing services distinct from capacity market participation and is therefore not directed at or tethered to PJM's capacity market.[188]

70. DC Attorney General asserts that the Commission cites no evidence to support its claim that subsidies provided under RPS programs nearly "aim at," "target," or are "tethered" to the capacity market. DC Attorney General contends that the price of RECs is set by a competitive market, not tethered to the capacity market, and RPS programs exist to promote green jobs and address environmental externalities.[189] NRECA/EKPC argue that self-supply public power utilities and electric cooperatives should not be considered subsidized because payments received by public power, or the long term supply arrangements entered into by electric cooperatives, are not directed by states, or tethered to particular resources.[190]

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[185] Ohio Commission Rehearing Request at 22.

[186] Advanced Energy Entities Rehearing and Clarification Request at 11.

[187] *Id*. at 9. Advanced Energy Entities contrast the December 2019 Order with the July 2018 Order where the Commission did, according to Advanced Energy Entities, point to record evidence that the Commission claimed showed that nuclear, wind, and solar resources receiving state support cause price suppression. *Id*. at 9 n.19 (citing June 2018 Order, 163 FERC ¶ 61,236 at PP 151-152).

[188] Advanced Energy Entities Rehearing and Clarification Request at 16-17.

[189] DC Attorney General Rehearing Request at 11-12 (citations omitted) (quoting December 2019 Order, 169 FERC ¶ 61,239 at P 68 (quoting *Oneok*, 1135 S. Ct. at 1602 (internal quotation omitted))); *see id*. at 11 & n.36 (citing DC Attorney General Initial Testimony at 4 (filed Oct. 2, 2018); Renewable Energy Portfolio Standards Act of 2004, 52 D.C. Reg. 2285 (Mar. 11, 2005)).

[190] NRECA/EKPC Clarification and Rehearing Request at 27-31.

71. AEP/Duke assert that retail rate riders do not affect existing resources' continued operation or participation in the capacity market or supply-supply side participation in PJM's capacity market.[191] AEP/Duke argue the Commission's finding that the state-approved retail rider related to Ohio Valley Electric Corporation (OVEC) falls within the definition of State Subsidy, and thus OVEC should be subject to the MOPR (unless an exemption applies) is a direct attack on a state-retail ratemaking decision (Ohio's decision to be a retail choice state and use a state-approved retail rider) that has no connection to or impact on whether OVEC continues to operate within PJM.[192]

72. Parties argue that the December 2019 Order erred in defining State Subsidy to include the public power business model.[193] Public Power Entities add that, in securing self-supply resources and recovering the costs from their customers, public power utilities are not engaging in the type of legislatively-directed state support for particular generation resources or technologies that formed the basis for the June 2018 Order's finding that PJM's Tariff was unjust and unreasonable.[194]

73. The Ohio Commission argues that, under the December 2019 Order, a state allowance for stranded cost recovery would be a State Subsidy, but contends this is contrary to Order No. 888, in which the Commission informed states considering retail access that the Commission would provide stranded cost recovery for affected resources if states did not do so.[195]

74. Public Citizen argues the Commission's December 2019 Order draws an arbitrary line between what is and is not a State Subsidy by exempting a host of "externality

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[191] AEP/Duke Rehearing and Clarification Request at 6.

[192] *Id*.

[193] Public Power Entities Rehearing and Clarification Request at 17; NRECA/EKPC Clarification and Rehearing Request at 14-24.

[194] Public Power Entities Rehearing and Clarification Request at 18.

[195] Ohio Commission Rehearing Request at 3 (citing *Promoting Wholesale Competition Through Open Access Non-discriminatory Transmission Servs. by Pub. Utils. Recovery of Stranded Costs by Pub. Utils. & Transmitting Utils*, Order No. 888, FERC Stats. & Regs. ¶ 31,036 (1996) (cross-referenced at 75 FERC ¶ 61,080), *order on reh'g*, Order No. 888-A, FERC Stats. & Regs. ¶ 31,048 (cross-referenced at 78 FERC ¶ 61,220), *order on reh'g*, Order No. 888-B, 81 FERC ¶ 61,248 (1997), *order on reh'g*, Order No. 888-C, 82 FERC ¶ 61,046 (1998), *aff'd in relevant part sub nom. Transmission Access Policy Study Group v. FERC*, 225 F.3d 667 (D.C. Cir. 2000), *aff'd sub nom. New York v. FERC*, 535 U.S. 1 (2002)).

payments" from the subsidy definition.[196] Clean Energy Associations and Clean Energy Advocates argue that the Commission offers almost no explanation to justify applying the MOPR only to out-of-market revenue that meets the State Subsidy definition and not to other out-of-market revenues when, under the Commission's own logic, all out-of-market revenues "are capable of suppressing market prices."[197]

75. The New Jersey Board argues that in defining State Subsidy in a way to favor incumbent, largely fossil-fueled generation participating in PJM's capacity market, the December 2019 Order countermands the intent of the Public Utilities Regulatory Policies Act (PURPA), and other federal programs, such as the State Energy Program, which focus on promoting renewable energy.[198] Notwithstanding the Commission's ruling that sales of energy and capacity pursuant to PURPA are not State Subsidies, New Jersey Board argues the December 2019 Order fails to recognize that PURPA resources benefit from state programs, including RECs, and that subjecting these resources to the MOPR creates a tension for resources receiving both types of subsidies or otherwise nullifies federal laws.[199]

b. Commission Determination

76. We affirm the December 2019 Order's definition of State Subsidy[200] as specifically-tailored and necessary to permit review and mitigation of capacity offers by

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[196] Public Citizen Rehearing Request at 4 (citing December 2019 Order, 169 FERC ¶ 61,239 at 69).

[197] Clean Energy Associations Rehearing and Clarification Request at 39-40; Clean Energy Advocates Rehearing Request at 6.

[198] New Jersey Board Rehearing and Clarification Request at 39-41.

[199] *Id*. at 40-41.

[200] The December 2019 Order defined State Subsidy as "A direct or indirect payment, concession, rebate, subsidy, non-bypassable consumer charge, or other financial benefit that is (1) a result of any action, mandated process, or sponsored process of a state government, a political subdivision or agency of a state, or an electric cooperative formed pursuant to state law, and that (2) is derived from or connected to the procurement of (a) electricity or electric generation capacity sold at wholesale in interstate commerce, or (b) an attribute of the generation process for electricity or electric generation capacity sold at wholesale in interstate commerce, or (3) will support the construction, development, or operation of a new or existing capacity resource, or (4) could have the effect of allowing a resource to clear in any PJM capacity auction." December 2019 Order, 169 FERC ¶ 61,239 at P 67.

resources that receive or are entitled to receive out-of-market revenues that directly affect the capacity market.[201] We agree that the Commission may only regulate where the state policy directly affects wholesale rates,[202] but disagree with parties that the definition of State Subsidy includes state policies that have an indirect or tangential impact on PJM's wholesale capacity market rates. As discussed throughout this proceeding, State Subsidies directly affect the capacity market by keeping existing uneconomic resources in operation or supporting the uneconomic entry of new resources, both of which cause unreasonable price distortions in the PJM capacity market.[203] This definition is not intended to cover every form of state financial assistance that might indirectly affect Commission-jurisdictional rates or transactions; rather, it reaches forms of state assistance that directly affect wholesale capacity market rates.

77. The definition is not overbroad because it concentrates on those forms of out-of-market payments provided or required by certain states, which, even in the absence of facial preemption under the FPA, squarely impact participation in PJM's capacity market.[204] It is unclear which state policies Clean Energy Associations and Clean Energy Advocates argue do not impact the production of electricity and supply-side participation in the capacity market. In any event, as discussed in this proceeding, out-of-market payments to capacity resources impact the production of electricity and supply-side participation in the capacity market by keeping uneconomic resources in operation and supporting uneconomic new entry.[205]

78. Parties' objections to the Commission's citation to *Oneok* and *Hughes* are misplaced. The Commission's citation to *Oneok* and *Hughes* was intended to signal that the Commission's action is constrained and focused on the mitigation of State Subsidies that "are most nearly 'directed at' or tethered to the new entry or continued operation of

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[201] *Id*.

[202] *EPSA*, 136 S. Ct. at 774.

[203] December 2019 Order, 169 FERC ¶ 61,239 at P 68; June 2018 Order, 163 FERC ¶ 61,236 at P 150.

[204] December 2019 Order, 169 FERC ¶ 61,239 at P 68. As to the assertion that the use of "or" makes it unclear, *see* Consumers Coalition Rearing Request at 43, we clarify that all four prongs do not have to be met to satisfy the definition. The definition is met by satisfying (1) and (2); or (1) and (3); or (1) and (4). If any (or more) of these combinations are met, the payment, concession, rebate, subsidy, non-bypassable consumer charge, or other financial benefit is a State Subsidy.

[205] December 2019 Order, 169 FERC ¶ 61,239 at P 68; June 2018 Order, 163 FERC ¶ 61,236 at P 150.

generating capacity in the federally-regulated multi-state wholesale capacity market."[206] *Oneok* and *Hughes* define when a state policy is preempted by federal law; however, the Commission's jurisdiction is not limited to responding to state policies that are already preempted and therefore already infirm. The Commission may, as here, take action to protect the integrity of federally-regulated markets against state policies that directly affect those markets. *Oneok* and *Hughes* do not preclude the Commission from mitigating State Subsidies that directly affect the capacity market clearing price, regardless of intent.[207] If a State Subsidy directly affects the wholesale rate, regardless of intent, the Commission has authority to mitigate the State Subsidy.[208]

79. Parties contend that retail rate riders, self-supply, and subsidies for energy efficiency, demand response, capacity storage, emerging technologies, and resources whose primary purpose is not energy production, do not "squarely impact the production of electricity or supply-side participation in PJM's capacity market by supporting the entry or continued operation of preferred generation resources that may not be able to succeed in the wholesale competitive capacity market."[209] Parties further argue that subsidies to these resources are not "nearly directly at or tethered to the new entry or continued operation of generating capacity" in PJM.[210] However, State Subsidies provided to these resources impact the production of electricity or supply-side participation in the capacity market by permitting subsidized resources to offer below their costs. The resource need not be built for the purpose of participating in the capacity market in order to be able to distort capacity market prices. It is the resource's participation as a supplier in the capacity market that triggers the need to mitigate the effect State Subsidies may have on the resource's capacity supply offer and, consequently, on the price paid to other suppliers.

80. Further, parties misunderstand the December 2019 Order's findings with regard to the "directed at or tethered to" standard. The December 2019 Order did not find that it

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[206] December 2019 Order, 169 FERC ¶ 61,239 at P 68 (footnotes omitted) (quoting *Oneok*, 135 S. Ct. at 1602) (citing *Hughes*, 136 S. Ct. at 1299).

[207] *See supra* P 21 (discussing why the Commission is obligated to ensure just and reasonable wholesale rates).

[208] *See EPSA*, 136 S. Ct. at 774 (finding that the Commission has jurisdiction where rules or practices "*directly* affect the wholesale rate") (emphasis in original) (quoting, and adopting, *Cal. Indep. Sys. Operator Corp. v. FERC*, 372 F.3d 395, 403 (2004)); *Star*, 904 F.3d at 524 (citing the June 2018 Order).

[209] December 2019 Order, 169 FERC ¶ 61,239 at P 68.

[210] *Id*.

would mitigate only State Subsidies that "aim at," "target," or are "tethered" to the capacity market. Rather, the December 2019 Order stated that "our concern is with those forms of State Subsidies that are not federally preempted, but nonetheless are most nearly 'directed at' or tethered to the new entry or continued operation of generating capacity in the federally-regulated multi-state wholesale capacity market administered by PJM."[211] State Subsidies may materially impact a resource's decision to enter or remain in the market regardless of whether those payments are aimed at or tethered to the capacity market.[212] We therefore affirm that State Subsidies provided to any resource offering supply into the PJM capacity market can materially impact a resource's decision to enter or remain in the market.[213] While parties argue that various state programs are not intended to impact the capacity market, both the June 2018 Order and the December 2019 Order found that State Subsidies have the ability to influence capacity market prices, regardless of intent.[214]

81. We also deny rehearing requests arguing that payments received by public power from load are not tethered to particular resources or provided to support the entry or continued operation of preferred generation resources. As discussed in Section D.2.b, public power is directly supporting capacity generation resources by carrying out their business to supply load through supply contracts.[215]

82. Further, as discussed in Section D.6.a.i and D.6.b.i, we disagree with AEP/Duke's contention that retail rate riders do not affect existing resources' continued operation or participation in the capacity market or supply-side participation in the PJM capacity market.[216] As we explained in the December 2019 Order, it is appropriate to include the OVEC retail rate riders within the definition of State Subsidy because the state-approved rate riders pass through the costs, or credits, associated with a wholesale power purchase agreement based on revenues from the PJM capacity market.[217] The retail rate rider

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[211] *Id*. (citations omitted).

[212] *See* June 2018 Order, 163 FERC ¶ 61,236 at P 151.

[213] *Id*.

[214] December 2019 Order, 169 FERC ¶ 61,239 at P 177; June 2018 Order, 163 FERC ¶ 61,236 at PP 155-156 & n.288 (citing 2011 ISO-NE MOPR Order, 135 FERC ¶ 61,029 at PP 170-71).

[215] *See infra* PP 220-222.

[216] *See infra* PP 94-99, 100-IV.B.7.

[217] December 2019 Order, 169 FERC ¶ 61,239 at P 71.

guarantees a level of cost recovery and, as such, is connected to the wholesale procurement or sale of electricity or supports the construction, development, operation of new and existing capacity resources.[218]

83. Parties concerned with the "indirect" language in the State Subsidies definition are taking that word out of context. The Commission is referring to *indirect payments to resources* which result in these resources having the ability to offer into the capacity market at lower prices, thereby directly impacting the wholesale capacity market clearing price by displacing other resources that did not receive this indirect subsidy. An example of an indirect payment is an RPS program. In general, RPS programs require sellers of electricity within a state to satisfy the RPS requirement by: (1) generating from certain generation resources a specified portion of electricity sold to end users; (2) purchasing for resale a sufficient amount of electricity generated from certain generation resources; or (3) purchasing tradeable RECs. Moreover, the proceeds from the sale of RECs provides income that permits participation in the capacity markets at a rate lower than actual cost. The state is responsible for these direct or indirect payments to specified resources because the state established the RPS program that led to these required transactions.

84. We further disagree with parties who argue that inclusion of "could have the effect of allowing a resource to clear" casts too wide a net or that it should not cover all out-of-market payments. The aim of the definition is to identify all State Subsidies that enable resources to offer into the capacity market at prices lower than their true costs, thus allowing those resources to undercut the offers of non-State-Subsidized Resources. Further, Public Citizen and Clean Energy Association assert that the Commission draws arbitrary distinctions by, among other things, excluding some out-of-market revenue, like coal ash and "externality payments," from the definition. It is unclear to which "externality payments" Public Citizen refers. But, the December 2019 Order found that if an out-of-market payment meets the definition of State Subsidy, the State-Subsidized Resource will be subject to the expanded MOPR, regardless of whether that payment is related to an externality.[219] The December 2019 Order explained that the definition focused on those state out-of-market payments that "squarely impact the production of electricity and supply-side participation in PJM's capacity market," and is "not intended to cover every form of state financial assistance that might indirectly affect FERC-jurisdictional rates or transactions; nor is it intended to address other commercial externalities or opportunities that might affect the economics of a particular resource."[220]

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[218] *Id*.

[219] *Id.* P 69.

[220] *Id*. P 68.

85. We also affirm that the definition provides PJM with sufficient guidance to ascertain which state policies are subject to the expanded MOPR. Parties have raised and the Commission has addressed a number of issues related to which types of state policies, processes and programs meet the definition, providing PJM with ample guidance to implement the definition. Indeed, PJM itself has not said it would be unable to use this definition to decide which subsidies are subject to the expanded MOPR. We further disagree with assertions that the definition is an unconstitutional delegation of the Commission's authority to PJM and the Market Monitor. The Commission has prescribed with sufficient clarity what is subject to the expanded MOPR. PJM and the Market Monitor merely will be implementing the Commission's decision, subject to the same compliance and complaint procedures that attend the implementation of any other filed rate or market rule; thus, there is no improper delegation of the Commission's authority.

86. Additionally, we disagree with Clean Energy Association's argument that the definition of State Subsidy conflicts with Commission precedent allowing resources to offer at or below their marginal costs. Nothing in the December 2019 Order prevents a resource that is not receiving a State Subsidy and is therefore not shielded from the downside of that behavior, from offering below their marginal cost. The purpose of the expanded MOPR is to protect the competitiveness of the PJM capacity market by mitigating the impact of State Subsidies, which distort capacity market prices and therefore weaken the capacity market price signal. Under the circumstances, where, as the record here reveals, State Subsidies are increasing, it is reasonable to require both that PJM classify subsidies and that resources justify their offers.

87. Contrary to the New Jersey Board's contention, the Commission has not defined State Subsidy so as to benefit fossil fuel generation over renewable resources. The definition is resource-neutral. Nor does the December 2019 Order's treatment of Qualifying Facilities (QF) undermine PURPA. QF resources maintain the same rights under PURPA, including a guaranteed purchaser of energy and capacity sales at an avoided cost rate, and a right to interconnect.[221] RECs, by contrast, are the product of a state program, not mandated by PURPA.[222] Thus, we do not agree that the replacement rate conflicts with PURPA.

88. In response to the Ohio Commission's arguments, we clarify that while the State Subsidy definition may include payments to effectuate Order No. 888 wholesale stranded cost recovery, such payments are longstanding, Commission-approved payment streams and thus are appropriately exempt from application of the MOPR, similar to longstanding

[221] 16 U.S.C. § 824a-3.

[222] *Am. Ref-Fuel Co.*, 105 FERC ¶ 61,004, at P 23 (2003) (stating that RECs exist outside the confines of PURPA).

self-supply arrangements. Finally, the question of how PJM will determine which resources are entitled to a State Subsidy is premature. Parties can raise these concerns on compliance.

5. Receive or Entitled to Receive a State Subsidy

a. Requests for Rehearing and Clarification

89. The Ohio Commission requests the Commission grant rehearing and specify that capacity resources that are not eligible to receive and do not receive state out-of-market support in a future delivery year shall not, at the time of the BRA for that delivery year, be subject to the new MOPR.[223]

90. PSEG takes issue with the Commission's language regarding "entitled to," stating that the Commission found that "a capacity resource should be considered to be entitled to receive a State Subsidy if the resource previously received a State Subsidy, and has not cleared a capacity auction since that time."[224] PSEG states that this finding expands PJM's recommendation and maintains that there is no explanation for why a resource that has no legal claim to a subsidy should be mitigated merely because it has previously received a subsidy.[225] PSEG also argues that in expanding the MOPR to resources that "receive or are eligible to receive" States Subsidies, the Commission ignored comments of intervenors who argued that this language would cause over-mitigation because a resource may be eligible for a subsidy, but not guaranteed to receive it.[226] Further, PSEG contends that requests for future revenues do not suppress capacity prices, and resources may receive support for only part of the PJM delivery year for any given auction.[227] PSEG argues that the MOPR should not apply unless a resource is receiving support or has received assurances of support, and only for the duration of time during which the resource is receiving support.[228]

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[223] Ohio Commission Rehearing Request at 26.

[224] PSEG Rehearing Request at 16 (citing December 2019 Order, 169 FERC ¶ 61,239 at P 75).

[225] *Id*. at 15-16.

[226] *Id*. at 14-15.

[227] *Id*. at 14.

[228] *Id*. at 16.

b. Commission Determination

91. We deny rehearing concerning treatment of resources that are entitled to receive a State Subsidy. The December 2019 Order finds that PJM's MOPR must be expanded to permit the review and mitigation of capacity resources that receive or are entitled to receive State Subsidies.[229] The Commission determined that a seller shall be considered "entitled to" a State Subsidy "if the seller has a legal right or a legal claim to the subsidy, regardless of whether the seller has yet to actually receive the subsidy."[230] In addition, as PSEG points out on rehearing, the Commission found that a capacity resource should be considered to be "entitled to receive a State Subsidy if the resource previously received a State Subsidy and has not cleared a capacity auction since that time."[231] This rule is necessary to ensure that the expanded MOPR is effective – a State-Subsidized Resource that is not economic without its State Subsidy will not, by definition, clear the auction at its mitigated offer. A State-Subsidized Resource should not be able to bypass the MOPR by relying on time-shifted State Subsidies to reduce its offer in a given auction. If a resource needs to rely on a past State Subsidy (presumably an unused entitlement that is not already a sunk cost) or rely on a future State Subsidy (presumably an entitlement to receive money at some point after an auction occurs) to justify an offer below the default offer floor in a given auction then that offer must be mitigated, regardless of when the State Subsidy was, or will be, received.

92. Contrary to PSEG's contention, the Commission directly addressed the concern some parties raised that this language will cause over-mitigation because resources may be entitled to a subsidy, but not guaranteed to receive it.[232] The Commission explained:

> We disagree with intervenors' claim that it is inappropriate to mitigate resources that are entitled to a State Subsidy, but may not have actually received a State Subsidy yet. Resources that do not wish to be mitigated or believe they will not actually receive a State Subsidy to which they are entitled may certify to PJM that they will forego any State Subsidy under the Competitive Exemption.

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[229] December 2019 Order, 169 FERC ¶ 61,239 at PP 2, 37, 75 (adopting PJM's proposal that the MOPR should apply to resources that "receive or are entitled to receive" a State Subsidy). We acknowledge that the December 2019 Order uses "eligible," but intended to use "entitled" consistent with other paragraphs in the December 2019 Order. *See id*. P 67.

[230] *Id*. P 75 (agreeing with PJM's recommendation).

[231] *Id*.

[232] PSEG Rehearing Request at 14-15.

> Therefore, *mitigating offers by resources that receive or are entitled to receive a State Subsidy will only capture resources that are both . . . [entitled] to receive a subsidy and likely to accept one.*[233]

93. We continue to find this approach reasonable because, without this rule, a resource could offer into the market with the expectation that it will accept a State Subsidy for the relevant delivery year, even if it has not yet received the State Subsidy. This result would defeat the purpose of the expanded MOPR and suppress capacity market prices. We reiterate that even if PSEG is correct that requests for future revenues do not suppress offers, such resources will not be harmed because they will be able to demonstrate the competitiveness of their offers through the Unit-Specific Exemption.

6. Retail Rate Riders

a. Rehearing and Clarification Requests

94. The Ohio Commission, AES, and AEP/Duke seek rehearing of the December 2019 Order's finding that the OVEC-related retail rider is a State Subsidy. AES and AEP/Duke argue that the Commission acted arbitrarily and capriciously by including it in the definition of State Subsidy and failing to provide OVEC the same MOPR exemptions that it provided to similarly-situated existing resources that support federal objectives and policies, have already cleared a capacity auction or relied on prior Commission guidance indicating that resource decisions are not disruptive to the wholesale markets.[234]

95. AEP/Duke explain that the retail rate rider is related to recovery of costs incurred as a result of the Commission-approved Inter-Company Power Agreement (ICPA) between OVEC and OVEC's owners (sponsoring companies). AEP/Duke state that dispersion of voting rights ensures that none of OVEC's sponsoring companies can direct OVEC's management or operations, so neither the retail rate rider nor an owner's individual retail cost recovery has any impact on or connection to the continued operation

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[233] December 2019 Order, 169 FERC ¶ 61,239 at P 76 (emphasis added); *see also supra* n.229 (replacing eligible with entitled).

[234] AEP/Duke Rehearing Request at 10; AES Rehearing and Clarification Request at 15-19; *see also* Ohio Commission Rehearing Request at 25-26 (asserting resources like the OVEC resources, receiving support pursuant to a Commission-jurisdictional agreement, should be exempt in the same way that federally supported resources are exempt).

of the plants or their participation in the PJM capacity auctions.[235] AES states that Dayton Power and Light Company, an AES subsidiary, is a co-owner of OVEC generation but has been trying unsuccessfully to divest its interest in the plant. AES explains that the budget and operational decisions regarding the resource, including whether to retire, are controlled by the self-supply entities who would not be subject to the MOPR under the December 2019 Order.[236] Therefore, AES contends, the OVEC retail rider is not a State Subsidy that could delay retirement of state-preferred resources, because the co-owners subject to the MOPR do not have the power to retire the resource.[237] In addition, according to AES, the OVEC units are not a state-preferred resource. Rather, AES explains that the Ohio Commission created a retail rate rider to allow full recovery of OVEC costs in recognition that these costs were prudently incurred before there was retail competition and are the result of a long-term contract (ICPA) that does not expire until 2040.[238]

96. AEP/Duke contend the Commission did not address the lack of a tether between the retail rate rider and the continued operation of OVEC generating units and that the failure to meaningfully address the differences between the retail rate rider and non-bypassable revenue arrangements that do affect continued operation and participation in the PJM capacity market is arbitrary and capricious.[239] AEP/Duke argue that any potential (though unstated) link between the Ohio retail rate rider and the operation and participation of OVEC units in the capacity market was further attenuated by the December 2019 Order, which expressly subjected three of the 13 OVEC sponsoring companies to the MOPR, while many other sponsoring companies would not be affected.[240]

97. AES and AEP/Duke argue this incongruity also unduly discriminates between co-owners of OVEC units and results in an unjust and unreasonable rate by imposing the MOPR on some owners, but not all, noting that the December 2019 Order would subject three of the sponsoring companies to the MOPR, while other sponsoring companies'

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[235] AEP/Duke Rehearing Request at 7 & n.15 (citing Ohio Valley Elec. Corp., Amended and Restated Inter-Company Power Agreement and Amended and Restated OVEC-IKEC Power Agreement, Docket No. ER11-3181-000, at 7 (filed Mar. 23, 2011)).

[236] AES Rehearing and Clarification Request at 17.

[237] *Id.* at 18.

[238] *Id.* at 17-19.

[239] *Id*. at 8 & n.18 (citations omitted).

[240] *Id*. at 9 & nn.19-20 (citations omitted).

shares would be unaffected; at least two sponsoring companies would be exempt via the Self-Supply Exemption, and sponsoring companies who use their shares for FRR Capacity Plans[241] AEP/Duke contend that this disparate treatment among sponsoring companies and their shares of OVEC capacity highlights that the December 2019 Order is not tailored to address the economic entry and exit of resources in the wholesale market because sponsoring companies cannot retire only their share of a unit.[242] AES argues that the ratemaking approach taken by the Ohio Commission yields the same results for Ohio utilities as the traditional ratemaking approach taken by other states with respect to their vertically integrated utilities and, therefore, the December 2019 Order should not treat these groups differently.[243] AES requests that the Commission extend the Self-Supply Exemption to all of OVEC's previously cleared generation units, rather than only those units owned by self-supply entities. AES states that the OVEC capacity not eligible for the Self-Supply Exemption is limited and known quantity that will not grow over time, has previously cleared the capacity market, and is the result of investments made long ago without regard to anything the December 2019 Order defines as a State Subsidy.[244] AEP/Duke posit that, in the same way the Self Supply Exemption is needed to respect the investment decisions of the existing self-supply resources that predate the December 2019 Order, all OVEC capacity that has previously cleared the auction should be entitled to a MOPR exemption.[245]

98. AEP/Duke assert that national security interests led to the creation of OVEC in the 1950s to supply electricity to a uranium enrichment facility, and therefore OVEC and/or

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[241] AEP/Duke Rehearing and Clarification Request at 8-9; AES Rehearing and Clarification Request at 3, 15, 18. AES explains that the Ohio Commission created a retail rate rider to place Ohio utilities with ownership shares in OVEC on equal footing as owners in other states that are vertically integrated utilities or cooperatives. When the traditional utilities or rural cooperatives sell capacity into PJM markets, the revenue is credited against their cost of service, as is the case for an off-system sale, and their retail customers are charged any residual net costs that remain after the credits. AES explains that the Ohio Commission created a retail rate rider that would continue to allow full recovery of OVEC costs, which would be charged to all retail customers, net of any revenues earned from sales into PJM. AES Rehearing and Clarification Request at 17.

[242] AEP/Duke Rehearing and Clarification Request at 9.

[243] AES Rehearing and Clarification Request at 19.

[244] *Id*. at 15 (acknowledging the Commission's rejection of exemptions for retail rate riders generally, but seeking an OVEC specific retail rate rider exemption); *see also* AEP/Duke Rehearing and Clarification Request at 14-15.

[245] AEP/Duke Rehearing and Clarification Request at 14-15.

the capacity market sellers that offer OVEC capacity into the PJM capacity market are similarly situated to resources receiving federal subsidies that have been exempted.[246] The Ohio Commission similarly contends that the level of compensation for OVEC is dictated by a FERC-jurisdictional agreement, which requires sponsoring companies to provide financial support to OVEC to the extent that the compensation otherwise available to OVEC is insufficient to cover OVEC's defined cost,[247] The Ohio Commission avers that its House Bill 6 did not actually change the compensation available to OVEC, which is under the Commission's jurisdiction, but only required that a portion of the support the Commission approved would be funded through a retail rate rider, placed a cap on the amount of support that is recoverable from Ohio retail customers, removed a return on equity allowance from the portion of the support allocated to Ohio retail customers, and limited the duration of time during which these costs can be recovered from Ohio retail customers. The Ohio Commission states that it would have corrected these facts on the record had there been opportunity to comment on the replacement rate, and that this lack of opportunity violates due process.[248]

99. AEP/Duke argue a MOPR exemption for the OVEC generating units is further supported by the December 2019 Order's treatment of QFs, which are not mitigated.[249] OVEC points out that the Commission focuses on the nature of the QF resource, i.e., that QF resources are built in furtherance of federal policy, regardless of the retail ratemaking treatment that the purchasing electric utility may employ.[250] AEP/Duke argue that similarly, OVEC's generating units were built pursuant to federal national security policy, and therefore the capacity provided by those generating units should not be mitigated.[251]

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[246] *Id*. at 4, 11-12. If the Commission does not grant rehearing, AEP/Duke request clarification that a MOPR exemption would apply to OVEC generating units and/or the capacity market sellers who control OVEC capacity. *Id*. at 3 & n.5 (citations omitted).

[247] Ohio Commission Rehearing Request at 24, n.31. AEP/Duke also argue that OVEC and/or the capacity market sellers that offer OVEC capacity are similarly situated to resources receiving federal subsidies that have been exempted. AEP/Duke Rehearing Request at 11-13.

[248] Ohio Commission Rehearing Request at 25.

[249] *Id*. at 12-13 & n.27 (citing December 2019 Order, 169 FERC ¶ 61,239 at P 67 n.143).

[250] *Id*. at 13.

[251] *Id*.

b. Commission Determination

100. We deny rehearing as to whether retail rate riders generally should be considered a State Subsidy. We reject arguments that OVEC resources should be exempt from the expanded MOPR because they were built pursuant to federal policy objectives. The December 2019 Order stated that the Commission would not apply the expanded MOPR to federal subsidies because the Commission's authority to set just and reasonable rates is delegated by Congress through the FPA, and that statute has the same legal force, and springs from the same origin, as any other federal statute.[252] Parties appear to confuse federal legislation with other less-formal efforts undertaken to support certain federal policy objectives. The OVEC resources are not supported by a federal subsidy, but by a State Subsidy that parties argue supports federal goals. Likewise, the OVEC resources are not similarly situated to QFs, because, while states may implement PURPA, they do so pursuant to federal law.

101. Further, the June 2018 Order and December 2019 Order both found that State Subsidies provided or required by certain states for the purpose of supporting the entry or continued operation of preferred generation resources that may not otherwise be able to succeed in a competitive wholesale capacity market lead to unjust and unreasonable market distortions.[253] Neither order required that the State Subsidy be received by a market participant that is able to make the decision to enter or exit the market, nor is such a requirement just and reasonable.

102. However, given the unique and longstanding supply arrangements associated with the OVEC resources, to the extent a retail rate rider associated with the OVEC resources was in place prior to the December 2019 Order, we here clarify that such a retail rider is appropriately treated in a manner similar to existing self-supply arrangements and is thus exempt from application of the MOPR.[254] That said, with respect to arguments that some owners of the OVEC resources may be fully exempt from the expanded MOPR but not others, we find that such a result is not unduly discriminatory. The expanded MOPR is designed to reach State Subsidies, regardless of ownership. The fact that State Subsidies may differ among owners is not surprising and is immaterial, as different states' policies may vary. Therefore, to the extent an OVEC owner is not exempt from the MOPR

[252] December 2019 Order, 169 FERC ¶ 61,239 at P 89.

[253] June 2018 Order, 163 FERC ¶ 61,236 at P 150; December 2019 Order, 169 FERC ¶ 61,239 at P 1.

[254] We note that OVEC resources received retail rate riders as approved by the Ohio Commission for a number of years prior to enactment of HB 6.

pursuant to the exemptions described in the December 2019 Order or as extended here, it is not unduly discriminatory to apply the MOPR to such owner's resources.

7. General Industrial Development and Local Siting Subsidies

a. Rehearing and Clarification Requests

103. Parties disagree with the December 2019 Order's finding that general industrial development and local siting subsidies are excluded, arguing it is arbitrary and capricious.[255] DC Attorney General argues the Commission's rationale for excluding general and industrial development and local siting subsidies is flawed because state clean energy programs are also not directed at or tethered to the capacity market.[256] DC Attorney General adds that the tethered to/directed at distinction is irrelevant because it focuses on the intent of the programs, not their effects.[257] DC Attorney General states that, while enterprise zones appear available to all industry, localities specifically expand zones and grant tax incentives just for generation resources.[258] DC Attorney General argues that if the intent is to mitigate the effect of state subsidies and only exempt subsidies pursuant to federal law, then it is arbitrary and capricious for the Commission to consider and address the purported effects of certain state subsidies but not others.[259] Clean Energy Advocates argue that the Commission cannot say that a combination of policies it allows, such as local siting support, will produce a more or less efficient market outcome than the policies it does not allow, such as RPS programs.[260] Clean Energy Advocates further argue that, under the December 2019 Order, a resource that

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[255] DC Attorney General Rehearing Request at 22 & n.74 (citing December 2019 Order, 169 FERC ¶ 61,239 at P 83); *see also* Public Citizen Rehearing Request at 4; *see generally* DC Attorney General Rehearing Request at 22-24.

[256] DC Attorney General Rehearing Request at 22; *see also* Consumers Coalition Rehearing Request at 37-38.

[257] DC Attorney General Rehearing Request at 22 (citing *MPS Merch. Servs. v. FERC*, 836 F.3d 1155, 1170 (9th Cir. 2016) (stating the Commission has "long and repeatedly" held that FPA sections 205(b) and 206 "do not contain any reference to intent . . . . [T]he Commission is to be concerned with anticompetitive *effects*, not motives.") (quoting *In re Mo. Power & Light Co.*, 5 FERC ¶ 61,086, at 61,140 (1978) (emphasis added))).

[258] DC Attorney General Rehearing Request at 23.

[259] *Id*. at 24.

[260] Clean Energy Advocates Rehearing Request at 32.

receives payments in lieu of taxes, rebates, or other subsidy may continue to make lower offers incorporating that public support and thereby suppress auction-clearing prices so long as the public support has the goal of bringing the resource to a particular locality, rather than encouraging the use of certain fuel.[261] Clean Energy Associations argue that the Commission does not explain why it assumes state and local incentives are not directed at or tethered to the operation of a generating resource, given that in providing the incentive, the state expects that the power plant will be constructed and operated.[262]

104. J-POWER requests that the Commission clarify the types of "generic industrial development and local siting support" programs that will not be considered State Subsidies and will therefore be exempt from the expanded MOPR under the December 2019 Order.[263] J-POWER requests that the Commission confirm that a program that is intended to promote the development of a geographic area or zone could qualify as "local siting support" under the December 2019 Order, so long as "the support at issue is available to all businesses and is not "nearly [directed at] or tethered to the new entry or continued operation of generating capacity."[264] J-POWER also requests that the Commission confirm that PJM's compliance filing in response to the December 2019 Order should propose a process whereby PJM, in consultation with the Market Monitor, will determine if state payments or benefits qualify as "generic industrial development" or "local siting" support programs, and that market participants should have the ability to challenge such determinations before the Commission. J-POWER posits that clarification regarding the Commission's intent will help minimize the potential for future disputes, while also providing a process for addressing any disputes that do arise.[265]

105. Clean Energy Associations request clarification that any state, county or local property tax relief does not constitute a State Subsidy. Clean Energy Associations argue that such an exclusion would align with the December 2019 Order, which has already accepted MOPR exclusions for general industrial development in an area and programs

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[261] *Id*. at 58.

[262] Clean Energy Associations Rehearing and Clarification Request at 40-41; *see also* DC Attorney General Rehearing Request at 22 & n.74 (citing December 2019 Order, 169 FERC ¶ 61,239 at P 83).

[263] J-POWER Clarification Request at 2 (citing December 2019 Order, 169 FERC ¶ 61,239 at P 83).

[264] *Id*. at 11 (citing December 2019 Order, 169 FERC ¶ 61,239 at P 68).

[265] *Id*.

designed to incent siting facilities in one location over another.[266] Clean Energy Associations assert that property tax relief is intended to incent developers to locate their projects in a particular place and the abatement has nothing to do with the capacity market.[267]

b. Commission Determination

106. We deny the rehearing requests regarding general industrial development and local siting support. General industrial development and local siting support are not nearly "tethered" to the new entry or continued operation of generating capacity but are rather forms of support that are generally available to businesses in an area, unlike, for example, RPS programs and state clean energy programs. General opportunities, such as a state locating a generation resource in a particularly prime location for purposes of generic economic development, are too attenuated to be "directed at or tethered to the new entry or continued operation of generating capacity" in the PJM capacity market. We disagree that the Commission erred in excluding general industrial development and generic local siting subsidies from the expanded MOPR because such generic subsidies (i.e., those that are available to enterprises other than generating resources) may permit a generating resource to offer at a lower capacity price because it built in one state-preferred location, rather than another less-preferred location. As we said in the December 2019 Order, the expanded MOPR is not intended to address all commercial externalities or opportunities that might affect the economics of a particular resource.[268]

107. With regard to J-POWER's request for clarification regarding generic industrial development subsidies, we clarify that these include payments (including payments in lieu of taxes), concessions, rebates, subsidies, or incentives designed to promote, or participation in a program, contract or other arrangement that utilizes criteria designed to incent or promote, general industrial development in an area. With respect to local siting, these include payments, concessions, rebates, subsidies or incentives designed to promote, or participation in a program, contract or other arrangements from a county or

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[266] Clean Energy Associations Rehearing and Clarification Request at 60 (citing December 2019 Order, 169 FERC ¶ 61,239 at PP 78, 83).

[267] *Id*.

[268] December 2019 Order, 169 FERC ¶ 61,239 at P 68. We also disagree with the D.C. Attorney General that the directed at/tethered to language suggests that the Commission is regulating the intent of the subsidy, rather than its effects. As stated in the June 2018 Order, December 2019 Order, and herein, the expanded MOPR addresses the effect of State Subsidies on the PJM capacity market, regardless of intent of the subsidy.

other local government authority using eligibility or selection criteria designed to incent, siting facilities in that county or locality rather than another county or locality.

108. We decline, however, to prejudge how these programs should be addressed in the compliance filing, including how they should be identified and whether there should be a process to challenge that identification at the Commission.

109. With regard to Clean Energy Associations' request to clarify that any state, county, or local property tax relief is not a State Subsidy, we reiterate that the December 2019 Order defined State Subsidies, and any out-of-market payment that fits within that definition will be considered a State Subsidy, including tax relief or other concessions that are not generally applicable.[269]

8. Federal Subsidies

a. Requests for Rehearing and Clarification

110. Parties argue that the December 2019 Order is arbitrary and capricious because it finds that federal and State Subsidies impact the market similarly, but only mitigates State Subsidies, making the December 2019 Order internally inconsistent.[270] For example, DC Attorney General asserts that the Commission's justification that it lacks the authority "to disregard or nullify the effects of federal legislation logically applies equally to state subsidies," which parties contend are nullified by the December 2019 Order without explanation as to why federal subsidies are treated differently than state programs.[271] The Illinois Commission states that the Commission's decision to exempt all resources receiving federal subsidies from the MOPR, while applying the MOPR to

[269] December 2019 Order, 169 FERC ¶ 61,239 at P 67.

[270] Public Citizen Rehearing Request at 3 (citing December 2019, 169 FERC ¶ 61,239 at P 9); EPSA/P3 Rehearing and Clarification Request at 5 (citing December 2019 Order, 169 FERC ¶ 61,239 at P 89); Clean Energy Associations Rehearing and Clarification Request at 42; Illinois Attorney General Rehearing Request at 15 (citing December 2019 Order, 169 FERC ¶ 61,239 at P 87); New Jersey Board Rehearing and Clarification Request at 38; Exelon Rehearing and Clarification Request at 26-27.

[271] DC Attorney General Rehearing Request at 21-22 (quoting December 2019 Order, 169 FERC ¶ 61,239 at PP 10, 40) (citing December 2019 Order, 169 FERC ¶ 61,239 at P 16); Maryland Commission Rehearing and Clarification Request at 12-13; FES Rehearing Request at 19-20; Ohio Commission Rehearing Request at 7-10.

resources affected by state policy, unduly discriminates against resources affected by state policy.[272]

111. Parties assert that when Congress by statute reserved to states the power to regulate generation facilities, it recognized states' power to favor certain types of resources over others.[273] They assert that when states exercise this Congressionally-vested authority to provide State Subsidies, they do so with congressional approval no less than when Congress itself decided to assist particular types of resources.[274] They argue that, therefore, when the Commission applies the MOPR to "disregard or nullify" states' exercise of this authority, its action is just as inconsistent with Congress's policy as it would be to apply the MOPR to federal subsidies.[275] They contend that the Commission cannot invoke respect for Congress to justify exempting federal subsidies from the MOPR, while at the same time applying the MOPR to "disregard or nullify the effect" of State Subsidies.[276] DC Attorney General asserts that the case law the Commission cites to support the exclusion of federal subsidies is inapplicable and irrelevant, relating to general canons of statutory law.[277] Consumers Coalition argue that the Commission did not support its finding that mitigating federal subsidies would disregard or nullify the effect of other federal legislation because it did not cite any federal statutes that Congress intended to be exempt from FPA rate regulation or engage in statutory analysis to determine whether mitigating federal subsidies would nullify the relevant federal statute.[278] Moreover, absent express Congressional intent to the contrary, it is presumed that the powers and directions under several federal statutes subsist together.[279] Consumers Coalition state that the federal government provides tens of

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[272] Illinois Commission Rehearing Request at 12.

[273] *See, e.g.*, Exelon Rehearing and Clarification Request at 4, 27; Consumers Coalition Rehearing Request at 28-30.

[274] *See* Exelon Rehearing Request at 27.

[275] *See id*. at 4, 27; Consumers Coalition Rehearing Request at 28-30.

[276] *See* Exelon Rehearing and Clarification Request at 4, 27; Consumers Coalition Rehearing Request at 28-30.

[277] DC Attorney General Rehearing Request at 22 & n.72.

[278] Consumers Coalition Rehearing Request at 31-33.

[279] *Id.* at 31 & n.72 (citing *Posadas v. Nat'l City Bank of N.Y.*, 296 U.S. 497, 504 (1936)).

billions of subsidies every year to benefit electric generators, most to fossil-fuel generation, and that Congress is cognizant of state subsidies when it does so, conditioning the size of the federal subsidy on state support.[280] The Maryland Commission asserts that the bifurcation between state and federal subsidies means that for implementation purposes that resources receiving both federal and state subsidies are simultaneously exempt and subject to mitigation.[281]

112. Exelon states that the laws creating the production tax credit, for example, did not impliedly repeal or narrow the Commission's authority to set just and reasonable wholesale rates.[282] Rather, the more logical determination of the Commission's position is that, as a matter of policy, the Commission should not use its rate-setting authority to work at cross-purposes with other federal programs.[283]

113. EPSA/P3 argue the December 2019 Order's conclusion to not mitigate federal subsidies is based on an erroneous view of the law and therefore the Commission failed to exercise the discretion delegated to it by Congress in the FPA.[284] EPSA/P3 argue the Commission failed to respond meaningfully to arguments that the Commission should not assume that Congress intended for it to abdicate its ratemaking obligations absent an express directive or to arguments regarding the need to apply the MOPR to resources receiving federal subsidies, including arguments that the Commission should not defer to other federal agencies with separate responsibilities.[285] EPSA/P3 assert that the Supreme Court made clear that the Commission should not assume that Congress intended for the Commission to ignore its statutory responsibilities simply because Congress passed legislation that could impact wholesale rates.[286] EPSA/P3 also argue that the

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[280] *Id*. at 35-37 (citing as example 26 U.S.C. 45(b)(3)(A)(i)-(iv.)).

[281] *Id*. at 36.

[282] Exelon Rehearing and Clarification Request at 26.

[283] *Id*. at 26-27.

[284] EPSA/P3 Rehearing and Clarification Request at 5 (citing *Prill v. NLRB*, 755 F.2d 941, 947 (D.C. Cir. 1985)).

[285] *Id*. (citing *Pub. Utils. Comm'n of Cal. v. FERC*, 462 F.3d at 1051 (9th Cir. 2006); *PPL Wallingford Energy LLC v. FERC*, 419 F.3d at 1198 (D.C. Cir. 2005); *Moraine Pipeline Co. v. FERC*, 906 F.2d 5, 9 (D.C. Cir. 1990))).

[286] *Id*. at 10 (citing EPSA Initial Brief at 17-18 & n.76 (explaining that the Supreme Court has found that "Congress does not alter the fundamental details of a

Commission should assume that Congress is aware of the Commission's authority to address the impact of federal subsidies on wholesale rates and could limit the Commission's ability to address such effects going forward.[287]

114. EPSA/P3 clarify that they are not arguing that the Commission should apply the MOPR to all federal subsidies, but that the Commission erred in declining to expand the MOPR to any federal subsidies.[288] EPSA/P3 acknowledge that the reasoning laid out in the December 2019 Order may justify exempting from the expanded MOPR subsidies directly awarded by Congress, but argue it does not justify exempting subsidies awarded by another federal agency. EPSA/P3 contend that Congress has not transferred responsibility for the justness and reasonableness of wholesale rates to another federal agency.[289]

115. The Ohio Commission argues that the December 2019 Order frustrates federal policies because it would subject to the MOPR resources receiving State Subsidies that are aligned with the federal government's stated goals, such as promoting fuel diversity.[290] The Ohio Commission also notes that the Department of Energy has recently supported the competitiveness of one of Ohio's nuclear plants through a grant, and the Commission should avoid frustrating these federal policies.[291]

116. Allegheny states the electric cooperative business model is enshrined in federal law in the form of the Rural Electrification Act (7 U.S.C. §§ 901-18) and Federal Power Act, for which the Commission showed no regard, despite expressly excluding federal subsidies from mitigation.[292]

117. PJM states that it interprets the December 2019 Order as requiring PJM to apply the MOPR to any resource receiving both a State Subsidy and a federal subsidy, because the State Subsidy triggers the MOPR. PJM seeks clarification as to whether it should

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regulatory scheme in vague terms or ancillary provisions – it does not, one might say, hide elephants in mouseholes" (citations omitted))).

[287] *Id*.

[288] *Id*. at 7.

[289] *Id*. at 8-9.

[290] Ohio Commission Rehearing Request at 13-14.

[291] *Id*. at 14, 21, 23-24 & n.31; *see also* New Jersey Board Rehearing Request at 39-40.

[292] Allegheny Rehearing Request at 8-9.

determine competitive net costs of a resource receiving both federal and State Subsidies by removing the revenue benefit of the State Subsidy, but retaining the revenue benefit of the federal subsidy.[293]

b. Commission Determination

118. We deny rehearing and affirm our directive that the replacement rate will not require mitigation of capacity offers that are supported by federal subsidies.[294] As we explained, Congress delegated to the Commission the authority to set just and reasonable rates, terms and conditions of service for the transmission and sale at wholesale of electricity in interstate commerce through the FPA.[295] Congress also directed subsidies through other federal statutes. These statutes have the same legal force as the FPA and we decline to use our ratemaking authority over federally regulated wholesale markets to address the effects of other federal statutes.

119. We disagree with parties' contention that the December 2019 Order is arbitrary and capricious, internally inconsistent and unduly discriminatory because the Commission finds that federal subsidies and State Subsidies impact the market similarly, but only mitigates State Subsidies.[296] While federal subsidies may affect capacity market prices, the source of authority for federal subsidies, as opposed to State Subsidies, is not equivalent. Federal subsidies are authorized by federal statutes; State Subsidies are authorized by state laws. Not all discrimination is "undue" discrimination.[297] The

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[293] PJM Rehearing and Clarification Request at 26.

[294] December 2019 Order, 169 FERC ¶ 61,239 at PP 10, 84-85,

[295] 16 U.S.C. § 824(a) to (b). The Commission's jurisdiction includes the power to set rates for capacity, either directly or indirectly through a market mechanism. *Connecticut PUC*, 569 F.3d at 482-84.

[296] Public Citizen Rehearing Request at 3 (citing December 2019 Order, 169 FERC ¶ 61,239 at 9); EPSA/P3 Rehearing and Clarification Request at 5 (citing December 2019 Order, 169 FERC ¶ 61,239 at P 89; 16 U.S.C. §§ 824d, 824e (2018)); *United States v. City of Detroit*, 720 F.2d 443, 451 (6th Cir. 1983); Clean Energy Associations Rehearing and Clarification Request at 42; Illinois Attorney General Rehearing Request at 15 (citing December 2019 Order, 169 FERC ¶ 61,239 at P 87); New Jersey Board Rehearing and Clarification Request at 38; Exelon Rehearing and Clarification Request at 26-27.

[297] *See, e.g.*, *St. Michaels Utils. Comm'n v. FPC*, 377 F.2d 912, 916 (4th Cir. 1967) (holding that the FPA permits differences in a public utility's rates, terms and conditions of service where they are based on appropriate factual differences).

Commission has a reasonable basis to distinguish federal subsidies and State Subsidies, that is, whether the subsidies were established via federal law or state law.[298]

120. We disagree with DC Attorney General's assertion that the precedent cited in the December 2019 Order is irrelevant.[299] These "general canons of statutory law" – cautionary principles – reflect judicial guidance regarding the appropriate way to reconcile Congressional directives. Congress has not delegated to the Commission the judicial authority to reconcile asserted conflicts in federal legislation. We agree with Consumers Coalition that, absent express Congressional intent to the contrary, it is presumed that the powers and directions under several federal statutes are equally valid.[300] In our view, not subjecting federal subsidies to the expanded MOPR is precisely the result of recognizing that all federal statutes are equally valid.

121. Contrary to Consumer Coalition's contention, the Commission need not rely on specific statutes stating that Congress intended any particular federal subsidy to be exempt from FPA rate regulation in order to defer to Congress. Nor did the Commission have to engage in specific statute-by-statute analysis to determine whether some federally legislated subsidies warrant mitigation but not others. We affirm our decision to decline to use our ratemaking authority over federally regulated wholesale markets to address the effects of other federal statutes.

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[298] Additionally, while the FPA recognizes that states have exclusive authority over generation facilities, *see* 16 U.S.C. § 824(b)(1) (2018), the FPA is certainly not the source of this authority and thus, contrary to Exelon's contention, does not "vest" states with authority to provide State Subsidies to preferred resources. *See* Exelon Rehearing and Clarification Request at 4, 27. The FPA was originally a "gap-filler" statute, designed to allow the federal government to step in and regulate interstate transactions over which no single state had authority to regulate. *See EPSA*, 136 S. Ct. at 767 (citing *Pub. Util. Comm'n of R.I. v. Attleboro Steam & Elec. Co.*, 273 U.S. 83, 89-90 (1927)). For example, section 201(a) of the FPA provides that federal regulation is "to extend only to those matters which are not subject to regulation by the States." 16 U.S.C. § 824(a). It cannot be said, therefore, that the FPA's recognition of states' authority over generation resources places State Subsidies on par with federal subsidies because they are both authorized by Congress. Regardless, the December 2019 Order does not regulate state decisions about generation resources; it is only regulating rates in the wholesale capacity markets.

[299] *See* December 2019 Order, 169 FERC ¶ 61,239 at P 89 & n.177 (citing *Morton*, 417 U.S. at 550-51; *Silver*, 373 U.S. at 357; *Tug-Allie-B*, 273 F.3d at 941).

[300] *See* Consumers Coalition Rehearing Request at 31 & n.72 (citing *Posadas v. Nat'l City Bank of N.Y.*, 296 U.S. 497, 504 (1936)).

122. Additionally, Consumers Coalition states that some federal subsidies depend on the size of a State Subsidy,[301] such that applying the expanded MOPR to the State Subsidy thwarts Congressional intent. Noting that the Department of Energy has recently supported the competitiveness of one of Ohio's nuclear plants through a grant,[302] the Ohio Commission similarly argues that the December 2019 Order frustrates federal policies because it would subject to the MOPR resources receiving State Subsidies that are aligned with the federal government's stated goals, such as promoting fuel diversity.[303] We disagree. Consumers Coalition and the Ohio Commission confuse federal goals with federal legislation. The amount of the federal subsidy initially is derived from the amount of the State Subsidy, and the amount of the federal subsidy will not change if the resource's offer is subject to the MOPR. A resource's offer will be mitigated based on the State Subsidy, but, as PJM in its rehearing request proposes to implement it, PJM will determine the resource's competitive net costs by removing the State Subsidy benefit and retaining the federal subsidy benefit.[304] The December 2019 Order implements federal policy, simultaneously respecting federal goals and federal legislation. We fail to see how the Commission thwarts federal intent by mitigating in the PJM capacity market a State Subsidy that may determine the size of the federal subsidy, when the amount of the federal subsidy is not affected by application of the MOPR to the resource's offer.

123. EPSA/P3 attempts to draw a distinction between federal subsidies that are directly awarded by Congress and federal subsidies that are provided by other federal agencies.[305] We find this distinction irrelevant here. Federal agencies are creatures of statute and, therefore, to the extent a federal agency is awarding a federal subsidy, it is doing so pursuant to authority provided by Congress. Whether Congress provides the subsidy directly by statute, or through an agency it has authorized to provide federal subsidies, the source of authority is still a federal statute.

124. We disagree with the contention voiced by EPSA/P3 that "the Commission assumed that Congress intended for it to abdicate its ratemaking obligations absent an

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[301] *Id.* at 35-37 & n.88 (citing as example 26 U.S.C. § 45(b)(3)(A)(i)-(iv)).

[302] Ohio Commission Rehearing Request at 14; *see also* New Jersey Board Rehearing Request at 40.

[303] Ohio Commission Rehearing Request at 13-14.

[304] PJM Rehearing and Clarification Request at 26.

[305] *See* EPSA/P3 Rehearing and Clarification Request at 9.

express directive."[306] We are not abdicating our ratemaking obligations; we are simply declining to use our ratemaking authority to address the potential rate effects of federal statutes other than the FPA. Further, EPSA/P3's argument that the MOPR should apply to federal subsidies because Congress has not transferred responsibility for the justness and reasonableness of wholesale rates to another federal agency[307] is misguided. Refraining from mitigating federal subsidies authorized by other federal agencies is not tantamount to transferring the Commission's FPA obligation to ensure the justness and reasonableness of rates. We have exercised our FPA authority to find the replacement rate is just and reasonable and not unduly discriminatory or preferential without mitigating capacity offers supported by federal subsidies.[308] We grant PJM's request for clarification that it should determine competitive net costs of a resource receiving both federal and State Subsidies by removing the revenue benefit of the State Subsidy, but retaining the revenue benefit of the federal subsidy.

9. Materiality Thresholds

a. Rehearing and Clarification Requests

125. PJM argues that the December 2019 Order's rejection of materiality thresholds is not adequately supported, creates sweeping burdens for PJM and stakeholders (which the Commission did not consider at all), and creates uncertainty for small resources that are otherwise accommodated in the wholesale markets.[309] PJM continues that the presumption that all resource offers must be reviewed and mitigated regardless of size or impact, or else auction prices will become unreasonable, is not supported by the record and that the Commission has acted without adequate consideration of the administrative burdens (including to review unit-specific offers).[310]

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[306] *Id*. at 3.

[307] *Id*. at 8-9.

[308] *See, e.g.*, *Cal. Indep. Sys. Operator, Corp*., 138 FERC ¶ 61,060, at P 76 & n.17 (2012) ("We are required to adopt just and reasonable rates terms and conditions. We are not required to adopt the best or most reasonable approach) (citation omitted)).

[309] PJM Rehearing and Clarification Request at 16 (citing *Elec. Storage Participation in Mkts. Operated by Reg'l Transmission Organs. & Indep. Sys. Operators*, Order No. 841, 162 FERC ¶ 61,127, at P 271 (2018) (creating rules to help smaller resources)).

[310] PJM Rehearing and Clarification Request at 16.

126. Clean Energy Associations and Clean Energy Advocates assert that the Commission provided no record evidence that resources that meet PJM's proposed materiality thresholds would have any direct price impact.[311] Furthermore, Clean Energy Associations argue that, even if it could be shown that such resources could impact capacity market prices, there is no evidence presented, nor any argument or analysis offered by the Commission, showing that such impact would be anything other than de minimis.[312]

127. Advanced Energy Entities argue that the December 2019 Order does not address PJM's assertion that some resources are too small, individually or collectively, to meaningfully impact price outcomes in rejecting the proposed materiality thresholds. Advanced Energy Entities also argue the December 2019 Order is contradictory because it finds that any level of State Subsidy is capable of distorting capacity prices, but also that the Commission is concerned with the aggregate impact of small resources, and not just a single resource.[313]

128. AES requests that, if the Commission does not adopt its proposed Proportional MOPR on rehearing, it should grant rehearing to institute a materiality threshold of 50 MW.[314] AES explains that a materiality threshold is appropriate because smaller generators have little or no ability, individually, to affect the market significantly or engage in price suppression and argues the December 2019 Order offered no evidence that small resources, either individually or in aggregate, were actually impacting market outcomes.[315]

129. AES also recommends a "fifteen percent demarcation between material and non-material levels of out-of-market support."[316] Alternatively, AES argues that the Commission could establish different threshold levels for State Subsidies that are

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[311] Clean Energy Associations Rehearing and Clarification Request at 15; Clean Energy Advocates Rehearing Request at 42.

[312] Clean Energy Associations Rehearing and Clarification Request at 15-16.

[313] Advanced Energy Entities Rehearing and Clarification Request at 21-22.

[314] AES Rehearing and Clarification Request at 7-8.

[315] *Id*.

[316] *Id*. at 9.

capacity related and those that are not, such as RECs. AES argues that RECs are earned based on output, and often sold in advance, such that they are "sunk revenues."[317]

b. Commission Determination

130. We deny rehearing and continue to reject PJM's proposed materiality thresholds, as well as other parties' proposed alternative materiality thresholds, because, as the Commission previously explained, out-of-market support at any level is capable of distorting capacity prices,[318] and even small resources, in aggregate, may have the ability to impact capacity prices.[319] We reiterate that a materiality threshold implies that there is a threshold under which a State-Subsidized Resource participating in the capacity market has a *de minimis* effect on prices.[320] We disagree, and affirm our finding that State Subsidies at any level are capable of distorting capacity prices.[321] PJM's use of a single-price auction concept means that, regardless of the number of resources or MWs, below-cost offers resulting from State Subsidies may reduce the capacity price if, individually or in aggregate, such resources displace a higher priced offer that would have set the clearing price had the State-Subsidized Resource submitted an offer based on its actual marginal cost. State-Subsidized Resources need less revenue from the market than they would without a State Subsidy, and the rational choice for such resources, given their desire to participate in PJM's capacity market to secure additional revenues, is to reduce their offers commensurately to increase their opportunity to clear the market. In short,

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[317] *Id*. at 9-10.

[318] December 2019 Order, 169 FERC ¶ 61,239 at P 98 & n.202 (citing June 2018 Order, 163 FERC ¶ 61,236 at P 150); s*ee also* June 2018 Rehearing Order, 171 FERC ¶ 61,034 at P 28. We reaffirm our decision to decline to adopt a materiality threshold based on either the level of State Subsidies or the size of State-Subsidized Resources. *See* December 2019 Order, 169 FERC ¶ 61,239 at P 10.

[319] December 2019 Order, 169 FERC ¶ 61,239 at PP 10, 98-99.

[320] *Id*. P 98. We disagree with Advanced Energy Entities' assertion that the December 2019 Order is contradictory because, on the one hand, it finds that any level of State Subsidy is capable of distorting capacity prices, but on the other hand, the Commission registers its concern with the aggregate impact of small resources, and not just a single resource. *See* Advanced Energy Entities Rehearing and Clarification Request at 21-22. Any level of State Subsidy is capable of distorting capacity prices because below cost offers from State-Subsidized Resources, either individually or on aggregate, can displace offers of non-subsidized resources.

[321] December 2019 Order, 169 FERC ¶ 61,239 at P 98 & n.202; June 2018 Order, 163 FERC ¶ 61,236 at P 150); June 2018 Rehearing Order, 171 FERC ¶ 61,034 at P 28.

State-Subsidized Resources have the ability to suppress capacity market clearing prices below competitive outcomes by offering below their costs.[322] Therefore, we continue to find that adopting a materiality threshold would undermine the very purpose of the Commission's action in this proceeding.[323]

131. Contrary to parties' contentions, the Commission had sufficient evidentiary support to reject the proposed materiality thresholds. Record evidence showed the expected increase in state support for renewable resources, many of which would be exempt from the expanded MOPR under PJM's proposed capacity threshold.[324] As the Commission elaborated in the December 2019 Order, on aggregate, small State-Subsidized Resources may have the ability to impact capacity prices, resulting in unjust and unreasonable rates. On rehearing, neither PJM nor any other party has provided evidence or demonstrated that this rationale is flawed.

132. We reiterate that if a State Subsidy is truly immaterial, the resource's offer should be competitive without it.[325] Should the resource believe its offer is justified by its costs, it will not be disadvantaged as it can avail itself of the Unit-Specific Exemption to justify an offer below the default offer price floor or it could choose to forego any State Subsidy under the Competitive Exemption in favor of unmitigated participation in the capacity market.[326]

133. Additionally, we are not persuaded that implementing the expanded MOPR will be unduly burdensome to PJM and its market participants. We recognize that ensuring application of the expanded MOPR to all new and existing resources that lack an exemption (and ensuring exemption-holders are genuine) may require additional time and effort. However, an essential function of an RTO is to ensure a competitive marketplace.[327] And, with over a decade of experience calculating competitive capacity

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[322] *See* June 2018 Rehearing Order, 171 FERC ¶ 61,034 at PP 25-27.

[323] December 2019 Order, 169 FERC ¶ 61,239 at P 98.

[324] June 2018 Order, 163 FERC ¶ 61,236 at P 150.

[325] December 2019 Order, 169 FERC ¶ 61,239 at P 99.

[326] *Id*.

[327] *See, e.g.*, CASPR Order, 162 FERC ¶ 61,205 at P 21 (stating that, among other things, a "capacity market should facilitate robust competition for capacity supply obligations"); *Regional Transmission Organizations*, Order No. 2000, FERC Stats. & Regs. ¶ 31,089 (1999) (cross-referenced at 89 FERC ¶ 61,285), *order on reh'g*, Order No. 2000-A, FERC Stats. & Regs. ¶ 31,092 (2000) (cross-referenced at 90 FERC

cost-based offers, we find it unlikely that the Market Monitor and PJM will be unable to manage[328] all requests for unit-specific exemptions. Indeed, the Market Monitor has not voiced any such concern in this proceeding and has stated there should be no minimum size to which market rules apply.[329]

10. Costs and Balance of Interests and Impacts

a. Requests for Rehearing and Clarification

134. Parties argue that the Commission erred by not considering the cost impacts of the replacement rate or appropriately balancing consumer and investor interests, as well as the risks of over-mitigation.[330] Parties reiterate that the replacement rate requires some

¶ 61,201), *aff'd sub nom. Pub. Util. Dist. No. 1 of Snohomish Cty. v. FERC*, 272 F.3d 607 (D.C. Cir. 2001).

[328] Indeed, in a separate proceeding, the Market Monitor notes it could handle additional review associated with lowering the default capacity market seller offer cap. *See* Market Monitor Answer, Docket No. EL19-47-00l, at 9-13 (filed Feb. 21, 2019).

[329] Market Monitor Reply Testimony at 5 (filed Nov. 6, 2018).

[330] New Jersey Board Rehearing and Clarification Request at 26-27; FES Rehearing Request at 7, 14; Buyers Group Clarification and Rehearing Request at 2; Consumer Representatives Rehearing and Clarification Request at 11; Clean Energy Associations Rehearing and Clarification Request at 22-23; Clean Energy Advocates Rehearing Request at 80 (December 2019 Order ignores billions of dollars in increased costs and fails to explain why the Commission's goal of protecting the PJM capacity market price signals outweighs this increase); Pennsylvania Commission Rehearing and Clarification Request at 12; ELCON Rehearing Request at 6-7; Ohio Commission Rehearing Request at 10 (increases costs without a commensurate increase in reliability); Consumers Coalition Rehearing Request at 44-47 (procures excess capacity at excessive prices); OPSI Rehearing and Clarification Request at 6-7); DC Attorney General Rehearing Request at 1-3, 8-17 (raising electricity rates for low income communities, increasing risk of climate change, undermining green jobs); West Virginia Commission Rehearing Request at 4; Public Power Entities Rehearing and Clarification Request at 10, 23, 24 & n.109, 49-50; NEI Rehearing Request at 4-5, 10 (Commission ignored concerns that customers may have to pay twice for capacity and the adverse impacts on the larger public interest within PJM's footprint); Exelon Rehearing and Clarification Request 21-27 (citing December 2019 Order, 169 FERC ¶ 61,239 (Glick, Comm'r, dissenting at P 23, n.92) (stating that the replacement rate would likely increase the cost of capacity at least 2.4 billion dollars per year)); NEI Rehearing Request at 5, 10 (arguing that the

customers, namely the ratepayers of states with disfavored policies, to "pay for capacity twice."[331] Consumer Representatives state the Commission is best situated to address the problem and must act in accordance with its consumer protection duties under the FPA, rather than shifting the burden to states under the notion that states bear the consequences of their actions.[332] Clean Energy Associations assert that PJM's MOPR-Ex proposal would result in procurement of between $14 billion and $24.6 billion of redundant capacity over the next 10 years.[333] Exelon argues that the Commission has failed to identify any concrete reliability benefits that would result from the replacement rate, nor can it, because reserve margins are well above the target.[334]

135. Clean Energy Associations and Clean Energy Advocates contend that the Commission failed to quantify or acknowledge the additional costs that PJM, the Market Monitor, and market participants will bear in implementing the replacement rate, or whether these costs justify the replacement rate.[335] Clean Energy Associations argue that the December 2019 Order conflates resource adequacy with the capacity market rate, and that by administratively increasing the rate for capacity, the Commission will cause customers to overpay for resource adequacy.[336] OPSI asserts that the December 2019 Order does not, and cannot, quantify the degree of its related cost increase, due to the

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Commission was obligated to examine the ultimate impact on consumers and environmental attributes).

[331] Illinois Attorney General Rehearing Request at 14; Consumer Representatives Rehearing and Clarification Request at 7, 11.

[332] Consumer Representatives Rehearing and Clarification Request at 12-16 (citing December 2019 Order, 169 FERC ¶ 61,239 at P 41); *see* 16 U.S.C. § 824a.

[333] Clean Energy Associations Rehearing and Clarification Request at 22-23 (citing Clean Energy Associations, Affidavit of Michael Goggin, Docket No. ER18-1314-000 (May 7, 2018)); *see also* ELCON Rehearing Request at 6-7.

[334] Exelon Rehearing and Clarification Request at 23-24; ELCON Rehearing Request at 6 (no associated benefits from expanded MOPR); Clean Energy Advocates Rehearing Request at 63.

[335] Clean Energy Associations Rehearing and Clarification Request at 28; Clean Energy Advocates Rehearing Request at 72-74.

[336] Clean Energy Associations Rehearing and Clarification Request at 23.

unknown scope and unreasonable level of mitigation, and that the Commission has failed to carry its burden for these reasons.[337]

136. FES argues that the December 2019 Order is unjust, unreasonable, arbitrary, and capricious because the Commission fails to consider that the expanded MOPR will cause price distortions in the energy and ancillary services markets.[338] Specifically, FES argues that the expanded MOPR will lead to PJM over-procuring capacity and suppress prices in the energy and ancillary services markets. As energy revenues fall, FES contends, market participants will increase their capacity offers commensurately, further inflating capacity prices.[339]

137. Advanced Energy Entities contend that the uncertainty caused by the December 2019 Order is resulting in prices for contracts to purchase renewable energy for customers to increase as much as 33% and deals being delayed or cancelled, potentially causing economic harm to the PJM states.[340] More specifically, they assert that application of the MOPR to demand response, energy efficiency, capacity storage, and "emerging technology" threatens to block these resources from the PJM capacity market; the loss of capacity revenue is likely to cause projects to be delayed or cancelled, and if not, the projects will not be recognized for the capacity value they provide in PJM, limiting competition, increasing costs to consumers, and harming innovation.[341]

138. NEI argues that the Commission has the authority to consider factors outside the direct calculation of rates[342] and has a duty to promote coordination of facilities within PJM's footprint, including the conservation of natural resources.[343]

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[337] OPSI Rehearing and Clarification Request at 8.

[338] FES Rehearing Request at 8; *see also* Pennsylvania Commission Rehearing and Clarification Request at 7-8.

[339] FES Rehearing Request at 16.

[340] Advanced Energy Entities Rehearing and Clarification Request at 3, 6.

[341] *Id*. at 6.

[342] NEI Rehearing Request at 10 (citing *Pub. Utils. Comm'n of Cal. v. FERC*, 367 F.3d 925, 929 (D.C. Cir. 2004) (citing *Permian Basin Area Rate Cases*, 390 U.S. 747, 791 (1968)).

[343] *Id*. at 10 (citing 16 U.S.C. § 824(a)).

b. Commission Determination

139. We deny rehearing, because "[s]etting a just and reasonable rate necessarily 'involves a balancing of the investor and consumer interests.'"[344] We continue to find the replacement rate, as revised in this rehearing order, strikes the appropriate balance for PJM at this time. The expanded MOPR will protect the "integrity of competition in the wholesale capacity market against unreasonable price distortions and cost shifts" caused by State Subsidies.[345] The replacement rate will enable PJM's capacity market to send price signals on which both investors and consumers can rely to guide the entry and exit of economically-efficient capacity resources.[346] Indeed, the replacement rate will support the capacity market's ability to attract investment in new and existing resources when the system requires it, and to do so at reasonable cost.[347] This, in turn, supports the capacity market's core objective of maintaining resource adequacy at just and reasonable rates, particularly during periods when entry is needed.[348]

140. We disagree that the Commission failed to consider the costs of the replacement rate, and with the argument that a cost-benefit analysis was required in support of the replacement rate.[349] Costs are an important consideration in decision-making, and we do

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[344] *NextEra*, 898 F.2d at 21 (quoting *Wis. Pub. Power Inc. v. FERC*, 493 F.3d 239, 262 (D.C. Cir. 2007) (per curiam) (quoting *Hope Nat. Gas. Co.*, 320 U.S. at 603)).

[345] December 2019 Order, 169 FERC ¶ 61,239 at P 39 & n.86 (quoting June 2018 Order, 163 FERC P 61,226 at P 150); 2011 MOPR Order, 135 FERC P 61,022 at P 141, *aff'd sub nom*. *NJBPU*, 744 F.3d 97-102.

[346] December 2019 Order, 169 FERC ¶ 61,239 at P 41.

[347] *See* CASPR Order, 162 FERC ¶ 61,205 at PP 72, 75 (finding ISO-NE appropriately focused on ensuring its revisions to the forward capacity market do not undermine its "key function of attracting and sustaining investment when needed.").

[348] *See, e.g.*, *id.* at P 23 (stating that capacity market's objective is to ensure resource adequacy at just and reasonable rates).

[349] *See Midwest Indep. Transmission Sys. Operator, Inc.*, 122 FERC ¶ 61,172, at P 26 (2008) (declining to condition FPA section 205 approval of MISO's proposal to implement a day-ahead and real-time ancillary services market on Commission approval of cost-benefit studies); *Am. Elec. Power Serv. Corp.*, 118 FERC ¶ 61,041, at P 18 n.33 (2007) (noting that a cost-benefit analysis is not required under FPA section 205); *PJM Interconnection L.L.C.*, 155 FERC ¶ 61,157, at P 30 (2016) (explaining why a cost-benefit analysis is not necessary when conditionally accepting the establishment of a new capacity product, a Capacity Performance Resource); *see also Pub. Utils. Comm'n of Cal.*, 367 F.3d at 929 (noting that a primary purpose of the FPA is "to encourage the

not take lightly the concern that these revisions to the PJM capacity market may increase the capacity market costs customers will bear.[350] In determining whether rates are just and reasonable, while the Commission is required to consider all relevant factors and make a "common-sense assessment" that the costs that will be incurred are in accordance with the customers' overall needs and interest, the Commission's findings need not be accompanied by a quantitative cost-benefit analysis.[351] Indeed, parties acknowledge the wide range of cost estimates associated with the replacement rate, based on differing inputs and assumptions,[352] indicating the difficulty inherent in developing a reasonable

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orderly development of plentiful supplies of electricity . . . at reasonable prices" and, to do so, Commission "may consider non-cost factors as well as cost factors in setting rates") (citing *NAACP*, 425 U.S. at 670; *Permian Basin*, 390 U.S. at 791).

[350] June 2018 Order, 163 FERC ¶ 61,236 at P 159; *see also Farmers Union Cent. Exch., Inc. v. FERC*, 734 F.2d 1486, 1502 (D.C. Cir. 1984) (stating that, while delineating the zone of reasonableness may involve "a complex inquiry into a myriad of factors," nevertheless, "the most useful and reliable starting point for rate regulation is an inquiry into costs").

[351] *Process Gas Consumer Grp. v. FERC*, 866 F.2d 470, 476-77 (D.C. Cir. 1989); *see also Am. Elec. Power Serv. Corp.*, 118 FERC ¶ 61,041 at P 18; *Sw. Power Pool, Inc.*, 116 FERC ¶ 61,289, at P 47 (2006).

[352] *See, e.g.*, Clean Energy Advocates Rehearing Request at 72 & n.208 (citing December 2019 Order, 169 FERC ¶ 61,239 (Glick, Comm'r, dissenting at P 50 & n.52) ("back-of-the-envelope" calculation yields roughly $2.4 billion per year)); *id.* at 72 & n.209 (citing Ex. A, Goggin Aff. ¶ 3) (estimating redundant capacity from $14 to 24.6 billion over 10 years, costing each of 65 million PJM customers $217-$379)); *id.* at 73 & n.211 (citing Initial Br. of the New Jersey Board of Public Utilities at 5-6 (increase in rest-of-RTO clearing prices of $23.49/MW-day)); *id*. at 74 & n.212 (citing Grid Strategies Report, Docket Nos. EL16-49 and EL18-178, *cited in* Letter from U.S. Senator Charles Schumer et al. to Chairman Chatterjee at 1 (filed Aug. 2019) ($5.6 billion per year); *see also* ELCON Rehearing Request at 7 & n.16 (asserting replacement rate costs could be higher than estimates in the Goggin Aff.). We note that a recent report by the PJM IMM concludes that the cost estimates cited in Commissioner Glick's dissent were significantly overstated. *See* Monitoring Analytics, *Potential Impacts of the MOPR Order*, at 4-5 (Mar. 20, 2020), www.monitoringanalytics.com/reports/Reports/2020/IMM_Potential_Impacts_of_the_MOPR_Order_20200320.pdf (stating that the estimates relied upon by Commissioner Glick were based on four incorrect assumptions, including a substantial overstatement of the quantity of previously-cleared nuclear power plants that receive zero-emission credits as 6,670 MW, which is approximately 2,000 MW above the correct quantity).

estimate of any potential cost increase.[353] The actual cost impacts of the replacement rate are speculative at this point, however, because—among other unknown factors—the MOPR's default offer price floors are not yet determined. While we recognize the replacement rate could increase costs to consumers, particularly the customers in states that have chosen to enact State Subsidies, we nevertheless find the replacement rate is necessary to protect the integrity of the capacity market, which, in turn, ensures that investors will continue to be willing to develop resources to meet current and future reliability needs.[354]

141. We disagree with Consumer Representatives' contention that the Commission over-relies on *NJBPU* to abdicate its obligation to protect consumer interests. On the contrary, the Commission is protecting the consumer interest by ensuring the integrity of the PJM capacity market. And, the Commission appropriately relies on *NJBPU* as an example of judicial affirmation of the Commission's approach in the December 2019 Order. As the *NJBPU* Court declared, "states may use any resource they wish to secure the capacity they need" and explained that even if states' preferred generation resources fail to clear the auction, the states are free to use them anyway.[355] More significantly, while states are "free to make their own decisions regarding how to satisfy their capacity needs," they may not impinge on the Commission's jurisdiction over wholesale rates and they will "appropriately bear the costs of [those] decision[s], including possibly having to pay twice for capacity."[356] Maintaining the integrity of the market supports investor confidence, which in turn ensures investment in resources to meet future reliability needs.[357]

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[353] *See, e.g.*, Clean Energy Advocates Rehearing Request at Ex. A, Goggin Aff. at n.2 ("This cost per customer calculation is not intended to be a precise estimate of what retail customers would pay, which would require detailed modeling of impacts on capacity market clearing prices and a deep examination of how capacity costs are reflected through to retail rates in different states).

[354] *See, e.g.*, *Cent. Hudson*, 783 F.3d at 109 (In concluding that a proposed tariff provisions benefits outweigh its costs, "FERC may permissibly rely on economic theory alone to support its conclusions so long as it has applied the relevant economic principles in a reasonable manner and adequately explained its reasoning."); *Sacramento Mun. Util. Dist. v. FERC*, 616 F.3d 520, 531 (D.C. Cir. 2010).

[355] *NJBPU*, 744 F.3d at 97.

[356] *Id*.

[357] *See* CASPR Order, 162 FERC ¶ 61,205 at P 21 ("Ultimately, the purpose of basing capacity market constructs on these principles is to ensure a level of investor confidence sufficient to ensure resource adequacy and just and reasonable rates."); *see*

142. We reject arguments that the MOPR will somehow set prices above a competitive level, distort prices, or unjustly and unreasonably raise prices. The default offer price floors, as explained in the December 2019 Order, will be set at a competitive level for each resource type.[358] This will ensure that State-Subsidized Resources are not able to offer below their costs and suppress capacity prices. We acknowledge that states may choose to develop and sustain preferred resources regardless of whether they are able to clear the capacity market, and such a choice by states may result in oversupply. However, the decision by certain states to support less economic or uneconomic resources in this manner cannot be permitted to distort pricing in the federally-regulated multi-state wholesale capacity market.[359] We reiterate that our focus here is on ensuring that the capacity market price is reflective of competitive offers.[360] Further, we find that ensuring a just and reasonable capacity market price cannot reasonably be said to distort the prices in related markets. In relation to the proposed resource-specific FRR Alternative discussed *supra* Section G.1, parties erroneously suggest that it would be just and reasonable to allow capacity market prices to be suppressed, through the resource-specific FRR Alternative, to ensure just and reasonable energy and ancillary services prices, despite the fact that the energy and ancillary services market prices have not been found to be unjust or unreasonable. Again, we cannot allow the decisions of certain states to continue to support uneconomic resources to prevent the new entry or continued operation of more economic generating capacity in the federally-regulated multi-state wholesale capacity market. The capacity market is vital because it is the mechanism for ensuring resource adequacy in PJM.[361] Moreover, as we explain immediately below,[362] the Commission is obligated to ensure that the PJM capacity market rates are just and reasonable and not unduly discriminatory. The PJM MOPR, as set forth in the December

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also id. at P 22 ("Erosion of investor confidence can prevent the [capacity market] from attracting investment in new and existing non-state supported resources when investment is needed, or can lead to excessive costs for consumers as capacity markets include significant risk premiums in their offers.").

[358] *See infra* Section IV.C; December 2019 Order, 169 FERC ¶ 61,239 at PP 136-156.

[359] December 2019 Order, 169 FERC ¶ 61,239 at P 7.

[360] June 2018 Rehearing Order, 171 FERC ¶ 61,034 at P 38; December 2019 Order, 169 FERC ¶ 61,239 at P 1; June 2018 Order, 163 FERC ¶ 61,236 at P 1.

[361] *See, e.g.*, December 2019 Order, 169 FERC ¶ 61,239 at P 18; PJM, Intra-PJM Tariffs, OATT, Attach. DD, § 1.

[362] *See infra* P 143.

2019 Order and in today's order, provides a resource-neutral approach to ensuring that market forces, not State Subsidies, determine capacity prices in PJM.

143. Regarding arguments that the prices for contracts for renewable resources are increasing, even if true, parties have provided no evidence that increased prices for those contracts are not just and reasonable. We also reject arguments that the replacement rate is unjust and unreasonable because forcing renewable, demand response, energy efficiency, storage, or emerging technology resources receiving or entitled to receive State Subsidies to justify their competitiveness, or be subject to the default offer price floor, will somehow prevent those resources from participating in the capacity market. While the replacement rate may make it more difficult for State-Subsidized Resources to participate in the market, by nature of that competitive showing, our statutory obligation is to ensure just and reasonable rates, and parties have not presented any evidence that the PJM capacity market will not produce just and reasonable rates unless we allow special exemptions to further the growth of certain resource types.

144. As to Exelon's concern that the Commission has not shown that the replacement rate will provide any concrete reliability benefits to customers because reserve margins are well above the target, we note that developing new competitive resources requires investments and takes time. However, if an ever-increasing amount of State-Subsidized Resources participate in the capacity auctions, they will unreasonably suppress capacity market clearing prices, and investors will be discouraged from developing resources that may be needed in the future. The Commission need not wait until harm has been fully realized before taking action to prevent it.[363]

145. We agree with NEI that the Commission may consider factors besides cost in setting rates.[364] However, we do not agree with NEI's assertion that the Commission must consider conservation of natural resources as one of these factors. The Commission's express statutory authority to set just and reasonable rates does not require consideration of such factors.[365]

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[363] *See Assoc. Gas Distrib. v. FERC*, 824 F.2d 981, 1008 (D.C. Cir. 1987) ("Agencies do not need to conduct experiments in order to rely on the prediction that an unsupported stone will fall. . . ."); *Sacramento Mun. Util. Dist.*, 616 F.3d at 531 ("[no case law] prevents the Commission from making findings based on generic factual predictions derived from economic research and theory") (internal quotations omitted).

[364] *See, e.g.*, *Permian Basin Area Rate Cases*, 390 U.S. at 814-15 (finding the Commission's consideration of non-cost factors is consistent with the terms and purposes of its statutory authority).

[365] *See supra* P 41.

C. Minimum Offer Price Floors

1. Planned Resources

a. Requests for Rehearing and Clarification

146. The Pennsylvania Commission argues the Commission erred by not addressing evidence that Net CONE is a poor proxy for the actual cost of new entry.[366] The Pennsylvania Commission states that, during the last five BRAs, 15.9 GW of new combined cycle natural gas-fired resources cleared the auctions, despite the prices being only 64% of the derived combined cycle natural gas-fired default Net CONE.[367] The Pennsylvania Commission contends that this demonstrates PJM overstates Net CONE and that applying the MOPR in this manner would create an unreasonably high barrier to entry for new resources, resulting in the capacity market procuring excess capacity at potentially higher prices.[368] The Pennsylvania Commission states that, based on this evidence, it supported using Net ACR as the default offer price floor for both new and existing resources.[369]

147. Parties assert that default offer price floors should be calculated using the Net ACR method, along with appropriate and accurate inputs.[370] Parties contend that resources will offer into the capacity market at their marginal cost of offering capacity (Net ACR), with the expectation that it will recover its cost of new entry over its lifetime through a combination of capacity, energy, and ancillary service market revenues and should not be required to offer into their first auction at a level sufficient to recover the

[366] Pennsylvania Commission Rehearing and Clarification Request at 4; s*ee also* OPSI Rehearing and Clarification Request at 7 (arguing even the reference resource Net CONE exceeds the actual cost of new entry).

[367] *Id*. at 4 (citing Pennsylvania Commission Reply Testimony at 16 (filed Nov. 6, 2018)).

[368] *Id*. at 5.

[369] *Id*. at 5-6.

[370] Clean Energy Associations Rehearing and Clarification Request at 47 (citing Clean Energy Industries Reply Testimony at 24-25 (filed Nov. 6, 2018)); Illinois Commission Rehearing Request at 19.

resources' cost of new entry over its life.[371] The Illinois Commission argues that the Commission's decision to establish default offer price floors for new and existing resources based on Net CONE and Net ACR, respectively, will result in over-mitigation, creating non-competitive barriers to entry to new resources.[372]

148. The Illinois Attorney General argues that the expanded MOPR unduly discriminates between new and existing resources by using Net CONE for new resources, especially RPS resources, and Net ACR for existing resources when the record demonstrates that Net ACR is the appropriate MOPR level for any resource.[373] The Illinois Attorney General asserts that Net CONE does not reflect the "true cost" a resource must recover in order to become, or continue to serve as, a capacity resource in PJM.[374] The Illinois Attorney General adds that to the extent Net CONE for new resources produces minimum offers above historical clearing prices, those resources will likely be excluded from the BRA, resulting in undue discrimination against new resources and an unjust and unreasonable preference for existing resources.[375]

149. DC Attorney General argues that, by setting resource-specific high default offer price floors, but exempting nearly all existing resources, the December 2019 Order heavily tips the sale in favor of existing resources and new fossil fuel resources and unduly discriminates against other new resources and demand-side resources.[376] DC Attorney General argues this expanded MOPR will therefore interfere with its RPS program by putting cost-effective new distributed energy resources at a disadvantaged position vis-à-vis existing centralized resources.[377]

150. Parties argue that setting the default offer price floor for new resources at Net CONE is unjust and unreasonable because it would prevent any new renewable

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[371] Clean Energy Advocates Rehearing Request at 66-67 (citing Market Monitor Reply Testimony at 4-5 (filed Nov. 6, 2018); ELCON Reply Testimony at 6 (filed Nov. 6, 2018)); Illinois Commission Rehearing Request at 19.

[372] Illinois Commission Rehearing Request at 19 (citing Market Monitor Reply Testimony at 4 (filed Nov. 6, 2018)).

[373] Illinois Attorney General Rehearing Request at 9.

[374] *Id*. at 10.

[375] *Id*. at 12-13.

[376] DC Attorney General Rehearing Request at 17-19.

[377] *Id*. at 19.

generation from clearing in the capacity auction.[378] AES contends that the expanded MOPR is unjust and unreasonable because the end result is that new renewable resources will only be able to participate meaningfully in the capacity market if they forego other sources of revenue, including RECs, which have been a fundamental part of the market for renewable power for two decades.[379]

151. If the Commission does not exempt new renewable resources, the DC Commission requests the Commission instead set the default offer price floor for new renewable resources at Net ACR to avoid creating a barrier to entry.[380] The DC Commission also argues that the default offer price floors for such resources should be updated annually, as prices may drop significantly year to year.[381] The DC Commission explains that renewable resources currently represent only seven percent of PJM's resource mix, below the national average and other RTOs, and that most PJM states have clean energy policies.[382] Further, the DC Commission believes that lowering the default offer price floor for new renewable resources will reduce the number of unit-specific reviews needed and "align the goals of federal promotion on renewables with state actions."[383]

152. Clean Energy Associations and Clean Energy Advocates assert that applying the Net CONE method to existing resources that have not previously cleared a capacity market auction is contrary to the Commission's finding that "[e]xisting resources face different costs than new resources because the decision to enter the market is different than the decision to remain in the market."[384] Similarly, Consumer Representatives argue that the Commission should grant rehearing such that new and existing State-Subsidized demand response will be subject to a default offer price floor based on an historical average of prior competitive demand response resource cleared offers. Consumer Representatives also argue that it is not clear when resources will be considered new and

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[378] AES Rehearing and Clarification Request at 3; New Jersey Board Rehearing and Clarification Request at 34-35; DC Attorney General Rehearing Request at 7 & n.15.

[379] AES Rehearing and Clarification Request at 4.

[380] DC Commission Rehearing and Clarification Request at 8-9.

[381] *Id*. at 8.

[382] *Id*. at 8-9.

[383] *Id*. at 9.

[384] Clean Energy Associations Rehearing and Clarification Request at 46 (citing December 2019 Order, 169 FERC ¶ 61,239 at P 151); Clean Energy Advocates Rehearing Request at 68.

existing, or subject to Net CONE or Net ACR, given that the December 2019 Order defines "existing" so narrowly.[385]

153. The New Jersey Board argues that the December 2019 Order failed to address arguments that the default offer floor price for new resources should be the reference resource Net CONE, as resource type-specific values would prevent some resource types from clearing.[386]

154. Clean Energy Associations argue that the Commission disregarded substantial record evidence demonstrating that Net CONE does not reflect accurate or competitive offers for renewable resources because they rely on long-term power purchase agreements, not the Net CONE methodology, when obtaining financing and have significantly different operational and technological realities, such as no ongoing fuel costs, from the hypothetical natural gas-fired resource upon which the Net CONE method is based.[387]

155. The DC Commission requests clarification as to how the default offer price floor will be established for new demand response programs without behind-the-meter generation.[388] The DC Commission states that it is unclear how the Commission's replacement rate, which proposes to average the last three years' demand response offers, will function for new resources which do not have any previous offers.[389] The DC Commission explains that different programs have different participation rates and parameters, which would make it difficult to use one default offer price floor for every type of demand response and may lead to unnecessary and burdensome unit-specific reviews.[390]

156. Clean Energy Advocates argue the Commission does not justify setting the default offer price floor at 100% of Net CONE rather than 90% of Net CONE.[391]

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[385] Consumer Representatives Rehearing and Clarification Request at 38-40.

[386] New Jersey Board Rehearing and Clarification Request at 34-35.

[387] Clean Energy Associations Rehearing and Clarification Request at 45-46.

[388] DC Commission Rehearing and Clarification Request at 9-10.

[389] *Id*. at 10.

[390] *Id*.

[391] Clean Energy Advocates Rehearing Request at 66.

b. Commission Determination

157. We deny rehearing. The Commission addressed arguments regarding whether Net CONE was an appropriate default offer price floor for new resources in the December 2019 Order, and we affirm those conclusions here.[392] We also reject arguments that suggest that the default offer price floors, which have not yet been proposed, are somehow inaccurate. These arguments are premature, as the actual values will be submitted as part of the compliance filing. To the extent that parties contend that it is incorrect for the Commission to rely on Net CONE as a proxy for competitive offers from new resources rather than to argue that the current value set for Net CONE is incorrect, then that argument represents a collateral attack upon a legion of prior Commission orders holding that the purpose of capacity markets is to attract and retain sufficient capacity to maintain reliability requirements, and to do so, prices need to average out over time to the cost of new entry.[393] Further, the fact that new natural gas-fired resources have been able to enter the capacity market at a price below the relevant default Net CONE is not evidence that the current Net CONE values are not appropriately calculated. Because Net CONE serves as a proxy for competitive offers from new resources, it is unsurprising—and consistent with the purpose of the MOPR—that the only new natural gas-fired resources that have cleared the capacity market in recent years have been those with costs below those of the reference resource used to set the default offer price floor.

158. We also deny requests for rehearing that argue it is unjust and unreasonable or unduly discriminatory to use different default offer price floors for new and existing resources, or to use Net CONE instead of Net ACR as the default offer price floor for new resources. This does not unduly discriminate against new resources because new resources are not similarly situated to existing resources with regard to the decisions and avoidable costs they face. New and existing resources face different costs "because the decision to enter the market is different than the decision to remain in the market."[394] Net ACR does not account for the cost of constructing a new resource. Using Net ACR as the MOPR value for new resources would not serve the purpose of the MOPR, because it does not reflect new resources' actual costs of entering the market and therefore would not prevent uneconomic State-Subsidized Resources from entering the market.[395] The

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[392] December 2019 Order, 169 FERC ¶ 61,239 at PP 138-142.

[393] *See, e.g.*, *ISO New England Inc.*, 158 FERC ¶ 61,138, at P 52 (2017); *N.Y. Indep. Sys. Operator, Inc.,* 144 FERC ¶ 61,126, at P 26 (2013); *PJM Interconnection, L.L.C.*, 117 FERC ¶ 61,331, at P 91 (2006).

[394] December 2019 Order, 169 FERC ¶ 61,239 at P 151.

[395] *Id*. P 140.

MOPR requires State-Subsidized Resources to offer above the floor or provide cost justification to offer below the floor. This does not over-mitigate or disadvantage new resources of any one type relative to existing resources; it merely ensures that all resources are offering competitively.

159. The December 2019 Order acknowledged that using Net CONE as the default offer price floor for new resources may create a barrier to entry for some resources, but found that to be just and reasonable.[396] All other things being equal, new resources should be less likely to clear than many existing resources because they face additional costs that existing resources do not face, including construction and permitting costs.[397] Therefore using Net CONE as the default offer price floor for new resources will ensure that the expanded MOPR achieves its goal and prevents uneconomic new entry from clearing the capacity market as a result of State Subsidies.

160. With respect to arguments that the default offer price floor will prevent new renewable resources from clearing the market, we disagree. The MOPR does not prevent resources from clearing the capacity market. If a State-Subsidized Resource is not able to clear, it is because the resource was not economic absent its State Subsidy. Such resources should not be allowed to clear the capacity market at artificially reduced levels and suppress the clearing price for economic resources. Although the DC Commission argues that lowering the default offer price floor would reduce the number of resources facing unit-specific review, that does not justify allowing State-Subsidized Resources to offer into the auction unmitigated, because it would undermine the entire point of the expanded MOPR. We also reject the DC Commission's request to update the default offer price floors for renewable resources annually. The DC Commission has failed to demonstrate that updating the values with the Commission quadrennially, as PJM already does for the current natural gas MOPR default offer price floors, is insufficient.

161. We also deny requests for rehearing regarding treating resources as new, for the purposes of the MOPR, until they clear an auction. It would not be reasonable to treat resources that fail to clear the capacity market subject to the default offer price floor for new resources as existing resources. An exemption that allows new, State-Subsidized Resources to bypass the MOPR, solely because the MOPR prevents them from clearing, would completely defeat the purpose of the MOPR.[398]

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[396] December 2019 Order, 169 FERC ¶ 61,239 at P 139.

[397] *See, e.g.*, PJM Initial Testimony at 44 (filed Oct. 2, 2018) (explaining that construction and development costs should not be included in the default offer price floor for existing resources).

[398] December 2019 Order, 169 FERC ¶ 61,239 at P 141.

162. With respect to New Jersey Board's contention that the Commission failed to address arguments that the default offer price floor for new resources should be Net CONE for the reference unit, as opposed to resource-specific values, we disagree. As we found in the December 2019 Order, resources of different types compete against each other in a single capacity market, and it would undermine the effectiveness of the expanded MOPR to subject resources with varying going-forward costs to the same default offer price floor.[399] The purpose of the expanded MOPR is to ensure that State-Subsidized Resources are offering competitively. Determining whether offers are competitive relative to a default offer from that resource type is more accurate than doing so relative to the reference resource. Further, as explained above, the MOPR will not unjustly and unreasonably prevent resources from clearing – they fail to clear only if they are not economic absent the State Subsidy. Those resources should not clear the capacity market.

163. Clean Energy Associations argue that the Commission disregarded substantial record evidence demonstrating that Net CONE does not reflect accurate or competitive offers for renewable resources because such resources rely on long-term power purchase agreements. Clean Energy Associations argue that resources that do not rely on capacity market revenues should not face the same default offer price floor as resources that do. However, this argument goes against the foundations of both the June 2018 Order and the December 2019 Order. The purpose of these orders is to protect the "integrity of competition in the wholesale capacity market"[400] by ensuring resources offer competitively. Relying on power purchase agreements does not, in any way, change the cost of building the resource. It may change the revenue that resource receives, but, should the supplier choose to accept a State Subsidy for that resource, the supplier would be free to account for any voluntary, arm's length bilateral transactions in its request for unit-specific review. We find no reason to grant special treatment to resources that rely on permissible out-of-market revenue.

164. With respect to the DC Commission's request regarding clarification as to how the default offer price floor will be established for new curtailment-based demand response programs, the DC Commission has misunderstood the December 2019 Order. The December 2019 Order found that PJM's proposed default offer price floor approach, which would average the last three years' demand response offers to determine the default offer price floor value for resources that have not previously cleared as capacity, was just and reasonable for curtailment-based demand response resources. This average should not consist of a single resource's offers, as the DC Commission seems to understand, but rather should include all curtailment-based demand response resource

[399] *Id*. P 157.

[400] *Id*. P 38; June 2018 Order, 163 FERC ¶ 61,226 at P 150.

offers in the last three BRAs.[401] We acknowledge there may be significant variation in demand response programs, but, because the average should include all curtailment-based demand response offers, we find this is a just and reasonable method for determining a default offer price floor. Resources that do not wish to be mitigated to the default offer price floor may request a Unit-Specific Exemption or certify to PJM that they will forego any State Subsidy under the Competitive Exemption.

165. Finally, we disagree with parties who argue that the December 2019 Order did not justify the change from 90% to 100% of Net CONE. The December 2019 Order found that a purpose of the MOPR is to ensure resources are offering competitively and that requiring new resources to offer at 100% of the default Net CONE, unless they are able to justify a lower Net CONE value through the Unit-Specific Exemption, is a just and reasonable method of accomplishing this goal.[402] Given the Competitive and Unit-Specific Exemptions, as well as the resource type-specific default offer price floor, we find that the 10% safe harbor is no longer necessary to balance the need to prevent uneconomic entry the administrative burden of unit-specific review.

2. Existing Resources

a. Requests for Rehearing and Clarification

166. The Market Monitor requests rehearing or clarification regarding the December 2019 Order's direction to use zonal average net revenues to calculate default offer price floors for existing resources. The Market Monitor explains that PJM only proposed to do so for new resources but proposed to continue to calculate default offer price floors for existing resources using actual unit-specific net revenues. The Market Monitor contends that it has used actual unit-specific net revenues with default gross ACR values for calculating default Net ACR values since the capacity market was introduced. Therefore, the Market Monitor requests clarification that zonal net revenues should only be used for calculating default offer price floors for new resources, and unit-specific net revenues should be used for calculating default offer price floors for existing resources.[403]

167. Consumer Representatives request clarification that, in exempting demand resources that have previously cleared a capacity auction, the Commission considers the demand resource existing if it cleared a capacity auction, regardless of the number of

[401] December 2019 Order, 169 FERC ¶ 61,239 at P 145.

[402] *Id*. P 138.

[403] Market Monitor First Clarification Request at 4.

MWs that cleared the auction.[404] Consumer Representatives explain this is necessary because the value of the curtailment that a demand response resource may offer into PJM's capacity market is dependent on the customer's peak load contribution value, which is based on the customer's peak consumption during the prior year.[405]

168. Consumer Representatives also request clarification that once a demand resource qualifies for the exemption, it retains the exemption notwithstanding any changes to its capacity rating or the level of State Subsidy that it receives.[406]

169. Exelon asks the Commission to clarify that the assumption of a 20-year asset life in calculating offer price floor values concerns only new generation resources, and is not intended to apply to the net ACR for existing resources.[407] Exelon argues that applying a 20 year asset life to existing resources would be illogical and unsupported by evidence, as many of these resources are over 20 years old but not nearing retirement, and contradictory to PJM's longstanding practice for setting Net ACR for offer caps by depreciating ongoing capital expenditures over a lifetime depending on the age of the resource. Specifically, Exelon explains that PJM uses a methodology known as Avoidable Project Investment Recovery Rate.[408]

170. The DC Commission requests clarification regarding why the December 2019 Order directs PJM to justify their proposed zero default offer price floor for existing renewable resources, but also exempts existing renewable resources.[409]

b. Commission Determination

171. We grant the Market Monitor's request for clarification and find that zonal net revenues may only be used for calculating default offer price floors for new capacity, and that resource-specific net revenues should be used for calculating default net ACR values for existing resources.

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[404] Consumer Representatives Rehearing and Clarification Request at 41-42.

[405] *Id*. at 42 n.128.

[406] *Id*. at 42.

[407] Exelon Rehearing and Clarification Request at 32-33 (citing December 2019 Order, 169 FERC ¶ 61,239 at P 153).

[408] *Id*. (citing PJM OATT, Attach. DD, § 6.8(a)).

[409] DC Commission Rehearing and Clarification Request at 7 n.24.

172. We deny Consumer Representatives' requested clarification that demand response resource should be considered existing if they have previously cleared an auction, regardless of how many MWs they cleared. The December 2019 Order finds that any uprates (i.e., incremental increases in the capability of existing resources) of any size are considered new for purposes of applying the MOPR because uprates may come with additional avoidable costs, such as construction costs, that existing resources otherwise do not face.[410] Therefore, we find that demand response resources increasing the number of MWs they offer year-to-year must explain why the increased quantity they intend to offer is not connected to any increased costs or State Subsidies that make the uprate possible.[411]

173. We grant Exelon's request for clarification that PJM should not necessarily use 20-years as the default depreciation period when including capital expenditures in setting unit-specific offer floors for existing resources. When conducting unit-specific review, PJM and the Market Monitor may accept the depreciation period that reflects the unit's age similar to the Avoidable Project Investment Recovery Rate method used to depreciate ongoing capital expenditures over a lifetime depending on the age of existing resources.

174. With respect to the DC Commission's request for clarification regarding existing renewable resources, we reiterate that the December 2019 Order exempted certain existing renewable resources receiving support from state-mandated or state-sponsored RPS programs.[412] This exemption was limited to resources that fulfilled at least one of these criteria: (1) successfully cleared an annual or incremental capacity auction prior to the December 2019 Order; (2) had an executed interconnection construction service agreement on or before the date of the December 2019 Order; or (3) had an unexecuted interconnection construction service agreement filed by PJM for the resource with the Commission on or before the date of the December 2019 Order.[413] The exemption did *not* apply to renewable resources in perpetuity – any renewable resource receiving a State Subsidy that does not meet the conditions of the exemption will be subject to the MOPR as a new resource in the next capacity auction in which it participates unless it qualifies for another exemption. Should such a resource clear the capacity auction, it will be considered existing,[414] and subject to the MOPR as an existing resource unless it qualifies

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[410] December 2019 Order, 169 FERC ¶ 61,239 at P 149.

[411] *See id*.

[412] *See id*. P 173.

[413] *Id*.

[414] *Id*. P 2 n.5.

for another exemption. Only renewable resources meeting the criteria for the RPS Exemption as of the date of the December 2019 Order will be exempt.

3. Both Planned and Existing

a. Requests for Rehearing and Clarification

175. Parties assert that the Commission erred by subjecting behind-the-meter generation to the same Net CONE and/or Net ACR as front-of-the-meter generation. Parties argue that the December 2019 Order assumes, without evidence, that behind-the-meter generation is not similarly situated to generation in front-of-the-meter or merchant generation because the primary purpose of behind-the-meter generation is not sales into wholesale markets.[415] Advanced Energy Entities argue that behind-the-meter generators may have been adopted for other purposes.[416] Similarly, Consumer Representatives explain that, while the gross CONE for a new type of cogeneration equipment may be discernible, the netting approach – in order to be valid – will need to ascribe some value to the steam that is produced by the cogenerator.[417] Consumer Representatives argue that the Commission should grant rehearing and order PJM to use the average of actual, cleared competitive offers from demand resources that did not receive a State Subsidy for both behind-the-meter demand resources and non-behind-the-meter demand resource.[418]

176. Advanced Energy Entities argue that the December 2019 Order presumes, without evidence, that demand response resources with a behind-the-meter generator utilize that generator as a full substitute for their wholesale market purchases.[419] Advanced Energy Entities explain that not all demand response resources can shift their energy demands fully to their on-site generator.[420] Advanced Energy Entities therefore conclude that Net

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[415] Advanced Energy Entities Rehearing and Clarification Request at 5, 22-24; Consumer Representatives Rehearing and Clarification Request at 35-36.

[416] Advanced Energy Entities Rehearing and Clarification Request at 22-23.

[417] Consumer Representatives Rehearing and Clarification Request at 36.

[418] *Id*. at 37-38.

[419] Advanced Energy Entities Rehearing and Clarification Request at 5, 22-24; *see also* Consumer Representatives Rehearing and Clarification Request at 35-36 (arguing that behind-the-meter generation is not similarly situated because the primary purpose is not sales into wholesale markets).

[420] Advanced Energy Entities Rehearing and Clarification Request at 22-23.

CONE is not an accurate representation of an economic offer for these resources.[421] Advanced Energy Entities further argue that the Commission should recognize that behind-the-meter resources have different potential revenue streams and avoided costs than typical front-of-the-meter resources.[422]

177. Consumer Representatives asks the Commission to clarify or explain how "lost manufacturing" should be measured and calculated in the context of demand resources and, given the difficulties in identifying lost manufacturing value, argues the Commission should not require the inclusion of lost manufacturing value in capacity market offers or in considering requests for the Unit-Specific Exemption of demand resources.[423]

178. Clean Energy Advocates argue that the December 2019 Order directs PJM to develop offer floors for demand resources without considering that some services, such as process steam production, may have calculable market values, while other services, such as human safety, continuity of business, and peace of mind from backup power, may not be easily calculable.[424]

179. To the extent that the Commission does not grant rehearing to exempt resources whose primary purpose is not energy production from the MOPR, PJM seeks rehearing of the requirement to provide Net CONE and Net ACR for these resources by March 18, 2020. PJM states that it has little experience with the costs of such resources. PJM requests that the Commission permit PJM to defer development of applicable default offer price floors until PJM has acquired sufficient experience with such resources' costs and require such resources to use the Unit-Specific Exemption, to the extent necessary, in the meantime.[425] Similarly, the Market Monitor requests rehearing as to whether PJM should develop default offer price floors for less commonly used fuel types, or require unit-specific review for such resources. The Market Monitor argues there is not adequate

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[421] *Id*. at 23.

[422] *Id*.

[423] Consumer Representatives Rehearing and Clarification Request at 40-41 (citing December 2019 Order, 169 FERC ¶ 61,239 at P 13).

[424] Clean Energy Associations Rehearing and Clarification Request at 52.

[425] PJM Rehearing and Clarification Request at 19-20 (noting that 12 resources currently participate in the capacity market, with two in the queue).

sample data to calculate a reasonable default Net ACR and Net CONE values for these resource types.[426]

180. The Illinois Commission avers that a logical MOPR floor price would be the price at which a resource would have offered into PJM's capacity auction absent the effect of state policy and that the default offer price floor values should therefore be based on the impact of state policies on offers, rather than Net CONE or Net ACR.[427] The Illinois Commission clarifies that State-Subsidized Resources should only be subject to mitigation under the expanded MOPR if the state policy has one of two effects: (1) changes a resource's offer from extra-marginal to marginal or inframarginal or (2) changes a resource's offer from being marginal to inframarginal.[428] The Illinois Commission states that using Net CONE/Net ACR is illogical and will result in counter-productive outcomes by disqualifying resources with low costs unrelated to state policy from clearing in capacity auctions, thereby reducing efficient competition and unjustly and unreasonably raising costs to consumers.[429] The Illinois Commission argues that using Net CONE and Net ACR as the default offer price floors will also result in over-mitigation because it prohibits downward pressure on offers by being overly precise about costs and revenues, such that unsubsidized resources are able to offer within a range of reasonable offers but State-Subsidized Resources are not.[430]

181. The Illinois Commission argues that if the expanded MOPR remains in place, then the MOPR rules should permit all non-PJM market revenue that does not derive from state policy to be subtracted off the gross CONE or gross ACR calculations. If they are not subtracted, the Illinois Commission maintains, then permissible non-PJM market revenues will be treated no differently than the state policy revenues that the Commission now deems impermissible, resulting in over-mitigation.[431] AEMA requests clarification that reliability value or retail rate savings should also be included in the default offer price floors for demand response and energy efficiency resources.[432]

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[426] Market Monitor First Clarification Request at 5.

[427] Illinois Commission Rehearing Request at 13.

[428] *Id*. at 13 n.48.

[429] *Id*. at 14.

[430] *Id*. at 15.

[431] *Id*. at 16.

[432] AEMA Clarification Request at 4.

182. The Illinois Commission states that the Commission did not address the absurdity of setting a default offer price floor higher than the cap for supplier-side market power mitigation.[433] The Illinois Commission argues that in this scenario it is possible for the offer floor to exceed the allowable offer cap, resulting in an impermeable barrier to market participation. The Illinois Commission argues the default offer price floors should be capped at the offer price ceiling, or the vertical intercept of the Variable Resource Requirement Curve,[434] whichever is lower.[435]

183. In the event that the Commission denies PJM's rehearing request to exempt energy efficiency resources from the MOPR, PJM requests that the Commission clarify the meaning of "verifiable level of savings" for determining the applicable default offer price floor for energy efficiency resources. PJM asserts that it is unclear why such price should be based on the savings from energy efficiency as opposed to the costs of installing energy efficiency resources. PJM also seeks clarification as to whether this approach applies to the default offer price floor or unit-specific offers for energy efficiency resources, since verifiable savings seemingly refers to specific energy efficiency registrations.[436] Further, PJM states that, since it is unable to verify any savings for energy efficiency during the offer period, because such resources are not yet installed, it is unclear whether the December 2019 Order contemplates that the energy efficiency plan should include a generic calculation to show energy efficiency savings in other installations or whether a verifiable level of savings could be demonstrated by, for example, post installation measurement and verification submitted for the energy efficiency resource for the prior delivery year.[437]

184. Advanced Energy Entities argue that the Commission has not explained how objective measurement and verifiable savings should be used to establish a default offer price floor for energy efficiency. Further, Advanced Energy Entities contend that PJM

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[433] Illinois Commission Rehearing Request at 17 (citing PJM OATT, Attach. DD, § 6.4).

[434] The Variable Resource Requirement Curve refers to a series of maximum prices that can be cleared in a BRA for unforced capacity, corresponding to a series of varying resource requirements based on varying installed reserve margins and for certain locational deliverability areas. PJM OATT, Definitions – T-U-V, § I.1 (defining Variable Resource Requirement Curve).

[435] *Id*. at 18.

[436] PJM Rehearing and Clarification Request at 26.

[437] *Id*.

already has rules limiting energy efficiency offers to the objective and verifiable savings, which are not at issue in this proceeding.[438]

185. CPower/LS Power argue that the Commission should set the default offer price floor for energy efficiency resources at $0/MW-Day or direct PJM to develop different default offer price floors for common types of energy efficiency projects.[439] CPower/LS Power argue that this would minimize the administrative burden of assessing savings for individual projects. CPower/LS Power assert that since energy efficiency is only included in the capacity market for up to four years, the administrative burden is even more substantial compared to other resources with longer lifespans. CPower/LS Power contend that the default offer floors for most energy efficiency resource types would be $0/MW-Day.[440] Similarly, Advanced Energy Entities contend that the Commission failed to address concerns that the various business models make it impossible to develop appropriate offer floors for seasonal resources, and did not explain what an appropriate default offer price floor for seasonal resources would be.[441] The Market Monitor requests clarification that the assumed savings approach is not an objective measurement and verification method and cannot be the basis for a verifiable level of savings with respect to energy efficiency resources.[442]

186. Advanced Energy Entities contend that the Commission fails to provide sufficient explanation of how default offer floor prices should be calculated for storage, energy efficiency, and additional technologies, arguing that the lack of guidance renders the replacement rate unjust and unreasonable.[443]

b. Commission Determination

187. We deny requests for rehearing on the basis that behind-the-meter generators, which may be in every other way identical to their counterparts in-front-of-the-meter,

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[438] Advanced Energy Entities Rehearing and Clarification Request at 14-15.

[439] CPower/LS Power Rehearing and Clarification Request at 7-10.

[440] *Id*. at 9-10.

[441] Advanced Energy Entities Rehearing and Clarification Request at 12-15.

[442] Market Monitor First Clarification Request at 6-7 (citing December 2019 Order, 169 FERC ¶ 61,239 at P 147). The Market Monitor states that more than 87% of energy efficiency resources in the capacity market use assumed savings as the measurement and verification method. *Id*. at 7.

[443] Advanced Energy Entities Rehearing and Clarification Request at 18, 25-26.

should receive special treatment because they may serve a different purpose. Regardless of purpose, if those resources choose to participate in the capacity market and gain the benefits of it by receiving capacity market revenue, then those resources must abide by the generally applicable rules established for the capacity market. Parties have not presented any evidence why a specific type of generator should have fundamentally different going-forward or construction costs depending on whether it exists behind- or in-front-of-the meter. The December 2019 Order already rejected similar arguments, finding that the purpose and type of resource is immaterial if the resource receives a State Subsidy and thus has the ability to suppress capacity prices.[444] The December 2019 Order subjects all State-Subsidized Resources of the same technology type to the same default offer price floor, precisely because they are *of the same technology type*. They should face similar construction and going-forward costs, regardless of the purpose for which they are used, and therefore it is just and reasonable to use the same default offer price floor.

188. With regard to Advanced Energy Entities' argument that behind-the-meter generation is not a full substitute for wholesale market purchases, the December 2019 Order did not find that it was. Advanced Energy Entities seem to be suggesting that demand response resources backed by behind-the-meter generation are basing their offers on a combination of behind-the-meter generation and reduced consumption, and therefore that a default offer price floor based on the generator is not appropriate. We reiterate that the December 2019 Order found that different default offer price floors should apply to demand response backed by behind-the-meter generation and demand response backed by reduced consumption (i.e., curtailment-based demand response programs).[445] However, the extent to which a generator-backed demand response resource includes some estimate of reduced consumption is immaterial: if a generation-backed resource receives a State Subsidy, then that resource is subject to the applicable MOPR for its resource type.[446] Finally, with regard to Advanced Energy Entities' argument that behind-the-meter generators may have additional revenue streams which are not State Subsidies, we reiterate that the December 2019 Order "is not intended to cover every form of state financial assistance that might indirectly affect FERC-jurisdictional rates or transactions; nor is it intended to address other commercial externalities or opportunities

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[444] December 2019 Order, 169 FERC ¶ 61,239 at P 51.

[445] *See id.* P 13 (Net CONE for new demand response resources); *id.* at PP 148-150 (Net ACR for existing demand response resources).

[446] *See id*. P 54 ("We therefore find that the expanded MOPR should apply to energy efficiency resources, as well as demand response, when either of those types of resources receive or is entitled to receive a State Subsidy, unless they qualify for one of the exemptions described in this order.").

that might affect the economics of a particular resource."[447] The December 2019 Order does not, therefore, implicate any revenue streams that do not meet the definition of State Subsidy.

189. With respect to Consumer Representatives' request for clarification as to "lost manufacturing," we clarify that the December 2019 Order did not require PJM to include such costs in a unit-specific review of demand response resources. Rather, the December 2019 Order states that PJM *may* need to evaluate such costs.[448] Similarly, we did not prescribe a specific way of calculating lost manufacturing value and we decline to do so here as well. We will review PJM's proposal on compliance and make a determination at that time.

190. We also reject Clean Energy Advocates argument that the Commission should have considered that the value of some of the services provided by demand response may not be easily calculable. Clean Energy Advocates suggests that demand response resource offers should be based on something other than their costs, but we disagree. The capacity market ensures resource adequacy by setting a price, based on supply and demand, which serves as a signal to guide resource entry and exit. Resource offers should reflect their costs, to ensure the signals are accurate.

191. Though, as discussed above, we deny PJM's request for rehearing regarding exempting resources whose primary purpose is not energy production from the MOPR, we grant PJM's request for rehearing regarding the requirement for PJM to provide a default Net CONE and Net ACR for these resources. Given that PJM has stated it does not have the necessary information to develop default values, we find it just and reasonable to instead require any such resources receiving State Subsidies to request a Unit-Specific Exemption and justify their Net CONE or Net ACR, as appropriate, through the review process.

192. With regard to the Illinois Commission's request for rehearing to base the default offer price floors on the impact of the state policy, rather than the costs of the resource, we find that the Unit-Specific Exemption achieves this aim. However, as discussed above, in Section IV.B.4 (Definition of State Subsidy) we decline to limit the applicability of the MOPR through an impact test. Requiring resources to offer competitively will not, as the Illinois Commission claims, prevent low-cost resources from clearing the market. Rather, resources facing truly low costs, independently of their State Subsidies, may request a Unit-Specific Exemption. The Illinois Commission appears to be suggesting that suppliers will offer resources in the capacity market below their costs, at a loss, absent State Subsidies to allow them to recover that loss. However,

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[447] *Id.* P 68.

[448] *Id.* P 13.

there is no evidence on the record to suggest suppliers are likely to operate counter to their economic interests and economic theory in this manner. We also reject arguments that the replacement rate is unjust and unreasonable because it does not allow State-Subsidized Resources to offer within a range of reasonableness. Again, the Unit-Specific Exemption is available to resources to demonstrate that the default offer price floor does not reflect their costs. We expect there to be some flexibility involved in that option. However, the purpose of the expanded MOPR is to prevent State-Subsidized Resources from offering below their costs, and therefore it is just and reasonable that such resources must offer within a more limited range than unsubsidized resources.

193. We clarify that permissible out-of-market revenues may continue to be incorporated during unit-specific review. The December 2019 Order only concerned revenues meeting the definition of State Subsidies and found only that those revenues may not be included in the unit-specific review. AEMA's request for clarification regarding whether specific examples of avoided costs should be included in the default offer price floors are premature and should be dealt with on compliance.

194. We acknowledge that it is theoretically possible that some default offer price floors may be higher than the default offer cap. However, we reject the Illinois Commissions' arguments that this undermines the December 2019 Order's conclusions. On the contrary, it is possible that certain resource types may be so expensive that they are not competitive. This is the nature of the market – lower cost, competitive resources will be chosen at the expense of more expensive resources. Further, the default offer price floors and the default offer cap serve different functions and are designed to protect the market against different types of uncompetitive behavior, so it is not unreasonable that there may not always be a safe-harbor price range within which offers are presumed to be competitive for State-Subsidized Resources. Finally, we reiterate that the Unit-Specific Exemption remains an option for any seller that believes the default offer price floor does not accurately reflect its costs. We also acknowledge that it is possible that the default offer price floors for some resource types may be in excess of the top of the demand curve (i.e., the Variable Resource Requirement curve). However, we fully addressed this concern in the December 2019 Order.[449] We reiterate that it is appropriate to use a resource-type-specific default offer price floor that reasonably reflects a competitive offer for each resource type, regardless of whether that resource type is so uneconomic as to result in a default offer price floor above the demand curve starting price.

195. We reject arguments that certain types of State-Subsidized Resources should be exempt from the MOPR on the basis that there is variety in business models, cost structures, technologies, or state programs. Further, we reject CPower/LS Power's arguments regarding establishing various default offer price floors for different types of

[449] *Id.* P 142.

energy efficiency as unnecessary. All resource types have multiple forms with varying costs; neither energy efficiency nor seasonal resources are unique in that aspect and therefore we so no reason to mandate PJM treat such resources differently. Energy efficiency and seasonal resources that do not believe the default offer price floor reflects their costs may seek a Unit-Specific Exemption. While the December 2019 Order did not expressly require PJM to propose default offer price floors for seasonal resources on compliance, the order did direct PJM to "propose default offer floor prices for all other types of resources that participate in the capacity market," which would include seasonal capacity resources.[450]

196. We deny Advanced Energy Entities' request for rehearing that the December 2019 Order did not provide sufficient guidance on the default offer price floors for storage and additional technologies. The December 2019 Order directed PJM to propose default offer price floor methodologies for those resource types on compliance, at which time the Commission will evaluate them. We decline to prejudge that proposal here. We also find that that Advanced Energy Entities' request regarding energy efficiency is moot, because we grant rehearing to change the default offer price floors for energy efficiency.

197. We grant rehearing to set the default offer price floor for new energy efficiency resources at Net CONE and existing energy efficiency resources at Net ACR, as discussed below. Upon further consideration, including consideration of PJM's assertions that it is not clear how to calculate the default offer price floors based on verifiable savings and the fact that those savings cannot be verified for new resources until the resource is in operation, we find the default offer price floor for energy efficiency must be based on the costs of installing and maintaining energy efficiency resources, similar to how the default offer price floors for most other resource types are determined.[451] The default offer price floors for energy efficiency must account for the costs of measurement and verification necessary to establish a resource's verifiable level of savings.[452] This will ensure that State-Subsidized energy efficiency resources offer competitively in the capacity market, consistent with their costs absent the State Subsidy. These must be default offer price floors, generally applicable to all new or existing energy efficiency resources, as appropriate, but we clarify that energy efficiency

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[450] *Id*. P 146.

[451] PJM Rehearing and Clarification Request at 26. The Commission is concerned that there may be a point where energy efficiency is unable to supply capacity when needed to maintain system reliability. However, that issue can be pursued in a separate proceeding.

[452] *See* Market Monitor First Clarification Request at 6-7 (requesting the Commission clarify that the assumed savings approach is not an objective measurement and verification method and is not the basis for a verifiable level of savings).

resources may also request the Unit-Specific Exemption to verify a Net CONE or Net ACR value lower than the default. We direct PJM to submit a compliance filing within 45 days of issuance of this order proposing Tariff revisions to set the default offer price floor for new energy efficiency resources at Net CONE and existing energy efficiency resources at Net ACR.

D. Expanded MOPR Exemptions

1. Qualification for Self-Supply, RPS, and Demand Response, Energy Efficiency, and Capacity Storage Exemptions

a. Requests for Rehearing or Clarification

198. PJM asks the Commission to clarify that resources with any type of interconnection service agreement executed as of December 19, 2019, or unexecuted and filed with the Commission by that date, should be considered existing for the purposes of the exemptions, because not all resources require an interconnection construction service agreement, but all resources must have an interconnection service agreement. PJM explains that interconnection construction service agreements are only required to the extent that network upgrades are required to accommodate the interconnection. PJM also states that there are other types of interconnection service agreements, such as Wholesale Market Participation Agreements, which allow resources interconnected to non-jurisdictional facilities to participate in PJM's markets.[453] Dominion argues that Wholesale Market Participation Agreements grant capacity interconnection rights and are therefore functionally equivalent to interconnection service agreements.[454]

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[453] PJM Rehearing and Clarification Request at 21-22; Consumer Representatives Rehearing and Clarification Request at 34-35; *see also* Clean Energy Associations Rehearing and Clarification Request at 52-54 (arguing that any renewable resource that had an interim interconnection service agreement, or its non-Commission jurisdictional equivalent, whether executed or filed unexecuted, as of December 19, 2019 should be eligible for the RPS Exemption because such agreements bind the interconnection customer to all costs incurred for the construction activities being advanced pursuant to the terms of the PJM Tariff); Public Power Entities Rehearing and Clarification Request at 55-56; Dominion Rehearing and Clarification Request at 9, 21 (arguing Wholesale Market Participant Agreements should be included); Consumer Representatives Rehearing and Clarification Request at 34-35 (arguing Wholesale Market Participant Agreements should be included); New Jersey Board Rehearing Request at 49 (arguing resources with capacity interconnection rights should be exempt).

[454] Dominion Rehearing and Clarification Request at 21.

199. Dominion explains that it has units planned in its state-filed integrated resource plan that are desired as part of the Commonwealth of Virginia's plan for its resource portfolio for years beyond 2020.[455] Dominion notes that it does not yet possess unexecuted interconnection construction service agreements for these resources, but that they are planned resources. Dominion argues that not exempting them ignores the planning horizons of load-serving entities.[456]

b. Commission Determination

200. The December 2019 Order extended the RPS Exemption, Demand Response, Energy Efficiency, and Capacity Storage Resource Exemption, and Self-Supply Exemption to resources that fulfill at least one of these criteria: (1) has successfully cleared an annual or incremental capacity auction prior to the date of the December 2019 Order; (2) has an executed interconnection construction service agreement on or before the date of the December 2019 Order; or (3) has an unexecuted interconnection construction service agreement filed by PJM for the resource with the Commission on or before the date of the December 2019 Order.[457]

201. We grant rehearing to amend the second and third criteria to include interconnection service agreements, interim interconnection service agreements, and Wholesale Market Participant Agreements, as well as interconnection construction service agreements. The December 2019 Order made clear that the intent of the categorical exemptions was that "most existing resources that have already cleared a capacity auction, particularly those resources the Commission has affirmatively exempted in prior orders, will continue to be exempt from review."[458] The categorical exemptions were designed so as to not unduly disrupt established investment decisions. To that end, the December 2019 Order allowed that these categorical exemptions would also apply to a limited category of resources that may not have cleared a capacity auction yet but are far enough along in the interconnection process to have demonstratively committed to build and/or interconnect.

202. The interconnection agreement stage is the culmination of the interconnection queue process. Interconnection service agreements, interconnection construction service agreements, interim interconnection service agreements, and Wholesale Market Participant Agreements all address the final stages of interconnecting to the PJM system,

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[455] *Id*. at 15.

[456] *Id*.

[457] December 2019 Order, 169 FERC ¶ 61,239 at PP 173, 202, 208.

[458] *Id*. P 2.

including conferring interconnection rights and creating binding obligations to fund construction of interconnection facilities.[459] Resources that have not reached this stage of the interconnection process are not sufficiently advanced in the development process to warrant one of the categorical exemptions, because such resources do not have a capacity service obligation, interconnection rights, or an obligation to build the resource.

203. We therefore grant rehearing to expand eligibility for the categorical exemptions to resources that: (1) have successfully cleared an annual or incremental capacity auction prior to the date of the December 2019 Order; (2) have an executed *interconnection service agreement, interim interconnection service agreement*, interconnection construction service agreement, *or Wholesale Market Participation Agreement* on or before the date of the December 2019 Order; or (3) have an unexecuted *interconnection service agreement, interim interconnection service agreement*, interconnection construction service agreement, *or Wholesale Market Participation Agreement* filed by PJM for the resource with the Commission on or before the date of the December 2019 Order. We direct PJM to submit a compliance filing within 45 days of issuance of this order proposing Tariff revisions consistent with this determination.

204. We reject Dominion's request to expand eligibility for the Self-Supply Exemption to any resource that is considered planned under a self-supply entity's integrated resource plan. Integrated resource plans do not replace the PJM interconnection process; granting rehearing in this manner would expand the number of resources eligible for the exemption beyond those that reflect established investment decisions, to include resources that may not even be sufficiently developed to be in the PJM interconnection process at all. We find that the demarcation clarified above is sufficient to recognize those resources that are sufficiently along in the interconnection process to warrant exemption under the Commission's stated goals.

2. Self-Supply Exemption

a. Rehearing and Clarification Requests

205. Parties argue that the December 2019 Order did not explain why the self-supply business model should be considered a State Subsidy.[460] NCEMC states that there is no evidence to justify finding that rural electric cooperatives' self-supply resources receive

[459] *See generally* PJM OATT, § VI.

[460] IMEA Rehearing and Clarification Request at 9-11; NRECA/EKPC Clarification and Rehearing Request at 25-31; NCEMC Clarification and Rehearing Request at 15-16; ELCON Rehearing Request at 10 (arguing the December 2019 Order does not justify the change to require self-supply entities to offer at minimum levels reflecting "capital costs of other types of commercial entities.").

subsidies stemming from state action.[461] NCEMC explains that the fact that a rural electric cooperative's self-supply may be funded by revenues received by its distribution cooperative members from their retail customers under their vertically integrated business model structures does not mean that these self-supply resources are receiving a State Subsidy. Instead, NCEMC argues, it demonstrates that the out-of-market revenues received from a generation and transmission cooperative's distribution cooperative retail members that support the generation and transmission electric cooperative self-supply are received in lieu of, not as a supplement to, PJM capacity market revenues.[462] NCEMC states that, while these revenues may be received from "out-of-market" sources, they are fundamentally different from out-of-market revenues authorized by state utility commissions to supplement the revenues that certain renewable and uneconomic coal and nuclear resources receive from their participation in the PJM market.[463]

206. NRECA/EKPC state that the long-term power supply agreements between a generation and transmission electric cooperative and its members, which provide the revenue for its resources, are not based on or entitled to any state financial benefits and do not typically mandate use or support for particular resources.[464] NRECA/EKPC contend that long term supply arrangements and voluntary bilateral contracts entered into by electric cooperatives are not provided by nor required by states, do not necessarily support entry or continued operation of preferred generation resources, and are not directed at or tethered to continued operation or new entry of generating capacity in the capacity market.[465] NRECA/EKPC argue the December 2019 Order is arbitrary and capricious for expanding the scope of this proceeding to include electric cooperative self-supply transactions as State Subsidies subject to the expanded MOPR because the June 2018 and December 2019 Orders focused on state subsidies without explaining how out-of-market payments provided by states connect to an "electric cooperative formed pursuant to state law."[466] Referencing the Commission's stated intent of the State

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[461] NCEMC Clarification and Rehearing Request at 4.

[462] *Id*. at 5-6.

[463] *Id*. at 6.

[464] NRECA/EKPC Clarification and Rehearing Request at 18.

[465] *Id*. at 45.

[466] *Id*. at 17-20, 42-47; *see also* NCEMC Clarification and Rehearing Request at 5-6 (the action of a rural electric cooperative submitting self-supply offers into the PJM capacity market is not a state or state-sponsored action, is completely unrelated to the type of state subsidies that are the subject of this proceeding, and is not used to obtain net revenues from the capacity market).

Subsidy definition, to focus on state out-of-market support that "support[s] the entry or continued operation of preferred generation resources that may not otherwise be able to succeed in a competitive wholesale capacity market," NRECA/EKPC ask that the Commission clarify that "electric cooperative agreements which are free from financial benefits provided or required by a state or states, for the purpose of new entry or continued operation of generating capacity" are not within the definition of State Subsidy.[467]

207. Similarly, IMEA states that the Commission has not referenced any evidence in the record indicating that municipal utilities have any role in identifying "preferred generation resources that may not otherwise be able to succeed in a competitive wholesale market" or that the activities of a municipal utility to build or contract for generation resources to meet the needs of its customers constitutes a payment by a state to support preferred resources. IMEA argues that municipal utilities instead build or obtain generation to meet customer needs, not distort prices. IMEA argues that it operates like any other non-governmental load-serving entity to fulfill service obligations to its customers, funded by rates paid by those customers.[468] Allegheny states that the Commission's rationale that states should bear the consequences of the policy decisions they make does not apply to electric cooperatives who do not make policy decisions, but rather transact in order to secure economic energy and capacity for their members and customers.[469]

208. NCEMC states that the Commission failed to address the testimony of Mr. Marc Montalvo demonstrating that: (a) the ratepayer revenues received by municipal and rural electric cooperative utilities in support of self-supply resources are significantly different from the out-of-market subsidies required by the states that the Commission determined should be mitigated under the MOPR; (b) the self-supply activities of cooperatives are consistent with behaviors expected of market participants in competitive markets; and (c) application of the MOPR to self-supply would suppress rather than enhance competition.[470] NCEMC further contends that the Montalvo declaration supports the

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[467] NRECA/EKPC Clarification and Rehearing Request at 17 (citing December 2019 Order, 169 FERC ¶ 61,239 at P 68).

[468] IMEA Rehearing and Clarification Request at 9-11.

[469] Allegheny Rehearing Request at 11-12 (stating that double payment is particularly problematic for cooperatives in rural economically depressed communities, and the Commission failed to address that subjecting electric cooperatives to the MOPR would result in customers paying twice).

[470] NCEMC Clarification and Rehearing Request at 16 (citing NRECA Initial Testimony, Dec. of Marc D. Montalvo at PP 6-13, 24, 39-43, 45-49 (filed Oct. 1, 2018));

premise that self-supply must be guaranteed to clear in the market in order to avoid the risk of customers paying twice for capacity that fails to clear the market.[471]

209. Parties argue the Commission lacked substantial evidence to apply the expanded MOPR to self-supply resources. Parties argue that there is no justification for applying the MOPR to self-supply resources because there is: (1) no evidence of growth similar to that which the December 2019 Order cited for other programs; (2) no record evidence that self-supply poses a threat to the capacity market; and (3) no evidence that these entities engage in buyer-side market power.[472] NRECA/EKPC state that the only record evidence relied upon, that new self-supply represents 30% of the new generation added to PJM from 2010-2017, is insufficient, especially where public power accounts for only five percent of sales in PJM.[473] PJM argues the record demonstrates that the capacity market has achieved the new investment and retirement of inefficient investment that it is designed to achieve, notwithstanding any impact from self-supply utilities.[474]

210. Parties argue that the Commission erred in failing to provide an exemption for self-supply resources and ask the Commission to grant rehearing and accept PJM's proposed self-supply exemption for new and existing self-supply resources, which includes net short and net long thresholds, arguing the Commission has not justified, or provided record evidence to support, the departure from longstanding Commission policy

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see also NRECA/EKPC Clarification and Rehearing Request at 28-29 (arguing self-supply entities invest in a manner consistent with a competitive market).

[471] NCEMC Clarification and Rehearing Request at 17.

[472] PJM Rehearing and Clarification Request at 13; *see also* Allegheny Rehearing Request at 12 (stating that there is no record evidence that electric cooperatives pose price suppression concerns); NCEMC Clarification and Rehearing Request at 4, 9-16; Dominion Rehearing and Clarification Request at 7, 10-13; West Virginia Commission Rehearing Request at 2, 5; NRECA/EKPC Clarification and Rehearing Request at 51-52 (arguing the Commission neither justifies the finding that self-supply has the ability to suppress prices nor the departure from precedent that it lacks the incentive to do so); NCEMC Clarification and Rehearing Request at 9, 12.

[473] NRECA/EKPC Clarification and Rehearing Request at 54-55 (citing December 2019 Order, 169 FERC ¶ 61,239 at P 204); *see also* Dominion Rehearing and Clarification Request at 13.

[474] PJM Rehearing and Clarification Request at 14; *see also* Dominion Rehearing and Clarification Request at 13.

regarding self-supply resources.[475] Parties assert the December 2019 Order's rejection of PJM's self-supply exemption failed to consider arguments and evidence that the exemption would not raise price suppression concerns with the inclusion of the net short and net long thresholds.[476]

211. Clean Energy Associations and NRECA/EKPC challenge the Commission's statement that the prior self-supply exemption was a temporary reversal in Commission policy, stating that from the beginning of the PJM capacity market, the Commission has accommodated self-supply participation[477] and longstanding business models.[478] Parties assert that the Commission does not explain why it no longer believes that an exemption with net short and net long thresholds is appropriate, further noting that state regulatory treatment has not changed since the Commission accepted the previous self-supply exemption in 2013.[479]

212. Dominion states that, in citing the amount of new self-supply resources entering the capacity market in recent years, the Commission ignored the fact that self-supply entities in PJM have experienced an equal or greater amount of retirements of coal and oil-fired units and notes that Dominion forecasts a capacity gap between its Minimum PJM Load with Reserve Margin (net of energy efficiency) and its existing generation

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[475] PJM Rehearing and Clarification Request at 13-14; ELCON Rehearing Request at 10; NRECA/EKPC Clarification and Rehearing Request at 47-54; Public Power Entities Rehearing and Clarification Request at 18; NCEMC Clarification and Rehearing Request at 4, 8; Clean Energy Associations Rehearing and Clarification Request at 42; Dominion Rehearing and Clarification Request at 13.

[476] NRECA/EKPC Clarification and Rehearing Request at 56-60; Dominion Rehearing and Clarification Request at 7-8, 10-13; ODEC Rehearing Request at 12.

[477] Clean Energy Associations Rehearing and Clarification Request at 42 (citing *PJM Interconnection, L.L.C.*, 115 FERC ¶ 61,079 (2006) (preserving self-supply as an option under the new capacity market construct)).

[478] NRECA/EKPC Clarification and Rehearing Request at 49-50. NRECA/EKPC note that the Commission did not determine on remand from *NRG* that the self-supply exemption was unreasonable on the merits. *Id.* at 50-51; *see also* NCEMC Clarification and Rehearing Request at 12-13.

[479] PJM Rehearing and Clarification Request at 9 (citing 2011 MOPR Order, 137 FERC ¶ 61,145 at P 208); 2013 MOPR Order, 143 FERC ¶ 61,090 at P 107 (net long and net short thresholds in principle protect the market)); NRECA/EKPC Clarification and Rehearing Request at 46 (same); ODEC Rehearing Request at 10; NCEMC Clarification and Rehearing Request at 11-14.

approaching almost 3,000 MW beginning in 2025.[480] Dominion therefore argues that PJM's proposed application of the self-supply exemption (which includes net short and net long thresholds) recognizes that self-supply entities that are net short are unable and have no incentive to suppress capacity prices.[481] ODEC argues that the Commission failed to engage in reasoned decision-making by ignoring evidence demonstrating the need for an exemption for self-supply electric cooperatives, resulting in an unjust and unreasonable MOPR.[482] ODEC and NRECA/EKPC contend that public power entities should be exempt from the MOPR, subject to net short and net long thresholds, because they do not have profit incentives and they recover costs through a cost-of-service formula rate subject to Commission-jurisdiction, not through state payments.[483]

213. NCEMC likewise argues that the Commission failed to address concerns raised by load-serving entities that subjecting all new self-supply to the MOPR would be fundamentally inconsistent with the self-supply business model long used by municipal, rural electric cooperative, and vertically integrated utilities to serve their loads.[484] NRECA/EKPC argue that the December 2019 Order risks customers of electric cooperatives having to pay twice for a single capacity obligation, which would chill investment decisions in new resources to serve electric cooperative load and undermine the Commission's previously-stated purpose of not unreasonably impeding the efforts of resources to procure or build capacity under longstanding business models.[485] NRECA/EKPC further state that the December 2019 Order discourages investing in resources which would be economic over the long-term life of the resource.[486]

214. PJM argues that, by applying the MOPR to new self-supply resources, the December 2019 Order excludes resources that may not be economic as determined by an

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[480] Dominion Rehearing and Clarification Request at 13-14 (citing *In Re: Va. Elec. & Power Company's Updated to Integrated Res. Plan filing pursuant to Va. Code § 56-597 et seq.* Case No. PUR-201900141 at 10, Figure 1: Capacity Position.).

[481] *Id*. at 14.

[482] ODEC Rehearing Request at 6, 10-11.

[483] *Id*. at 11; NRECA/EKPC Clarification and Rehearing Request at 31, 61.

[484] NCEMC Clarification and Rehearing Request at 4.

[485] NRECA/EKPC Clarification and Rehearing Request at 34-37 (citing 2011 MOPR Order, 137 FERC ¶ 61,145 at P 208); NCEMC Clarification and Rehearing Request at 4, 8-9; Public Power Entities Rehearing and Clarification Request at 18.

[486] NRECA/EKPC Clarification and Rehearing Request at 35-36.

administratively prescriptive offer but are nonetheless desirable to the state or an integrated utility for purposes of self-supply obligation. PJM asserts that self-supply entities invest based on long-term load obligations, rather than the short-term capacity market, and may therefore have excess capacity in the early years of a resource that is designed to meet future load obligations. PJM argues, however, that this excess would have little effective impact on the capacity market, provided that the utility meets the net long and net short tests.[487]

215. NRECA/EKPC likewise argue that not all entry and exit decisions must be coordinated by the capacity market to be deemed economic, and that the capacity market prices do not fully reflect the complete set of market participant preferences because market participants incorporate other criteria besides capacity market prices in resource planning decisions.[488] NRECA/EKPC thus assert that the capacity market is incapable of signaling for the types of resources that optimally satisfy all of a buyers' preferences.[489] NCEMC reiterates that out-of-market revenues received by self-supply resources from ratepayer payments are a substitute for, not a supplement to, PJM capacity market revenues,[490] and thus do not impact the capacity market, because the revenue paid by an electric cooperative as a load-serving entity is netted against the payment due to that cooperative for that transaction as a seller.[491] NRECA/EKPC argue that investment in resources outside the capacity construct should result in decreased capacity market prices.[492]

216. ODEC argues that expanding the MOPR will have a chilling effect on investment in new self-supply resources, who will now have to shift their focus from long-term economics to the single-year capacity auction.[493] NCEMC argues that a unit-specific

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[487] PJM Rehearing and Clarification Request at 9; *see also* ODEC Rehearing Request at 11.

[488] NRECA/EKPC Clarification and Rehearing Request at 29-30.

[489] *Id*. at 57 (arguing that public power entities base decisions on long-term planning, as opposed to the short-term capacity market, and derive benefits beyond those available in the RPM); *see also* Public Power Entities Rehearing and Clarification Request at 31.

[490] NCEMC Clarification and Rehearing Request at 15-16.

[491] *Id*. at 6.

[492] NRECA/EKPC Clarification and Rehearing Request at 28-29.

[493] ODEC Rehearing Request at 3-4.

exemption would not remedy the chilling effect that the risk of double payments would have on investment in self-supply resources, contending that the Commission never addressed this testimony in reaching its conclusion that the Unit-Specific Exemption would suffice to address self-supply concerns.[494]

217. Noting the December 2019 Order disagreed with the premise that self-supply entities should face less risk as a result of their business model, ODEC contends that premise stems from Commission precedent recognizing that: (1) self-supply by public power load-serving entities, within certain thresholds, does not threaten competitive outcomes; (2) self-supply by electric cooperatives is not supported by direct payments made or mandated by states; (3) the purpose of the MOPR is not to unreasonably impede such efforts by self-supply; and (4) application of MOPR to self-supply subjects electric cooperative customers to the risk of double payment for capacity.[495] Public Power Entities argue that the December 2019 Order incorrectly assumes that self-supply entities have a competitive advantage, and states that public power shoulders risks of its own, including the inability to broadly distribute its financial risks.[496] Public Power Entities assert that public power self-supply participation in the capacity market on an unmitigated basis is consistent with reasonable market design principles.[497]

218. NRECA/EKPC further contend that the December 2019 Order is an unexplained departure from Commission precedent encouraging and facilitating long-term power

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[494] NCEMC Clarification and Rehearing Request at 17 (citing Montalvo Testimony, Initial Submission of National Rural Electric Cooperative Association at 3-4, 7 and December 2019 Order, 169 FERC ¶ 61,239 at P 180); Public Power Entities Clarification and Rehearing Request at 40-42; ODEC Rehearing Request at 13 (arguing that the Unit-Specific Exemption is too subjective to form a basis for investment in long-term resources).

[495] ODEC Rehearing Request at 10; *see also* NCEMC Clarification and Rehearing Request at 14 (citing *PJM Interconnection, LLC*, 95 FERC ¶ 61,175, 61,563 (2001) (order on PJM's capacity market design in 2001); *PJM Interconnection, LLC*, 115 FERC ¶ 61,079, at P 71 (2006) (order on PJM's current RPM capacity market design); *PJM Interconnection, LLC*, 117 FERC ¶ 61,331, at P 13 (2006) (order on rehearing accepting PJM's current RPM capacity market design)); Public Power Entities Rehearing and Clarification Request at 28-29; NRECA/EKPC Clarification and Rehearing Request at 52 (arguing the Commission previously found that the purpose of the MOPR is not to impede a longstanding business model) (citing 2011 MOPR Order, 137 FERC ¶ 61,145 at P 208; 2013 MOPR Order, 143 FERC ¶ 61,090 at P 108).

[496] Public Power Entities Rehearing and Clarification Request at 27-28.

[497] *Id*. at 20; *see also* NCEMC Clarification and Rehearing Request at 14.

supply arrangement in RTO regions.[498] NRECA/EKPC point to FPA section 217, which requires the Commission to exercise its authority in a manner that "enables load-serving entities to secure firm transmission rights (or equivalent tradable or financial rights) on a long-term basis for long-term power supply arrangements made, or planned, to meet such needs" and resulting Commission regulations directing RTOs to make available firm transmission rights with terms long enough to hedge long-term power contracts.[499] NRECA/EKPC further argue that the December Order is an unexplained departure from Commission precedent holding that electric cooperatives cannot subsidize their wholesale market operations through charges on their members.[500]

219. Allegheny contends that, by including the contracting power of cooperatives within the definition of State Subsidy, the Commission violates is own cost causation principle, which allocates costs to those who caused the costs to be incurred and reaped the resulting benefits.[501] Allegheny asserts the December 2019 Order failed to make any findings that cooperative self-supply resources impose costs on the PJM capacity market or suppresses prices, but the December 2019 Order imposes costs on customers when the customers did not cause the costs to be incurred.[502]

b. Commission Determination

220. We affirm our conclusion that self-supply, including public power, should not be exempt from the expanded MOPR. Vertically integrated utilities, through cost-of-service rates approved by state public utility commissions, receive guaranteed cost recovery. Electric cooperatives and municipal utilities fit within the State Subsidy definition because they are created by state law, or, in the case of municipal utilities, are a subdivision or agency of the state, and thus are appropriately treated as units of state or

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[498] NRECA/EKPC Clarification and Rehearing Request at 37-39.

[499] *Id*. at 38-39 (stating that in 2008, the Commission adopted regulations requiring RTOs to dedicate a portion of their websites for participants to post offers to buy or sell power on a long-term basis, with the goal of promoting long-term contracts); *see also* Public Power Entities Rehearing and Clarification Request at 29-30.

[500] NRECA/EKPC Clarification and Rehearing Request at 41-42 (stating electric cooperatives' members are both ratepayers and owners and the Commission has previously determined that electric cooperatives are exempt from the affiliate abuse restrictions because electric cooperatives do not present affiliate abuse dangers through self-dealing).

[501] Allegheny Rehearing Request at 7, 12-13.

[502] *Id*. at 13.

local government.[503] Generation and transmission cooperatives receive guaranteed cost recovery through long-term supply agreements and other bilateral contracts with their members. Distribution cooperatives receive guaranteed cost recovery through member rates. Receipt of these benefits allows resources owned by electric cooperatives to offer into the capacity market below their costs.[504] Municipal utilities likewise receive guaranteed cost recovery through customer rates and joint action agencies receive guaranteed cost recovery through long-term contracts with their members. Unsubsidized resources do not have access to these benefits. Moreover, we reiterate that we can no longer assume that there is any substantive difference among types of resources participating in the PJM capacity market with the benefit of out-of-market support with respect to the resources' ability to distort capacity market prices, and therefore disagree that the payments received by municipal utilities and electric cooperatives are materially different from the payments received by, for example, RPS and ZEC resources for purposes of the expanded MOPR.[505]

221. Likewise, ODEC and NRECA/EKPC's argument that some electric cooperatives receive cost-of-service rates approved by the Commission does not change our conclusion. Electric cooperatives are subject to the expanded MOPR because their business model results in payments within the State Subsidy definition for resources that participate in the capacity market, as discussed above. The fact that the Commission regulates FPA-jurisdictional cooperatives' wholesale rates has no bearing on the fact that the cooperative business model enables cooperatives to offer into the capacity market below cost and suppress prices because they are guaranteed cost recovery. In this respect electric cooperatives' guaranteed cost recovery is no different than that of vertically integrated utilities with state-approved retail rates, enabling vertically integrated utilities to offer into the market as price takers and suppress prices.

222. We further reject arguments that self-supply entities, including public power, should not be subject to the expanded MOPR because they do not make policy decisions or identify state-preferred resources, or that the long-term power purchase contracts do not mandate support for particular resources or support the entry or continued operation of capacity resources. Public power, as discussed above, is a governmental entity making decisions regarding resource generation, and thus public power entities do make policy decisions to identify preferred resources. In any event, nothing in either the June 2018

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[503] 16 U.S.C. § 824(f).

[504] *See* December 2019 Order, 163 FERC ¶ 61,239 at PP 203-204 (finding that self-supply entities have the same price suppression ability as other State-Subsidized Resources); June 2018 Order, 163 FERC ¶ 61,236 at PP 153-156 (describing how out-of-market support gives resources the ability to suppress capacity market prices).

[505] June 2018 Order, 163 FERC ¶ 61,236 at P 155.

Order or the December 2019 Order requires that the State Subsidy be received by a market participant that is able to make policy decisions, nor would such a requirement be just and reasonable. Regardless of whether the market participant is able to make policy decisions, market participants that receive or are eligible to receive State Subsidies can offer into the market lower than they otherwise would. This is also true regardless of any difference parties cite between public power entities and resources receiving other State Subsidies, for example, that public power builds generation to meet consumer needs and transacts to secure economic capacity for their members, and not to distort market prices. We fail to see how public power are unlike other State-Subsidized Resources in the only way that matters for the purposes of applying the MOPR to these resources—namely, that they receive State Subsidies that allow those resources to offer into the capacity market below their costs. Moreover, we disagree that the long-term power purchase contracts entered into by public power to supply load to customers do not support the continued operation or entry of capacity resources or do not directly affect new entry or continued operation of generating capacity in PJM, regardless of intent. Such contracts directly support new and existing capacity resources by providing a guaranteed revenue stream.

223. As to Mr. Marc Montalvo's affidavit, even if the self-supply activities of cooperatives are consistent with behaviors expected of market participants in competitive markets, this does not justify exempting them from application of the MOPR, which focuses on State Subsidies. If these activities truly reflect competitive forces, such resources will be able to use the Unit-Specific Exemption and qualify for a lower offer. And, even if some self-supply customers pay more ("pay twice") for capacity, preserving the integrity of the capacity market will benefit customers over time by ensuring capacity is available when needed. We disagree that self-supply allegedly does not impact the market because the revenue paid by a load-serving self-supply utility is netted against the payment due that entity as a seller. Regardless of netting, the State Subsidy allows a resource to offer below its costs. We further disagree with NCEMC's assertion that application of the MOPR to self-supply would suppress rather than enhance competition[506] because, as we have explained, guaranteed cost recovery creates an uneven level of competition among resources in PJM's capacity market and permits below cost offers. NCEMC does not appear to explain why it believes applying the MOPR to self-supply resources would reduce competition, but, regardless, as we have explained, the June 2018 Order and December 2019 Order foster competition and protect the integrity of the market by ensuring that all resources offer competitively.

224. We disagree with parties' assertions that the Commission lacked substantial evidence to justify applying the MOPR to self-supply resources. Parties aver that there is no evidence of growth similar to that which the December 2019 Order cited for other

[506] NCEMC Clarification and Rehearing Request at 16 (citing NRECA Initial Testimony, Montalvo Dec. at PP 6-13, 24, 39-43, 45-49 (filed Oct. 2, 2018)).

programs and no record evidence that self-supply poses a threat to the capacity market. Despite parties' arguments to the contrary, we are not required to show that self-supply has increased in a manner similar to RPS and ZEC payments. The June 2018 Order made clear that price suppression as a result of out-of-market support was not just and reasonable and did not limit that finding to only RPS and ZEC payments.[507] Although the increases in out-of-market support warranted a shift in policy, it would have been unduly discriminatory to mitigate the impact of only those programs that were shown to be increasing, rather than all resources receiving State Subsidies, given that all State-Subsidized Resources have the ability to suppress prices. The Commission explicitly addressed this, stating that "we no longer can assume that there is any substantive difference among the types of resources participating in PJM's capacity market with the benefit of out-of-market support."[508] PJM's argument that the capacity market has facilitated new investment and the retirement of inefficient investment notwithstanding participation by self-supply utilities misses the point. While the existing capacity market design has facilitated the entry and exit of some resources, it is undeniable that State Subsidies that promote the retention or entrance of new resources that would otherwise be uneconomic impact market clearing prices and thus the entry and exit decisions of other resources.

225. Because self-supply resources have guaranteed cost recovery, they are able to offer into the capacity market below their costs and suppress prices below the competitive level. This is true even if these resources are making rational offers based on their guaranteed cost recovery and do not willfully "intend" to distort prices. Since these self-supply resources receive State Subsidies that support the entry or continued operation of preferred generation resources, regardless of intent, we affirm our determination that these resources should be subject to the expanded MOPR, just as are other State-Subsidized Resources. Applying the expanded MOPR to self-supply resources going forward enables the Commission to meet the objectives of this proceeding, namely a capacity market in which all participants are making competitive offers.

226. We deny parties' request for a Self-Supply Exemption for new, and future existing, self-supply resources, and affirm our determination that it is just and reasonable to apply the MOPR to new self-supply resources without using net short and net long

[507] December 2019 Order, 169 FERC ¶ 61,239 at P 150.

[508] *Id*. P 155.

thresholds.[509] We recognize, based on the record in this proceeding, the potential for self-supply resources to suppress capacity market clearing prices, regardless of intent.[510]

227. Parties argue that applying the MOPR to new self-supply resources is an unexplained departure from precedent, that self-supply entities lack incentive to exercise buyer-side market power, and that the Commission did not explain why an exemption with net long and net short thresholds was no longer just and reasonable. We disagree.

228. PJM's prior self-supply exemption was in effect from 2013 to 2017.[511] While parties may disagree with the Commission's characterization of this period as a "temporary reversal in Commission policy,"[512] the salient point is that the Commission explained in the December 2019 Order that self-supply entities may have the ability to suppress prices going forward, regardless of intent, and therefore it would not be appropriate to exempt self-supply resources from the MOPR. The Commission has not found that self-supply entities lack the incentive or ability to exercise market power and suppress capacity prices.[513] The Commission determined in 2013 that PJM's proposed self-supply exemption with net short and net long thresholds was just and reasonable because, acting within net short and net long thresholds, a self-supply utility meets a sufficiently large proportion of its capacity needs through its own generation investment, and thus "has little or no incentive to suppress capacity market prices."[514] As this quotation illustrates, that precedent hinged on incent, namely whether self-supply resources have the incentive and ability to distort capacity market prices. As explained in the December 2019 Order, the expanded MOPR is premised on a resource's ability to suppress price due to the benefit it receives from out-of-market support, not based on the likelihood, ability and incentive to exercise buyer-side market power. The December 2019 Order recognized that self-supply entities have the ability to suppress capacity prices because their guaranteed cost recovery permits below cost offers, thus interfering with competitive price formation. In sum, while previously the Commission focused on intent or ability and incentive to exercise buyer-side market power and suppress prices,

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[509] *Id*. PP 202-204.

[510] *Id*. P 204.

[511] *See* June 2018 Order, 163 FERC ¶ 61,236 at P 14.

[512] December 2019 Order, 169 FERC ¶ 61,239 at P 203.

[513] 2013 MOPR Order, 143 FERC ¶ 61,090 at PP 107-109 (reiterating 2011 determination that a blanket self-supply exemption would allow for an unacceptable opportunity for self-supply resources to exercise buyer-side market power).

[514] *Id*. P 108.

now the Commission recognizes and takes action to prevent the price-suppressive effect self-supply resources offering below cost can have on capacity market clearing prices, regardless of intent to exercise buyer-side market power and/or suppress capacity market prices. Thus, the Commission has explained any perceived departure from precedent.[515]

229. Parties contend that self-supply is a longstanding business model and applying the MOPR to self-supply resources is a fatal disruption, contrary to precedent. However, their longstanding business model does not provide a basis for treating them differently than any other State-Subsidized Resource. We recognize that the Commission has previously stated that the purpose of the MOPR "is not to unreasonably impede the efforts of resources choosing to procure or build capacity under longstanding business models,"[516] and that the December 2019 Order may impact long-term contracts and planning. Nevertheless, we find it necessary going forward to apply the MOPR to self-supply resources like other mitigated State-Subsidized Resources in order to protect capacity market prices. We continue to find the December 2019 Order struck the appropriate balance, providing an exemption for existing self-supply resources because these self-supply entities made resource decisions based on affirmative guidance from the Commission indicating that those decisions would not be disruptive to competitive markets, but requiring that new self-supply resources offer at or above the default offer price floor, unless they qualify for an exemption. Self-supply resources are capable of suppressing capacity prices because they can make non-competitive offers, even if they invest in resources within the net short and net long thresholds and appropriately sized for future load growth. Further, we find that it is just and reasonable to apply the default offer price floors to self-supply resources because, going forward, self-supply entities desiring to build out capacity for future load growth should not be allowed to choose a resource that is not economic, subsidize its construction, and sell the excess capacity into the competitive market. We clarify that while this behavior is now prohibited, the orders in this proceeding do not prohibit the self-supply business model, or long-term decision-making, but merely ensure that all resources offer competitively. Moreover, the Unit-Specific Exemption is available as a means to demonstrate the competitiveness of an offer below the default offer price floor for self-supply resources.

230. Parties argue that the capacity market does not signal for the types of resources that optimally satisfy all of buyers' preferences and that not all entry and exit decisions must be coordinated through the capacity market to be deemed economic. However, the

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[515] *See Motor Vehicle Manufacturer's Ass'n v. State Farm Mut. Auto Ins. Co.*, 463 U.S. 29, 43 (1989) (holding agency "must examine the relevant data and articulate a satisfactory explanation for its action including a 'rational connection between the facts found and the choice made'"); *Key-Span-Ravenswood, LLC v. FERC*, 348 F.3d 1053 (D.C. Cir. 2003) (requiring Commission to "adequately explain its decision").

[516] 2011 MOPR Rehearing Order, 137 FERC ¶ 61,145 at P 208.

December 2019 Order establishes a replacement rate to protect the integrity of price signals in the multi-state capacity market. The objective of the capacity market is to select the least cost resources to meet resource adequacy goals. It is thus necessary to ensure that resources offer competitively so that all market participants receive clear price signals, and, if an offer does not clear, it is not economic.

231. We reject arguments that self-supply entities should be accommodated because they make investments outside of the capacity market. We are not regulating such investments in this order; rather, we find that such investments will not be allowed to suppress capacity market prices. NCEMC argues that a broader self-supply exemption is needed because the Unit-Specific Exemption does not ameliorate the double payment concerns of some resources not clearing under the Unit-Specific Exemption. However, the Unit-Specific Exemption is a means for resources to demonstrate that their offers are competitive, and we find that NCEMC's request undermines the purpose of the Unit-Specific Exemption, which is to allow a State-Subsidized Resource to justify a competitive offer below the default offer price floor. ODEC argues that the Unit-Specific Exemption is too subjective to form the basis for investment in long-term resources. The December 2019 Order already addressed this point and directed PJM to provide "more explicit information about the standards it will apply when conducting the unit-specific review as a safeguard against arbitrary ad hoc determinations that market participants and the Commission may be unable to reliably predict or reconstruct."[517]

232. Parties contend that it is unreasonable to apply the MOPR to electric cooperatives and other self-supply entities because it will chill investment in these resources and force customers to pay twice for a single capacity obligation. States are free to choose to remain vertically integrated, to support those resources through guaranteed rate recovery, and to foster the cooperative model. However, we again reiterate that the courts have acknowledged that customers in those states may bear the consequences of those decisions, including paying twice for capacity.[518] The Commission is obligated to ensure the competitiveness of the capacity market in order to ensure long-term resource-adequacy in PJM, regardless of state actions that may cost consumers more. We are similarly obliged to ensure that those market-based rates are just and reasonable and non-discriminatory through market mechanisms that are not distorted by subsidies for state-favored resources.

233. We also reject arguments that self-supply entities do not have a competitive advantage. The ability to offer these resources below cost increases the likelihood that they will receive capacity supply obligations, giving these resources a competitive advantage over resources that are not guaranteed cost recovery. Unlike unsubsidized

[517] December 2019 Order, 169 FERC ¶ 61,239 at P 216.

[518] *NJBPU*, 744 F.3d at 96-97 (quoting *Connecticut PUC*, 569 F.3d at 481).

resources, guaranteed rate recovery protects self-supply resources from the potential downside of that offering behavior, allowing them to "face less risk" than other resources in choosing whether to build their own capacity generation resources or rely on the markets to meet their energy and capacity requirements.[519] If self-supply resources were to receive a blanket exemption, this advantage would only deepen. Further, with respect to ODEC's arguments that the Commission's prior precedent granted a competitive advantage to self-supply entities: (1) those thresholds only applied to the mitigation of buyer-side market power, not mitigation based on State Subsidies; (2) the definition of State Subsidy includes state payments by public power; (3) the MOPR does not unreasonably impede self-supply, but only requires that self-supply resources offer consistent with their costs; and (4) we have repeatedly reiterated that the courts have found that consumers will appropriately bear the risk of having to pay twice for capacity.

234. NRECA/EKPC contend that the Commission has previously determined that "electric cooperatives cannot subsidize their wholesale market operations through charges on their members" and thus the December 2019 Order departs from precedent that exempts cooperatives from the Commission's affiliate abuse restrictions, based on a finding that transactions of an electric cooperative with its members do not present dangers of affiliate abuse through self-dealing.[520] We disagree. NRECA/EKPC construe the market-based rate/affiliate abuse precedent too broadly. In those cases, the Commission only determined that electric cooperatives do not present self-dealing concerns,[521] which has no bearing on this proceeding, which focuses on the justness and reasonableness of PJM capacity market rates. Specifically, in the market-based rate proceedings, the Commission explained that allowing market-based rates in a self-dealing transaction would enable a purchaser to favor its affiliated power seller over other potential power sellers, which could result in captive customers of public utilities paying more than the market price for power used to serve them.[522] However, in those cases the Commission also recognized that, because the cooperative's members are both the cooperative's ratepayers and its shareholders, any profits earned by the cooperative will

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[519] December 2019 Order, 169 FERC ¶ 61,239 at P 204.

[520] NRECA/EKPC Clarification and Rehearing Request at 40-42 & nn.90-91 (citing *Mkt.-Based Rates for Wholesale Sales of Elec. Energy, Capacity & Ancillary Servs. by Pub. Utils.*, Order No. 697, 72 Fed. Reg. 39,904, 39,966, FERC Stats & Regs. ¶ 31,252 at P 526 (2007) (Market-Based Rate Order); *Cross-Subsidization Restrictions on Affiliate Transactions*, Order No. 707, 73 Fed. Reg. 11,013, 11,021, FERC Stats. & Regs ¶ 31,264, at P 49 (2008)).

[521] *See* Order No. 707, FERC Stats. & Regs ¶ 31,264, at P 49 & n.48 (citing Market Based Rate Order, FERC Stats & Regs. ¶ 31,252 at P 526).

[522] *See, e.g.*, *Old Dominion Elec. Coop.*, 81 FERC ¶ 61,044, at 61,236 (1997).

inure to the benefit of the cooperative's ratepayers.[523] Therefore, the Commission found that cooperatives present no potential danger of affiliate abuse by shifting benefits from the ratepayers to the shareholders.[524] The focus in those market-based rate/affiliate abuse proceedings was on the transactions between the cooperatives—whether one cooperative was subsidizing another. The Commission never considered in those market-based rates/affiliate abuse proceedings whether the cooperatives' long-term power supply agreements could constitute subsidies for purpose of ensuring the integrity of the capacity market clearing price. As the focus in this proceeding, however, is on the cooperatives' State-Subsidized self-supply resource offers into the PJM capacity market, as compared with other non-State-Subsidized Resource offers, and applying the MOPR to those State-Subsidized Resources to ensure a competitive capacity market, we find NRECA/EKPC's arguments unpersuasive.

235. NRECA/EKPC argue the December 2019 Order "inexplicably" deems self-supply long-term power supply arrangements in PJM to be inherently suspect and anticompetitive.[525] NRECA/EKPC argue the December 2019 Order conflicts with the statutory directive to "enable[] load-serving entities to secure firm transmission rights (or equivalent tradable or financial rights) on a long-term basis for long-term power supply arrangements made, or planned, to meet such needs" and undermines the Commission's implementing regulations directing RTOs to make available firm transmission rights with terms long enough to hedge long-term power contracts.[526] We disagree. The December 2019 Order does not prevent self-supply entities from entering into long-term contracts, nor does the order impinge on their right to obtain long-term firm transmission rights. The December 2019 Order applies the MOPR to new self-supply resources, including those owned by or under contract to public power, to protect the integrity of the capacity market. Ensuring the justness and reasonableness of wholesale capacity market prices through the MOPR is distinct from supporting long-term firm transmission rights. And, while the Commission requires RTOs to create websites to enable market participants to post offers to buy or sell on a long-term basis,[527] this requirement was intended to

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[523] *See id.* at 61,236 & n.7 (citing *Hinson Power Co*., 72 FERC ¶ 61,190, at 61,911 (1995)); *see also* Market Based Rate Order, FERC Stats & Regs. ¶ 31,252 at P 526 & n.541.

[524] Market-Based Rate Order, FERC Stats & Regs. ¶ 31,252 at P 526 & n.541.

[525] NRECA/EKPC Clarification and Rehearing Request at 38.

[526] *Id.* at 38-39 (citing FPA § 217, 16 U.S.C. § 824q (2018)).

[527] *See Wholesale Competition in Regions with Organized Electric Markets*, Order No. 719, FERC Stats. & Regs. ¶ 31,081 (cross-referenced at 125 FERC ¶ 61,071, at P 307 (2008)), *order on reh'g*, Order No. 719-A, FERC Stats. & Regs. ¶ 31,292 (cross-

enhance transparency and foster long-term contracting generally. It does not undermine our efforts here to protect the integrity of capacity market prices.

236. As to Allegheny's argument that the December 2019 Order violates cost causation principles, we clarify that the December 2019 Order does not directly allocate costs to any party. Rather, it ensures a just and reasonable outcome in the capacity market by ensuring that all resources offer commensurately with their costs. We also disagree that self-supply entities do not impose costs on the market. State-Subsidized Resources offering below their costs cause unjust and unreasonable price distortions. With respect to the costs Allegheny argues the December 2019 Order imposes on self-supply, it is unclear to which costs Allegheny is referring, but to the extent Allegheny is arguing that self-supply entities should not bear a risk of double payment, we disagree, as the Commission has repeatedly explained. To the extent Allegheny is arguing that self-supply entities do not benefit from their guaranteed retail rate recovery and therefore should not be forced to offer into the capacity market competitively, we disagree, on the basis that guaranteed payments are clearly a benefit.

c. Requests for Clarification

237. Parties request clarification as to whether public power self-supply entities can engage in voluntary, arms-length bilateral contracts with unaffiliated third parties without triggering the MOPR.[528] Buckeye argues this clarification is necessary because, if interpreted too broadly, the Commission's definition of State Subsidy could potentially apply to virtually any action that an electric cooperative would take to obtain new capacity, subjecting the cooperative to potential double payments.[529]

238. NRECA/EKPC seek clarification that when electric cooperatives meet load obligations through bilateral contracts with third parties, such contracts are voluntary, arm's length bilateral transactions and do not fall within the definition of State Subsidy. Likewise, NRECA/EKPC state that agreements between electric cooperatives and their

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referenced at 128 FERC ¶ 61,059 (2009)), *order on reh'g*, Order No. 719-B, 129 FERC ¶ 61,252 (2009); *see also* 18 C.F.R § 35.28(g)(2).

[528] Buckeye Clarification and Rehearing Request at 6 (citing December 2019 Order, 169 FERC ¶ 61,239 at P 70); IMEA Rehearing and Clarification Request at 3-4; Public Power Entities Rehearing and Clarification Request at 51-53; NRECA/EKPC Clarification and Rehearing Request at 20-21; NCEMC Rehearing and Clarification Request at 6-7.

[529] Buckeye Clarification and Rehearing Request at 5; *see also* IMEA Rehearing and Clarification Request at 4 (arguing that the December Order would render all commercial or contracting activity by a municipal agency subject to the MOPR).

members are voluntary, arm's length bilateral transactions, and, therefore, sell offers by resources owned by electric cooperatives should be exempt from the definition of State Subsidy.[530] IMEA asserts that, if the Commission declines to clarify this issue, the Commission should grant rehearing because the Commission's decision to apply the MOPR to all commercial and contracting activity of municipal utilities via the expansive and unlawful definition of State Subsidies amounts to undue discrimination against those municipal entities.[531]

239. NRECA/EKPC ask the Commission to clarify that financing through Rural Utilities Service (RUS) debt alone will not trigger application of the MOPR because it is a federal source of financing.[532]

240. AEP/Duke seek clarification that existing self-supply capacity within an FRR capacity plan will qualify for the self-supply exemption if such existing capacity elects to participate in a PJM capacity market auction.[533] AEP/Duke assert that the December 2019 Order is unclear on how the expanded MOPR and MOPR exemptions will apply to existing rules that allow an FRR entity to offer limited amounts of excess capacity in a Reliability Pricing Model (RPM) auction without having its offer mitigated.[534] AEP/Duke argue that capacity resources included in an FRR capacity plan prior to the December 2019 Order are similarly situated to existing self-supply resources that the Commission exempts as part of the Self-Supply Exemption.[535] AEP/Duke assert that subjecting existing capacity resources within an FRR capacity plan to the MOPR would give preferential treatment to existing self-supply resources and unreasonably disrupt settled expectations since 2006 that existing FRR resources may participate in the capacity market without mitigation.[536]

241. The Market Monitor requests clarification that only resources owned or bilaterally contracted for by the self-supply entity qualify as "existing" for the purposes of the Self-Supply Exemption. For example, the Market Monitor explains, if a self-supply entity purchased an existing resource from a non-self-supply entity, that resource would not be

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[530] NRECA/EKPC Clarification and Rehearing Request at 20-21; *see also* NCEMC Clarification and Rehearing Request at 6.

[531] IMEA Rehearing and Clarification Request at 4-5; *see also* Buckeye Clarification and Rehearing Request at 6.

[532] NRECA/EKPC Clarification and Rehearing Request at 21-22 & n. 40 (citing NRECA Initial Testimony at 26 (filed Oct. 2, 2018)).

[533] AEP/Duke Rehearing and Clarification Request at 18-20.

[534] *Id.* at 18-19, n.40 (citing PJM Reliability Assurance Agreement, Schedule 8.1.E).

[535] *Id.* at 19.

[536] *Id*.

considered "existing" for the purposes of the Self-Supply Exemption and would instead be treated as a new resource.[537] Alternatively, FEU requests clarification that if a self-supply entity purchases an existing resource, that resource will be considered "existing" and not "new" for the purposes of the MOPR exemption.[538]

242. NRECA/EKPC seek clarification on how the definition of State Subsidy and the MOPR exemptions apply to jointly-owned resources, stating that self-supply resources may be jointly owned with non-self-supply entities, or one co-owner may receive a State Subsidy while another does not or elects a MOPR exemption.[539] NRECA/EKPC conclude that the Commission should clarify that the definition of State Subsidy and application of MOPR exemptions apply to each co-owner share of a resource, rather than a whole resource.[540]

i. Commission Determination

243. We clarify that public power self-supply entities cannot engage in voluntary, arms-length bilateral contracts with unaffiliated third parties without triggering the MOPR. State law sanctions the public power business model, and these voluntary bilateral agreements guarantee cost recovery for public power.[541]

244. Regarding RUS financing, we clarify that because RUS financing is a federal subsidy, it would be inappropriate to apply the MOPR to RUS financing, as we explained in the December 2019 Order[542] and again on rehearing in Section IV.B.8.

245. We clarify that existing self-supply capacity within an FRR capacity plan will qualify for the Self-Supply Exemption if such existing capacity elects to participate in a PJM capacity market auction. The December 2019 Order did not alter the existing FRR Alternative and we agree with AEP/Duke that capacity resources included in an FRR capacity plan prior to the December 2019 Order are similarly situated to existing self-supply resources that the Commission exempts as part of the Self-Supply Exemption. This clarification applies to any self-supply resource that currently meets the

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[537] Market Monitor First Clarification Request at 7.

[538] FEU Rehearing and Clarification Request at 2; see also AEP/Duke Rehearing and Clarification Request at 20.

[539] NRECA/EKPC Clarification and Rehearing Request at 23-24.

[540] *Id*.

[541] December 2019 Order, 169 FERC ¶ 61,239 at P 70.

[542] *Id.* P 10, PP 84-85.

requirements for the Self-Supply Exemption, as described in the December 2019 Order and modified herein, or that was part of an FRR capacity plan prior to the December 2019 Order, that seeks to either re-enter the capacity market or to offer excess capacity into the capacity auction consistent with the current FRR Alternative rules. However, any new State-Subsidized Resources added to an FRR capacity plan after the date of the December 2019 Order will not be considered exempt either in re-entering the capacity market or offering excess capacity into the capacity market.

246. We grant the Market Monitor's requested clarification that only resources currently owned or bilaterally contracted for by the self-supply entity qualify as "existing" for the purposes of the Self-Supply Exemption. Similarly, we deny FEU's request for clarification that, if a self-supply entity purchases an existing resource, that resource will be considered "existing" for the purposes of the MOPR exemption. Such a resource will not be exempt from the MOPR if it was not owned by or contracted for by the self-supply entity at the time of the December 2019 Order.

247. We grant NRECA/EKPC's request for clarification that the definition of State Subsidy and application of MOPR exemptions apply to each co-owner's share of a resource, rather than a whole resource. Only the portion of the resource receiving a State Subsidy will be subject to mitigation under the December 2019 Order.

3. Demand Response, Energy Efficiency, and Capacity Storage Resources Exemption

a. Requests for Rehearing or Clarification

248. Parties request rehearing as to whether demand response resources should be subject to the MOPR at all, or to a default offer price floor greater than zero, arguing such resources are not similarly situated to generation resources because they do not produce energy.[543] By subjecting demand response resources to the MOPR, Consumer Representatives argue that the December 2019 Order ignores record evidence that this would increase prices in the long-term and ignores the benefits of demand response in contributing to price stability, mitigating market power concerns, enhancing reliability, decreasing prices, and reducing emissions.[544] The Pennsylvania Commission states that Pennsylvania's demand and energy efficiency programs are required to demonstrate cost effectiveness and therefore are not State Subsidies, and requests that the Commission

[543] DC Commission Rehearing and Clarification Request at 11.

[544] Consumer Representatives Rehearing and Clarification Request at 33; *see also* DC Commission Rehearing and Clarification Request at 11; Pennsylvania Commission Rehearing and Clarification Request at 12.

exempt programs that can demonstrate cost effectiveness.[545] Advanced Energy Entities explain that the Commission has previously found that revenues from retail-level demand response programs for providing services distinct from those provided in the capacity market should not be subject to buyer-side market power mitigation.[546]

249. EKPC states that it is concerned that application of the MOPR will have the unintended consequence of creating market inefficiencies because, while a demand response resource can achieve cost-savings for itself without participating in the capacity market, the market will not benefit from the additional competitive resource.[547] EKPC also notes that the PJM grid operator would no longer have visibility into the operation of those demand-side resources and may not be able to anticipate when they will operate, resulting in too much or too little energy being dispatched by PJM in real time.[548] EKPC states it offers demand response capability into the capacity market that is authorized by the Kentucky Commission, but not mandated by state law.[549] EKPC is concerned that one industrial customer who, relying on the capacity market rules in effect prior to the December 2019 Order, has invested millions of dollars to increase its demand response capability, will be considered new and be unable to clear the next auction.[550]

250. Advanced Energy Entities argue that including demand response, energy efficiency, energy storage, and "emerging technology" resources as subject to the expanded MOPR upends established Commission policy without sufficient explanation, particularly in light of the Commission's findings in prior orders that demand response resources should not be subject to mitigation.[551] Advanced Energy Entities state that in

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[545] Pennsylvania Commission Rehearing and Clarification Request at 12.

[546] Advance Energy Entities Rehearing and Clarification Request at 16-17 (citing *N.Y. Pub. Serv. Comm. v. N.Y. Indep. Sys. Operator, Inc.*, 158 FERC ¶ 61,137, at P 31 (2017) (NYISO SCR Order)).

[547] EKPC Rehearing and Clarification Request at 20; NRECA/EKPC Clarification and Rehearing Request at 61.

[548] EKPC Rehearing and Clarification Request at 20.

[549] *Id*. at 18.

[550] *Id*. at 19.

[551] Advanced Energy Entities Rehearing and Clarification Request at 19-21 (citing NYISO SCR Order, 158 FERC ¶ 61,137 at P 31; *N.Y. Pub. Serv. Comm'n v. N.Y. Indep. Sys. Operator, Inc.*, 153 FERC ¶ 61,022, at P 10 (2015), *order on reh'g*, 154 FERC ¶ 61,088 (2016); *Consol. Edison Co. of N.Y., Inc. v. N.Y. Indep. Sys. Operator, Inc.*, 150

NYISO, the Commission found that demand response resources should be exempt from buyer-side market mitigation because they have "limited or no incentive and ability to exercise buyer-side market power" because the out-of-market revenue they receive for providing retail services in New York is for a distinct service not tied to participation in NYISO.[552] Advanced Energy Entities further contend that, prior to applying the MOPR, the Commission must show that the resource has market power and the State Subsidies "are put in place because those entities are 'seeking to lower capacity market prices.'"[553]

251. Objecting to the Commission's rejection of its proposed energy efficiency resource exemption, PJM states that energy efficiency resources are not similarly situated to other resources because they focus on reduced consumption and conservation and do not raise price suppression concerns because energy efficiency measures are reflected in the peak load forecast for each delivery year, meaning the auction parameters are adjusted to add the MWs in approved energy efficiency plans back into the reliability requirements. PJM also argues that the capacity market penetration of energy efficiency resources is very limited and there is no record evidence that energy efficiency resources interfere with efficient price formation, regardless of whether they are supported by state policy objectives.[554]

252. The Pennsylvania Commission requests that the Commission reconsider applying the MOPR to demand response and energy efficiency resources, as relevant to the offer requirements of Conservation Service Providers, which the Pennsylvania Commission argues should continue to be allowed to participate in the capacity market without identifying specific customers in advance of the auction.[555] The Pennsylvania Commission argues that it would be burdensome for PJM to calculate minimum offers

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FERC ¶ 61,139, at P 2 (2015), *order on reh'g, clarification, and compliance*, 152 FERC ¶ 61,110 (2015)).

[552] *Id*. at 19-20 (citing NYISO SCR Order, 158 FERC ¶ 61,137 at P 31).

[553] *Id*. at 20 (citing NYISO SCR Order, 158 FERC ¶ 61,137 at P 30).

[554] PJM Rehearing and Clarification Request at 14-15; *see also* Advanced Energy Entities Rehearing and Clarification Request at 13 (arguing that energy efficiency resources cannot suppress capacity market prices due to their treatment under PJM's existing processes) (citing PJM Manual 18 at 2.4.5); CPower/LS Power Rehearing and Clarification Request at 7-8.

[555] Pennsylvania Commission Rehearing and Clarification Request at 11, *see also* Consumer Representatives Rehearing and Clarification Request at 32-34 (citing December 2019 Order, 169 FERC ¶ 61,239 (Glick, Comm'r, dissenting at P 37)); PJM Manual 18: PJM Capacity Market—Att. C: Demand Resource Sell Offer Plan).

for the hundreds of technologies, as applied to thousands of customers, that can participate in these programs and that the Unit-Specific Exemption is not a reasonable approach for these diverse resources and customers.[556]

253. The Maryland Commission asks that the Commission clarify that new resources participating in retail utility demand response programs are not subject to the new resource MOPR requirement.[557]

254. Advanced Energy Entities request that the Commission clarify that PJM may apply the exemption for existing demand response and energy efficiency resources at both a MW level (for the aggregated zonal resource) and a program level, depending on the type of existing demand response resource, in order to protect investments made by demand response and energy efficiency providers in broader programs that aggregate resources developed through utility-backed mass market demand response and energy efficiency programs.[558]

b. Commission Determination

255. We deny the requests for rehearing to exempt demand response and energy efficiency resources from the MOPR. First, we disagree that demand response and energy efficiency resources are not similarly situated to generation resources with regard to the MOPR because they do not produce energy. Whether a resource produces energy or reduces consumption is immaterial to whether it should be subject to the MOPR: the December 2019 Order found that all resources that offer as supply in the capacity market can affect the competitiveness of the market and the resource adequacy it was designed to address.[559] Because demand response and energy efficiency resources participate in the capacity market, it is appropriate that they be subject to the capacity market rules. In previous orders, the Commission determined that demand response resources and energy

[556] Pennsylvania Commission Rehearing and Clarification Request at 12.

[557] Maryland Commission Rehearing and Clarification Request at 5-6, 24.

[558] Advanced Energy Entities Rehearing and Clarification Request at 5, 25.

[559] December 2019 Order, 169 FERC ¶ 61,239 at P 54 (finding that PJM has not provided a rationale for treating demand response and energy efficiency resources differently); *see supra* P 54 (finding that regardless of technology type, State-Subsidized Resources can impact capacity prices); 188 & n.446 (reiterating that the December 2019 Order established different default offer price floors for demand response resources backed by behind-the-meter generation and demand response resources backed by reduced consumption and that only revenue streams that fit within the definition of State Subsidy are implicated).

efficiency resources may participate in the capacity market even though they do not produce energy.[560] If parties believe that these resources should no longer qualify as capacity resources or be eligible to participate in PJM's capacity market, such a determination would be more appropriate in a new proceeding.

256. Parties have not demonstrated that demand response or energy efficiency resources do not have the same ability to affect prices as do generation resources simply because they do not produce energy. Moreover, while our analyses in the December 2019 Order amply support our findings there, we also note here that data made publicly available by PJM and the Market Monitor corroborate the Commission's findings in this regard.[561] Demand response and energy efficiency resource offers are not negligible;[562]

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[560] *See* PJM Reliability Assurance Agreement, Schedule 6 (Procedures for demand response and energy efficiency) available at: https://www.pjm.com/directory/merged-tariffs/raa.pdf; *see also PJM Interconnection L.L.C.*, 155 FERC P 61,157, at PP 51-52 (2016) (upholding aggregation of energy efficiency and demand response resources to enable them to meet Capacity Performance product requirements and participate in the capacity market).

[561] *See* 18 C.F.R. § 385.508(d) (2019). While we do not rely on this additional evidence for our determination, we nevertheless observe that it supports that determination.

[562] PJM maintains robust data documenting the participation of demand response and energy efficiency resources in the capacity market. A snapshot of PJM's data is presented in the table below. For the convenience of the reader, we have supplemented the Market Monitor's data—the columns denominated $ DR and $ EE are simply the arithmetic product of the column titled RTO-Wide Clearing Price and the columns denominated DR MW Total and EE MW Total, respectively.

Delivery Year	UCAP Total	RTO-Wide Clearing Price	DR MW Total	% DR	$ DR	EE MW Total	% EE	$ EE
2021-22	163,627	$ 140.00	11,126	6.8	$ 568,528,380	2,832	1.7	$ 144,715,200
2020-21	165,109	$ 76.53	7,820	4.7	$ 218,450,752	1,710	1.0	$ 47,771,786
2019-20	167,306	$ 100.00	10,348	6.2	$ 377,702,000	1,515	0.9	$ 55,301,150
2018-19	166,837	$ 164.77	11,084	6.6	$ 666,627,455	1,247	0.7	$ 74,965,819
2017-18	167,004	$ 120.00	10,975	6.6	$ 480,696,240	1,339	0.8	$ 58,643,820
2016-17	169,160	$ 59.37	12,408	7.3	$ 268,884,147	1,117	0.7	$ 24,211,947
2015-16	164,561	$ 136.00	14,833	9.0	$ 736,300,192	923	0.6	$ 45,792,900
2014-15	149,975	$ 125.99	14,118	9.4	$ 649,253,684	822	0.5	$ 37,805,378

See 2021/2022 RPM Base Residual Auction Results Report at 2, tbl. 1, 11 tbl. 3B, 19 tbl. 6 (May 23, 2018), www.pjm.com/-/media/markets-ops/rpm/rpm-auction-info/2021-2022/2021-2022-base-residual-auction-report.ashx. The revenue values and percentage

moreover, the Market Monitor has found that both energy efficiency and demand response resources have substantially affected revenues in the PJM capacity market.[563]

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shares for demand response and energy efficiency resources are Commission estimates using the RTO-wide price and are not provided by PJM. To the extent that demand response and energy efficiency resources clear in a constrained zone, actual revenue for these resources increase.

[563] The Market Monitor publishes reports analyzing the results of each capacity auction, including the revenue effect of demand response and energy efficiency participation, as these resources were defined for the time periods examined. The results of those reports are summarized in the table below using the annual products as defined in those years to provide approximate and conservative results for comparison purposes:

Delivery Year	Revenue Reduction	% Reduction
2021-22	$ 1,729,462,670	15.7
2020-21	$ 1,083,640,882	13.5
2019-20	$ 2,099,572,623	23.1
2018-19	$ 3,217,132,975	22.7
2017-18	$ 9,347,428,573	55.4
2016-17	$ 10,117,362,259	64.7
2015-16	$ 13,723,209,998	58.5

See Monitoring Analytics, *Analysis of the 2021/2022 RPM Base Residual Auction*: Revised, at 20 tbl. 1 at line 5 (Aug. 24, 2018), www.monitoringanalytics.com/reports/Reports/2018/IMM_Analysis_of_the_20212022_RPM_BRA_Revised_20180824.pdf; Monitoring Analytics, *Analysis of the 2020/2021 RPM Base Residual Auction*; at 17, tbl. 1, l. 4. (Nov. 17, 2017), http://www.monitoringanalytics.com/reports/Reports/2017/IMM_Analysis_of_the_20202021_RPM_BRA_20171117.pdf; Monitoring Analytics, *Analysis of the 2019/2020 RPM Base Residual Auction*, at 14, tbl 1, l. 5. (Aug. 31, 2016), http://www.monitoringanalytics.com/reports/Reports/2016/IMM_Analysis_of_the_20192020_RPM_BRA_20160831-Revised.pdf; Monitoring Analytics, *Analysis of the 2018/2019 RPM Base Residual Auction Revised,* at 8 (Jul. 5, 2016), http://www.monitoringanalytics.com/reports/Reports/2016/IMM_Analysis_of_the_20182019_RPM_Base_Residual_Auction_20160706.pdf; Monitoring Analytics, *Analysis of the 2017/2018 RPM Base Residual Auction*, at 6 (Oct. 6, 2014), http://www.monitoringanalytics.com/reports/Reports/2014/IMM_Analysis_of_the_2017_2018_RPM_Base_Residual_Auction_20141006.pdf; Monitoring Analytics, *Analysis of the 2016/2017 RPM Base Residual Auction*, at 5 (Apr. 18, 2014), http://www.monitoringanalytics.com/reports/Reports/2014/IMM_Analysis_of_the_20162017_RPM_Base_Residual_Auction_20140418.pdf; Monitoring Analytics, *Analysis of the*

Therefore, demand response and energy efficiency resources receiving State Subsidies can, like generation resources, offer into the capacity market at a lower level than they would otherwise be able to if they did not receive that additional revenue, which can suppress prices. These below cost offers may affect the clearing price and quantity if the resource is marginal or inframarginal, regardless of the type of resource.

257. Parties argue that as a result of the way energy efficiency resources are modeled and added back, energy efficiency resources cannot suppress prices. PJM also argues that energy efficiency resources' participation does not interfere with efficient and transparent price formation due to a lack of market penetration by these resources. We reject the contention that energy efficiency resources' market participation cannot suppress prices. State Subsidies, if effective, will by their very nature increase the quantity of whatever is subsidized. State Subsidies to energy efficiency resources should result in additional energy efficiency resource participation. PJM's contention that energy efficiency resources' participation does not interfere with efficient and transparent price formation due to a lack of market penetration by these resources is unpersuasive. Under PJM's current rules, energy efficiency resources permanently reduce demand for electricity. Decreased demand resulting from a State Subsidy will suppress prices just as a State Subsidy to supply will suppress prices. Mismatches between the demand reduction values reflected on the supply side and the demand side cause further distortions—an issue that can be resolved in a separate proceeding.

258. We also deny requests to exempt demand response resources from the expanded MOPR on the basis that subjecting these resources to the expanded MOPR may increase prices over time. Any such price increase would be just and reasonable because it would be the result of competitive market forces, as opposed to below cost offers.[564] With

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2015/2016 RPM Base Residual Auction, at 5 (Sept. 24, 2013), http://www.monitoringanalytics.com/reports/Reports/2013/Analysis_of_2015_2016_RPM_Base_Residual_Auction_20130924.pdf.

As the Market Monitor's reports demonstrate, demand response resource participation in the wholesale energy and capacity markets reduces market revenues. Various parties may contest the exact extent of the capacity price reductions caused by demand response resource participation; however, there is ample evidence (including the Market Monitor's reports) that demand response resource participation has a significant effect on the capacity market. *See generally* Demand Response Compensation in Organized Wholesale Energy Markets, NOPR, FERC Stats. & Regs. ¶ 32,656, at PP 4-5 (2010) (cross-referenced at 130 FERC ¶ 61,213).

[564] A well-designed market produces just and reasonable rates. *See, e.g.*, *Md. Pub. Serv. Comm'n v. FERC*, 632 F.3d 1283 (D.C. Cir. 2011) (affirming Commission finding that competitive market produced just and reasonable prices); *see also* Order No. 719,

regard to the alleged benefits of demand response, those are not at issue in this proceeding, nor have parties demonstrated how such benefits would impact whether a resource is able to offer below cost as a result of a State Subsidy. The replacement rate is fuel neutral and we decline to consider any alleged externalities associated with demand response or energy efficiency resources.

259. We further deny the Pennsylvania Commission's request for rehearing to allow demand response or energy efficiency programs to demonstrate cost effectiveness under the Competitive Exemption. New and existing resources, other than new gas-fired resources, are eligible for the Competitive Exemption if they certify to PJM that they will forego any State Subsidies. However, any demand response resource with a State Subsidy may attempt to offer under the Unit-Specific Exemption.

260. We also decline to exempt energy efficiency resources on the basis that they focus on reduced consumption and conservation. As we found in the December 2019 Order, demand response resources have a similar focus and PJM has not provided sufficient rationale to treat these resource types differently with respect to the expanded MOPR.[565] Further, we have previously explained why low penetration is not a sufficient reason to exempt a resource type; out-of-market support at any level is capable of distorting capacity prices, and even small resources, on aggregate, may have the ability to impact capacity prices.

261. We reject EKPC's arguments that subjecting demand response to the MOPR will create market inefficiencies because it will prevent competitive resources from entering the capacity market and therefore limit PJM's visibility into those resources. The replacement rate does not bar competitive resources, but rather requires State-Subsidized Resources to demonstrate that they are, in fact, competitive, independent of the State Subsidy. Though there may be an increased burden to the resource to make this showing, that burden is outweighed by the benefits of preventing price suppression as a result of below cost offers from State-Subsidized Resources. We also reject arguments related to future demand response resource development. Our statutory obligation is to ensure just and reasonable rates, and parties have not presented any evidence that the PJM capacity

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125 FERC ¶ 61,071 at P 18 ("The Commission has devoted considerable resources over the years to improve the market designs in each organized market to ensure that they produce just and reasonable rates."); *Market Monitoring Units in Regional Transmission Organizations and Independent System Operators*, 111 FERC ¶ 61,267, at P 3 (2005) ("Good market rules are essential to efficient wholesale markets in which competing suppliers have incentives to meet the customers' needs for reliable service at least cost.").

[565] December 2019 Order, 169 FERC ¶ 61,239 at P 54.

market will not produce just and reasonable rates unless we allow special exemptions to further future demand response growth.

262. With respect to EKPC's concern about whether a specific customer will be considered new, we decline to make determinations on specific resources here. We reiterate that any economic State-Subsidized Resource should be able to clear under the Unit-Specific Exemption.

263. We disagree that the Commission has not sufficiently explained the departure from prior precedent exempting demand response resources from the MOPR. First, the precedent Advanced Energy Entities refer to involves the MOPR as a means to address buyer-side market power. [566] The December 2019 Order left PJM's existing MOPR in place to address buyer-side market power.[567] The expanded MOPR, however, addresses price suppression as a result of State Subsidies, for which intent to suppress prices is not a factor. Therefore, the December 2019 Order does not depart from prior findings that demand response resources are a poor choice for entities intending to exercise buyer-side market power. However, under the expanded MOPR, any State-Subsidized Resource will be subject to the MOPR because all such resources have the ability to offer below their costs and, therefore, potentially suppress the clearing price, regardless of buyer-side market power.[568] Further, with regard to revenues from retail-level demand response programs for providing services distinct from those provided in the capacity market, the Commission has explained that "regional markets are not required to have the same rules. Our determination about what rules may be just and reasonable for a particular market depends on the relevant facts."[569] As we have explained in the orders throughout this proceeding, the record demonstrates a need to address the impact of State Subsidies on the PJM capacity market. We also reiterate that the replacement rate accommodates this

[566] *See* NYISO SRC Order, 158 FERC ¶ 61,137 at P 30, *order on reh'g*, 170 FERC ¶ 61,120, at P 17 (2020) (reversing determination that a blanket exemption for demand responses resources was appropriate because an exemption does not recognize that some payments to demand response resources could provide them with the ability to reduce prices below competitive levels); *N.Y. Pub. Serv. Comm'n*, 153 FERC ¶ 61,022 at P 10 (finding that the market mitigation rules are appropriately applied to resources with the incentive and ability to exercise buyer-side market power).

[567] December 2019 Order, 169 FERC ¶ 61,239 at. P 42.

[568] *See, e.g.*, *id*. P 51.

[569] *Id*. P 204 n.431.

shift in expectations by exempting existing and limited new demand response resources from the expanded MOPR.[570]

264. With regard to the Maryland Commission's request regarding clarification on retail demand response programs, any demand response resources that participate in the PJM capacity market and receive, or are entitled to receive, State Subsidies, will be subject to the expanded MOPR. Therefore, all demand response program participants, whether they participate in the capacity market individually or through an aggregator, and regardless of their size, will be subject to the MOPR if they receive or are entitled to receive State Subsidies.

265. With respect to requests to provide clarification related to demand response aggregators and Curtailment Service Providers (CSPs), we clarify that these providers are eligible for the Demand Response, Storage, and Energy Efficiency Exemption if they meet the other requirements, as clarified below. With regard to the first criterion of the exemption, individual demand response resources will be considered to have cleared a capacity auction if they cleared either on their own (i.e., individually) or as part of an offer from an aggregator or CSP. An individual demand response resource can be a single retail customer. Aggregators and CSPs will be considered to have previously cleared a capacity auction only if all the individual resources within the offer have cleared a capacity auction either on their own (i.e., individually) or as part of an offer from an aggregator or CSP.

266. We acknowledge that the requirements of the replacement rate, including the application of the default offer price floor, may require aggregators and CSPs to know all of their demand response resource end-users prior to the capacity auction. This is necessary to ensure all State-Subsidized demand response resources are offering competitively, consistent with the December 2019 Order. With respect to arguments that this will harm the business model in some way, we reiterate that, to protect the integrity of the capacity market, it is necessary to ensure that no capacity resource is able to offer below its costs as a result of receiving, or being entitled to receive, a State Subsidy.

267. We deny the Pennsylvania Commission's request for rehearing on the basis that it would be burdensome for PJM to calculate minimum offers for demand response resources. As we find in Section IV.B.9 above, we are not persuaded that implementing the expanded MOPR will be unduly burdensome because, with over a decade of experience calculating competitive capacity cost-based offers, we find it unlikely that PJM or the Market Monitor will be overwhelmed with requests for Unit-Specific Exemptions. Indeed, the Market Monitor has not voiced any such concern.

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[570] *Id.* P 208.

4. RPS Exemption

a. Arguments Against Mitigating RPS Resources

i. Requests for Rehearing or Clarification

268. The DC Commission argues that new renewable resources, unsure how they will be impacted by the MOPR, may raise their offers, resulting in higher costs for customers in RPS states[571] and that applying the MOPR to renewable resources participating in state RPS programs may prevent states from meeting their goals, averring that new renewable resources should also be exempt.[572]

269. The Illinois Attorney General claims that payments from RPS programs should not be subject to the MOPR because the record shows that the effects of these programs have already been incorporated into the capacity market since its inception, and therefore they cannot reasonably be considered to have prevented or delayed retirement of inefficient resources or unduly suppressed prices.[573] The Maryland Commission argues the Commission does not explain its conclusion that renewable resources' prior little impact on clearing prices and limited quantity of RPS resources is irrelevant, even though the amount of renewables that cleared the 2020/2021 BRA was de minimis.[574] Clean Energy Associations argue that RECs are not a driver for whether a renewable energy project is financed or built and have little impact on a renewable project owner's operational choices because a market seller cannot lower its capacity market offer in anticipation of an unknown REC value. Therefore, Clean Energy Associations argue, RECs do not have a price suppressive impact on the capacity market.[575] Buyers Group argues that the expanded MOPR should only be applied to capacity resources developed with the express purpose of satisfying the off-taker's compliance with a state-mandated or state-sponsored procurement process and should not apply to resources developed for

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[571] DC Commission Rehearing and Clarification Request at 7.

[572] *Id*. at 8.

[573] Illinois Attorney General Rehearing Request at 5-7; *see also* Clean Energy Associations Rehearing and Clarification Request at 33.

[574] Maryland Commission Rehearing and Clarification Request at 21.

[575] Clean Energy Associations Rehearing and Clarification Request at 32-34 (citing Initial Testimony of the American Wind Energy Association, the Solar RTO Coalition, the Mid-Atlantic Renewable Energy Coalition, and Solar Energy Industries Association at 13-17 (filed Oct. 2, 2018); Advanced Energy Economy Initial Testimony at 10-14 (filed Oct. 2, 2018)).

voluntary purposes or that intend to sell RECs on the open market. Buyers Group explains that renewable resources typically know how their RECs will initially be used, by nature of agreements with off-takers, but do not have visibility into how the RECs will ultimately be used over the lifetime of the project.[576]

b. Commission Determination

270. We deny rehearing requests regarding the RPS Exemption. We reject the DC Commission's arguments that new renewable resources should not be subject to mitigation because such mitigation may raise costs for customers in RPS states or make it more difficult for states to meet their goals. The replacement rate does not deprive states in the PJM region of jurisdiction over generation facilities because states may continue to support their preferred resource types in pursuit of state policy goals.[577] We also reiterate that courts have directly addressed the question of increasing costs to consumers, holding that states "are free to make their own decisions regarding how to satisfy their capacity needs, but they 'will appropriately bear the costs of [those] decision[s],' . . . including possibly having to pay twice for capacity."[578]

271. We also reject the Illinois Attorney General's argument that RPS payments cannot impact a resource's decision to retire or suppress prices. This argument runs counter to basic logic that a resource receiving a State Subsidy has additional revenue that otherwise similarly situated resources do not, and therefore needs less money from the capacity market. Such resources will be able to offer lower and remain in the market longer than their unsubsidized counterparts.[579]

272. With respect to the arguments presented by the Maryland Commission and Clean Energy Associations regarding whether the Commission acted on sufficient evidence in determining that RPS programs have the ability to impact prices, these are untimely requests for rehearing of the June 2018 Order. However, for clarity, we reiterate here that the June 2018 Order found that increasing support for RPS programs "is significant

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[576] Buyers Group Clarification and Rehearing Request at 11-12.

[577] *See* December 2019 Order, 169 FERC ¶ 61,239 at PP 7, 41; June 2018 Order, 163 FERC ¶ 61,236 at PP 158-59.

[578] *See e.g.*, December 2019 Order, 169 FERC ¶ 61,239 at P 41 (citing *NJBPU*, 744 F.3d at 96-97 (quoting *Connecticut PUC*, 569 F.3d at 481)).

[579] *See* December 2019 Order, 169 FERC ¶ 61,239 at P 72; June 2018 Order, 163 FERC ¶ 61,236 at P 155 (citing 2011 ISO-NE MOPR Order, 135 FERC ¶ 61,029 at PP 170-71).

enough to affect the price in the market, and therefore the entry and exit of resources."[580] Economic theory supports that, in a market based on the clearing price of the incremental unit, the addition of subsidized supply offering based on an artificially low cost may reduce clearing prices.[581] We also reject Clean Energy Association's argument that RPS programs cannot impact clearing prices because a market participant cannot know the value of the RECs it will receive in advance of the auction. First, it would undermine the purpose of the December 2019 Order to allow resources that are currently receiving State Subsidies or plan to accept State Subsidies in the form of RPS or REC revenue to offer into the capacity market unmitigated, as though they were not accepting that subsidy. Second, we disagree that the knowledge of future State Subsidies cannot impact a market participant's offer. The capacity market is a forward market and all sellers must craft their offers around future expectations. There is no evidence in the record to suggest that renewable resource owners do not formulate their offers based on expectations of future revenue and costs as do other resource types. However, should a market participant believe that RPS or REC revenues will not impact its offer, the market participant may either certify that it will forego any State Subsidy and offer unmitigated through the Competitive Exemption or request the Unit-Specific Exemption to justify its offer.

273. We further reject Buyers Group's argument that the MOPR should only apply to resources that are developed for the purpose of satisfying the off-taker's compliance with a state-mandated or state-sponsored procurement process. Buyers' Group proposal would provide a gaming opportunity, as a resource initially developed for a different purpose, such as for the purpose of providing voluntary RECs, is under no obligation to continue to do so throughout its life.

c. Eligibility for the RPS Exemption

i. Requests for Rehearing and Clarification

274. Several parties request rehearing or clarification regarding what constitutes a renewable resource for the purposes of determining eligibility for the RPS Exemption. Delaware DPA requests the Commission clarify or find on rehearing that the RPS Exemption should apply to any resource that was, as of December 19, 2019, eligible to provide RECs, Solar RECs, or REC/Solar REC equivalencies under any state RPS program.[582] Delaware DPA further states that the December 2019 Order limited the exemption to intermittent resources, but that not all renewable resources meet that definition, including geothermal energy, biomass generators, landfill gas generators, and

[580] June 2018 Order, 163 FERC ¶ 61,236 at P 151.

[581] *See, e.g.*, *id*. P 155.

[582] Delaware DPA Clarification and Rehearing Request at 2, 6.

fuel cells.[583] According to Delaware DPA, the Tariff definition of intermittent resources to which the December 2019 Order cites is focused on operational intermittency and not necessarily renewable attributes.[584] Delaware DPA contends that the Commission should grant this clarification or rehearing because states relied on established precedent to craft their RPS programs, including the reservation of state jurisdiction in the FPA,[585] the Supreme Court's findings that states have reserved authority over generation facilities and retain the authority to develop new or clean generation so long as state actions do not disregard or interfere with a Commission-jurisdictional wholesale rate, and prior Commission orders.[586]

275. The Market Monitor requests clarification as to whether landfill gas is a renewable resource for the purposes of the December 2019 Order. The Market Monitor explains that the December 2019 Order defined renewable as intermittent, and PJM Manual 18 identifies landfill gas as an intermittent resource.[587]

276. Consumer Representatives ask the Commission to clarify that all existing renewable resources are eligible for the RPS Exemption even if the resource does not qualify under PJM's definition of intermittent because all existing renewable resources relied on prior Commission orders that they would be exempt.[588] Moreover, Consumer Representatives contend that states and resources were not on notice prior to the December 2019 Order that only a subset of renewable resources that have qualified for years under state RPS programs would not be exempt from the MOPR.[589]

277. Several parties also request rehearing of what constitutes an existing resource for the purposes of eligibility for the RPS Exemption. Clean Energy Associations argue that significant investment decisions were made by projects who, although also guided by the Commission's prior precedent, do not meet the criteria set forth in the RPS Exemption,

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[583] *Id*. at 9-12; *see* Maryland Commission Rehearing and Clarification Request at 12.

[584] Delaware DPA Clarification and Rehearing Request at 9-10 (contending that renewable resources did not have notice they would be subject to the MOPR).

[585] Delaware DPA Clarification and Rehearing Request at 11.

[586] *Id*. at 11-12 (citing *Hughes*, 136 S. Ct. at 1296).

[587] Market Monitor First Clarification Request at 6.

[588] Consumer Representatives Rehearing and Clarification Request at 29-30.

[589] *Id*. at 30.

and therefore request that the Commission revise the December 2019 Order to afford an RPS Exemption to (1) any planned generation capacity resource or existing generation capacity resource as of December 19, 2019, under PJM's Reliability Assurance Agreement and (2) any resource that executed a System Impact Study Agreement or functional equivalent by December 19, 2019.[590] Clean Energy Associations explain that resources under (1) above are deemed to be sufficiently advanced so as to be eligible to participate in capacity market auctions, even if they have not executed final interconnection agreements or are not yet operational.[591]

278. AES requests that the Commission expand this exemption on rehearing to apply to any renewable resource for which a power purchase agreement is executed. AES argues this may be a more important indicator because the power purchase agreement provides a cash flow projection that can be important to getting financing to build. AES argues that interconnection construction service agreements, in contrast, are essentially mandated by PJM.[592] OPSI asserts that the criteria identified in the December 2019 Order are not reflective of the range of plans for resources to become operational pursuant to state policy goals.[593] OPSI argues that any state procurement actions completed prior to issuance of the December 2019 Order should be included among the exemption criteria.[594] AEP/Duke seek clarification that existing capacity resources that are exempt pursuant to the RPS Exemption remain exempted for the life of the resource.[595] AEP/Duke assert that it is arbitrary and capricious for a resource's eligibility for the RPS Exemption to be subject to changes as a result of future state law modification.[596]

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[590] Clean Energy Associations Rehearing and Clarification Request at 52-54.

[591] *Id*. at 53.

[592] AES Rehearing and Clarification Request at 12-13.

[593] OPSI Rehearing and Clarification Request at 11.

[594] *Id*. at 11 (seeking existing status for resources built pursuant to legislation enacted prior to the December 2019 Order, accommodated by a state regulatory commission order related to the prospective construction and operation of a renewable resource or the issuance of RECs issued prior to the December 2019 Order, or built pursuant to a commercial contract executed prior to the December 2019 Order); *see also* Maryland Commission Rehearing and Clarification Request at 5, 23.

[595] AEP/Duke Rehearing and Clarification Request at 4.

[596] *Id*. at 4, 15-18.

ii. Commission Determination

279. We grant clarification that the resources eligible for the RPS Exemption include all existing resources that were included by an RPS standard as of the December 2019 Order. As we explained, decisions to invest in RPS resources were guided by our previous affirmative determinations.[597] Thus we grant Delaware DPA's specific request regarding the eligibility of existing resources eligible to provide RECs, Solar RECs, or REC/Solar REC equivalencies under any state RPS program.

280. We deny all requests to expand what constitutes an existing resource for the purposes of the RPS Exemption, with the exceptions as detailed above (IV.D.1).[598] We deny Clean Energy Associations' request to expand eligibility for the RPS Exemption to any planned or existing generation capacity resource under PJM's Reliability Assurance Agreement or any resource that has executed a System Impact Study Agreement. The Reliability Assurance Agreement considers resources to be planned depending on various factors, including whether interconnection service has commenced; any required agreements or documentation such as System Impact Study Agreements, Facilities Study Agreements, and Interconnection Service Agreements executed; and whether any MWs of capacity have previously cleared an auction.[599] System Impact Study Agreements and Facilities Study Agreements are executed early in the interconnection queue process and bind market participants only to the cost of the study. They do not require market participants to continue through the process and ultimately interconnect. Further, System Impact Study Agreements and Facilities Study Agreements neither confer interconnection rights nor bind the market participant to funding interconnection facilities. Therefore, we find that resources at the study phase are not sufficiently developed to warrant the categorical exemptions. With respect to the other aspects of planned and existing resources as defined by the Reliability Assurance Agreement, those are already captured by the exemptions herein.

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[597] December 2019 Order, 169 FERC ¶ 61,239 at P 174 (citing 2013 MOPR Order, 143 FERC ¶ 61,090 at PP 166-167; 2011 MOPR Order, 135 FERC ¶ 61,022 at PP 152-153; 2011 MOPR Rehearing Order, 137 FERC ¶ 61,145 at P 111).

[598] We pause to note that, as the capacity market has developed, an ever-growing number of resource types have come to participate in the market that were not contemplated. This proceeding has focused on establishing just and reasonable rates in the capacity market but does not necessarily resolve issues regarding whether, to what extent, and under what terms resources that are not able to produce energy on demand should participate in the capacity market consistent with the Commission's mandate to ensure the reliability of the electric system.

[599] PJM Reliability Assurance Agreement, Art. 1 – Definitions.

281. Similarly, we deny requests to expand the exemption to apply to any renewable resource for which a power purchase agreement has been executed or that is being developed pursuant to a commercial contract. Market participants may be party to these types of agreements without having made sufficient investments to either be committed to funding construction costs through PJM or being awarded interconnection rights. Power purchase agreements and commercial contracts are not unique to renewable resources, and parties have not provided any reason why renewable resources should be treated differently than other resources. Interconnection service agreements are necessary as part of the interconnection process. Using these agreements as the cutoff point to determine eligibility for the exemptions therefore ensures all resource types are treated equitably.

282. Further, we deny OPSI and the Maryland Commission's requests to base eligibility for the RPS Exemption on whether the resources are built pursuant to existing legislation or otherwise anticipated by the state before the date of the December 2019 Order. As we explained in the December 2019 Order, this limited exemption for resources participating in RPS programs is just and reasonable because decisions to invest in those resources were guided by our previous affirmative determinations that renewable resources had too little impact on the market to require review and mitigation.[600] However, that assessment of renewable resource participation in the market has changed and market participants are now on notice that any new State-Subsidized renewable resources will be subject to the MOPR.[601] Future investment in renewable resources intending to participate in the capacity market should be guided by this new precedent.

283. We grant AEP/Duke's request for clarification that existing capacity resources that are exempt pursuant to the RPS Exemption remain exempt for the life of the resource, subject to the requirements associated with uprates, per the description of the RPS Exemption in the December 2019 Order.[602] Should the state modify its RPS program, the resource retains its existing status. However, as discussed in the December 2019 Order and clarified in this order, any uprates to an existing generation capacity resource will be

[600] December 2019 Order, 169 FERC ¶ 61,239 at P 174 (citing 2013 MOPR Order, 143 FERC ¶ 61,090 at PP 166-167; 2011 MOPR Order, 135 FERC ¶ 61,022 at PP 152-153; 2011 MOPR Rehearing Order, 137 FERC ¶ 61,145 at P 111).

[601] *Id*. P 174.

[602] *Id*. P 173.

considered new for the purposes of the MOPR, regardless of whether the underlying resource has previously been exempt as an existing resource.[603]

5. Unit-Specific Exemption

a. Request for Rehearing or Clarification

284. Clean Energy Associations argue that, in order to allow for truly competitive offers under the Unit-Specific Exemption, the Commission must permit any seller to utilize any appropriate method or inputs that will reflect actual, accurate, and competitive offers from their resources, including but not limited to the use of the Net ACR method.[604]

285. Clean Energy Associations assert that it is unreasonable to apply the same capital cost assumptions to planned natural gas-fired resources and planned renewable resources, such as a standardized useful life of 20 years, when renewable resources routinely and reasonably assume a useful life of between 30-40 years, asserting that capital cost assumptions for each default resource type must be based on realistic assumptions for renewable facilities, which may have lower capital costs than other resources due to bonus depreciation and federal incentives from the Investment Tax Credit and Production Tax Credit.[605]

286. Clean Energy Advocates argue that the Unit-Specific Exemption will still exclude excessive amounts of capacity from participating in the capacity market and that it is a time-consuming and costly process that serves as an unwarranted barrier for new resources.[606] Clean Energy Advocates argue that, as a result, resources whose unit-specific offer price floor would allow them to clear the market might be dissuaded from participating in the capacity market in the first place, with this burden falling most heavily on smaller projects that cannot afford the expense and uncertainty of unit-specific review.[607] Clean Energy Associations argue that PJM will be inundated with Unit-

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[603] *Id.* P 149.

[604] Clean Energy Associations Rehearing and Clarification Request at 48.

[605] *Id.* at 49 (citing Comments of the American Wind Energy Association, the Solar RTO Coalition, the Mid-Atlantic Renewable Energy Coalition and the Solar Energy Industries Association, Docket No. EL18-187-000, at 2 (Oct. 2, 2018)).

[606] Clean Energy Advocates Rehearing Request at 82-84 (calculating unit-specific offer price floors is burdensome, unpredictable, and costly for applicants).

[607] *Id.* at 84.

Specific Exemption requests, opining that PJM and the Market Monitor might not have the resources necessary to undertake the process.[608]

287. PJM states that the December 2019 Order directs PJM to retain the Unit-Specific Exemption, but states that such requests will be "subject to approval by the Market Monitor."[609] PJM requests that the Commission confirm that the December 2019 Order did not intend to alter the current collaborative approach for unit-specific review, under which the Market Monitor may review and make recommendations regarding requests for unit-specific review, but only PJM or the Commission may approve or deny such a request.[610]

288. J-POWER requests that the Commission clarify that a resource that has already obtained a unit-specific exception under PJM's existing Tariff for the 2022/2023 delivery year is not required to re-apply for the Unit-Specific Exemption described in the December 2019 Order, but has the option of doing so to update its cost information.[611]

b. Commission Determination

289. We deny rehearing requests and continue to find the Unit-Specific Exemption, expanded to cover existing and new State-Subsidized Resources of all resource types, operates as an important safety valve that will help avoid over-mitigation of resources that demonstrate their offers are economic based on a rational estimate of their expected costs and revenues without reliance on out-of-market financial support through State Subsidies.[612] Additionally, we remain unpersuaded that the Unit-Specific Exemption, a feature of PJM's existing Tariff, is unduly burdensome. PJM and its Market Monitor have been calculating competitive capacity cost-based offers for over a decade.[613] If PJM and the Market Monitor are flooded with requests for unit-specific review, they can allocate additional personnel to perform this task. And, for any market participant that

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[608] Clean Energy Associations Rehearing and Clarification Request at 27.

[609] PJM Rehearing and Clarification Request at 24 (citing December 2019 Order, 169 FERC ¶ 61,239 at P 214).

[610] PJM Rehearing and Clarification Request at 24-25 (citing PJM OATT, Attach. DD, § 5.14(h)(5)(iv)); *see also* Public Power Entities Rehearing and Clarification Request at 53-55.

[611] J-POWER Clarification Request at 2.

[612] December 2019 Order, 169 FERC ¶ 61,239 at PP 16, 214.

[613] *See* PJM OATT, § 12A.

considers the process of obtaining a Unit-Specific Exemption too onerous, the default offer price floor for each resource type remains available, in addition to the Competitive Exemption if a resource declines to take a State Subsidy it is eligible to receive.[614]

290. As to Clean Energy Advocates' assertion that it is unreasonable to apply the same capital cost assumptions to planned natural gas-fired resources and planned renewable resources, we disagree. As we found in the December 2019 Order, default offer price floors should maintain the same basic financial assumptions, such as the 20-year asset life, across resource types.[615] The Commission has previously determined that standardized inputs are a simplifying tool appropriate for determining default offer price floors,[616] and we reaffirm that it is reasonable to maintain these basic financial assumptions for default offer price floors in the capacity market to ensure resource offers are evaluated on a comparable basis.

291. We grant PJM's request for clarification. The reference to the Market Monitor's approval was merely meant to recognize the Market Monitor's role in reviewing the offers, not to modify that role, or usurp PJM or the Commission's role, in approving or denying requests for Unit-Specific Exemptions.

292. We also grant J-POWER's request for clarification. If a market participant has already received a unit-specific exception for a resource under the currently existing Tariff and MOPR for the BRA for delivery years 2022/2023, it is not necessary to reapply. Given the delay in the auction, we further find that it is reasonable to allow market participants that wish to update the information in their application to do so.

6. Competitive Exemption

a. Requests for Rehearing or Clarification

293. Parties argue that the Competitive Exemption is not just and reasonable because it did not include an exemption for State Subsidies procured through competitive processes.[617] The Illinois Commission argues that the Competitive Exemption should include a competitiveness test, as did the 2013 competitive entry exemption on which the

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[614] December 2019 Order, 169 FERC ¶ 61,239 at P 216.

[615] *Id*. P 153.

[616] 2013 MOPR Order, 143 FERC ¶ 61,090 at P 144.

[617] Illinois Commission Rehearing Request at 24-25; Clean Energy Associations Rehearing and Clarification Request at 16; PJM Rehearing and Clarification Request at 7-9.

December 2019 Order states the Competitive Exemption is based.[618] Clean Energy Associations contend that the December 2019 Order presented no evidence for subjecting State Subsidies procured via competitive processes to the MOPR, arguing that if a resource competed in a state program, the State Subsidy was competitively obtained, resulted from competitive market dynamics, and should not be subject to the MOPR.[619] PJM contends that the December 2019 Order never explained why the Commission no longer believes the competitive entry exemption is just and reasonable.[620]

294. Consumers Coalition argue that the Competitive Exemption is unjust, unreasonable and unduly discriminatory because it is only available to resources foregoing State Subsidies, which include revenue earned through competitive state clean energy procurement programs, but not revenue from comparable fuel-neutral procurements, citing as examples PJM's competitive procurement for black start or ancillary services.[621]

295. The Pennsylvania Commission argues the Commission acted arbitrarily and capriciously by denying the Competitive Exemption to natural gas-fired resources, including those not receiving a State Subsidy, because market performance of all natural gas-fired resources demonstrates there is no reason not to permit such resources to use the Competitive Exemption. The Pennsylvania Commission contends that the Commission ignored evidence that Net CONE for these resources is overstated, because annual capacity auction prices over the last five years were only 34% of the combined cycle default offer price floor where combined cycle represents the marginal technology in the supply stack.[622] In addition, the Pennsylvania Commission argues that annual capacity auction prices for the five years during which the competitive entry exemption was in place for natural gas-fired resources show no evidence of price suppression, nor has any party presented evidence that the exemption allowed for price suppression. The Pennsylvania Commission concludes that imposing the MOPR on resources receiving no

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[618] Illinois Commission Rehearing Request at 24-25 (citing December 19 Order, 169 FERC ¶ 61,239 at PP 15, 73; 2013 MOPR Order, 143 FERC ¶ 61,090 at P 56); *see also* ELCON Rehearing Request at 10 (arguing that the Commission does not justify applying the MOPR to payments as a result of competitive processes).

[619] Clean Energy Associations Rehearing and Clarification Request at 16.

[620] PJM Rehearing and Clarification Request at 7-9.

[621] Consumers Coalition Rehearing Request at 41 (citing December 2019 Order, 169 FERC ¶ 61,239 at PP 73-74).

[622] Pennsylvania Commission Rehearing and Clarification Request at 9.

subsidies imbues an anti-competitive bias on a class of generators rather than promoting competition.[623]

296. The Pennsylvania Commission also argues the Commission acted arbitrarily and capriciously by finding without justification that resources whose primary purpose is not electricity production should not be eligible for the Competitive Exemption.[624] The Pennsylvania Commission contends that, as a result of applying a MOPR to "these unsubsidized resources," PJM would need to evaluate the value of residual steam and resiliency associated with these investments, "thereby further burdening the development of this sector."[625]

297. Parties argue that the Commission's proposal that a new resource that claims the Competitive Exemption in its first year, then subsequently elects to accept a State Subsidy, may not participate in the capacity market from that point forward for a period of years equal to the applicable asset life that PJM used to set the default offer price floor in the auction that the new asset first cleared is overly punitive.[626] Clean Energy Associations assert that the proposal has not been justified as being proportional to the alleged harm caused, because resources may have several decades of useful life during which market conditions may radically change.[627] Dominion proposes that a more reasonable approach would be to limit the penalty to a period of years, or in the alternative, prohibit the resource from participating in the auction for the remaining number of years in the assumed asset life.[628] Consumers Coalition argue that there is no reason to treat new and existing resources differently and the draconian measure of prohibiting a new resource from the capacity market for decades if it later decides to take a subsidy is not warranted, nor does the Commission explain why a less harsh penalty would not deter gaming.[629]

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[623] *Id*. at 9-10.

[624] *Id*. at 10.

[625] *Id*.

[626] Dominion Rehearing and Clarification Request at 9, 25-26; Consumers Coalition Rehearing Request at 41; Illinois Commission Rehearing Request at 25.

[627] Clean Energy Associations Rehearing and Clarification Request at 55-56.

[628] Dominion Rehearing and Clarification Request at 26.

[629] Consumers Coalition Rehearing Request at 41.

298. The Pennsylvania Commission requests the Commission find that a resource that agrees to forego annual REC revenues in any given delivery year should be eligible to offer into capacity auctions corresponding to that delivery year without being subject to the MOPR.[630] The Pennsylvania Commission argues that this will provide an ongoing incentive for previously subsidized resources to forego out-of-market revenues and enhance competition, while mitigating double procurement of capacity.[631]

299. Parties also seek clarification as to whether electric cooperatives are categorically barred from using the Competitive Exemption as a result of their business model.[632] NRECA/EKPC assert that categorically barring electric cooperatives would be unreasonable and request the Commission clarify that an electric cooperative may avail itself of the Competitive Exemption.[633] EKPC argues that the Commission should clarify that PJM may review the circumstances of each electric cooperative when determining whether to grant a Competitive Exemption.[634] EKPC further argues that, from a policy standpoint, categorically denying electric cooperatives the ability to pursue the Competitive Exemption will negatively impact the existing market and hamper future prospects of growing the PJM wholesale market to include new territories.[635] Without granting clarification, EKPC states, electric cooperatives face the prospect of paying twice for capacity.[636]

300. J-POWER requests the Commission clarify that the December 2019 Order was not intended to preclude or prejudge any future filings, whether under section 205 or section 206 of the FPA, to extend the Competitive Exemption to any new gas-fired resource that meets the requirements for such exemption.[637] The Market Monitor requests the

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[630] Pennsylvania Commission Rehearing and Clarification Request at 13-14.

[631] *Id*. at 14.

[632] EKPC Rehearing and Clarification Request at 9-11; NRECA/EKPC Clarification and Rehearing Request at 22-23; *see also* IMEA Clarification and Rehearing Request at 11-16 (arguing that it is unduly discriminatory that public power cannot elect the Competitive Exemption).

[633] NRECA/EKPC Clarification and Rehearing Request at 23.

[634] EKPC Rehearing and Clarification Request at 9.

[635] *Id*. at 10.

[636] *Id*.

[637] J-POWER Clarification Request at 8.

Commission clarify that the Competitive Exemption only applies to resources receiving or entitled to receive a State Subsidy that certify they will forego the State Subsidy.[638]

b. Commission Determination

301. We deny rehearing requests seeking to include an exemption for state competitive procurement processes. Although, as parties point out, the Commission previously approved an exemption for competitive, non-discriminatory state procurement processes proposed by PJM in 2013,[639] we do not believe such an exemption is necessary for a just and reasonable replacement rate here. The purpose of the expanded MOPR is to ensure that resources participating in the capacity market with the benefit of State Subsidies do not suppress capacity market prices by offering lower than their costs. Under these circumstances, subjecting all State-Subsidized Resources to the expanded MOPR ensures that subsidized resources do not have the ability to affect competitive price signals and protects capacity market integrity. An exemption for competitive procurement processes is not necessary because if a State-Subsidized Resource is truly competitive, the resource can use the Unit-Specific Exemption to offer less than the default offer price floor for its resource type.[640] Thus, a resource has the opportunity to demonstrate its costs are competitive and participate in PJM's capacity auction at less than Net CONE or Net ACR, while also protecting market integrity.

302. We deny the Pennsylvania Commission's request to extend the Competitive Exemption to new natural gas-fired resources, whether State Subsidized or not. To the extent the Pennsylvania Commission argues that the existing MOPR is unjust and unreasonable without a competitive entry exemption, we disagree. For the reasons discussed above, we decline to include an exemption for competitive processes, similar to the prior competitive entry exemption. Further, as we found in the December 2019 Order, the record did not demonstrate a need to eliminate or modify application of the existing MOPR to new natural gas-fired resources, which applied, and thus will continue to apply, regardless of whether they receive State Subsidies. The Pennsylvania Commission provides no evidence to suggest that the existing MOPR should be changed, or that natural gas-fired resources are no longer likely to be used to exercise buyer-side market power. The Pennsylvania Commission's argument that PJM has not calculated Net CONE accurately for new natural gas-fired resources, even if true, does not demonstrate that natural gas-fired resources are no longer likely to be used for buyer-side market power or that new natural-gas fired resources should be permitted to use the Competitive Exemption, only that Net CONE may need to be re-evaluated (we address those claims in

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[638] Market Monitor Second Clarification Request at 2-3.

[639] *See* 2013 MOPR Order, 143 FERC ¶ 61,090 at PP 53-54.

[640] December 2019 Order, 169 FERC ¶ 61,239 at P 73.

Section IV.C.). Further, we find the Pennsylvania Commission's claims that capacity prices were not suppressed during the years the competitive entry exemption was in place to be irrelevant. Even if the Pennsylvania Commission had demonstrated that prices were not suppressed by resources exercising buyer-side market power during the years the competitive entry exemption was in place, which it did not, that would fail to show that new natural gas-fired resources should be permitted to use the Competitive Exemption. The Competitive Exemption is available to those resources subject to the default offer price floors based on the receipt of a State Subsidy. New natural gas-fired resources are subject to the default offer price floors because they are the resources most likely to exercise buyer-side market power, not based on the receipt of a State Subsidy. Finding that new natural gas-fired resources cannot use the Competitive Exemption is thus the logical conclusion and does not create anti-competitive effects on new natural gas-fired resources, which still may use the Unit-Specific Exemption to demonstrate competitiveness.

303. With regard to the Pennsylvania Commission's argument that the Commission acted arbitrarily and capriciously by finding without justification that resources whose primary purpose is not electricity production should not be eligible for the Competitive Exemption, the Pennsylvania Commission appears to misunderstand the findings in the order. The December 2019 Order did not bar such resources from the Competitive Exemption. We clarify that any new or existing resource, other than new natural gas-fired resources, may certify to PJM that they will forego any State Subsidies in the Competitive Exemption.[641] However, resources whose primary purpose is not electricity production will be subject to the MOPR if they receive, or are eligible to receive, a State Subsidy and do not qualify for an exemption.[642]

304. We also deny requests for rehearing regarding the December 2019 Order's finding that if a new resource claims the Competitive Exemption in its first year, then subsequently elects to accept a State Subsidy, that resource may not participate in the capacity market from that point forward for a period of years equal to the applicable asset life that PJM used to set the default offer price floor in the auction that the new asset first cleared.[643] As a threshold matter, we are not required to evaluate the replacement rate against every other potential replacement rate, nor to choose the most just and reasonable rate.[644] As we explained in the December 2019 Order, there is a loophole whereby a

[641] *Id*. P 161.

[642] *Id*. P 51.

[643] *Id*. P 162.

[644] *See, e.g.*, *Emera Maine*, 854 F.3d at 23 (stating that "because statutory reasonableness 'allows a substantial spread' of potentially reasonable rates, a court has no authority to fix a rate different from the one chosen by FERC 'on the ground that, in its

resource may not be eligible for a State Subsidy at the time of the capacity market qualification process, but may become eligible for such a subsidy, and accept it, before or during the relevant delivery year.[645] The consequence of such gaming is especially significant with respect to new resources, which would have faced a higher default offer price floor. A market participant could disclaim a State Subsidy its first year, in order to clear the market at an unmitigated offer below its costs, knowing it could accept that State Subsidy every other year of its useful life to make up for any losses sustained that first year. Alternatively, if the new resource clears the market subject to the default offer price floor appropriate to a new resource of that type, it has been demonstrated to be economic independently of the State Subsidy. The risk of market harm involved in a new resource gaming the MOPR in this way is therefore much higher than for an existing resource. Therefore, it is just and reasonable both to use such a high penalty for new resources and to treat new and existing resources differently for the purposes of the Competitive Exemption.

305. For the above reasons, we also deny the Pennsylvania Commission's request to exempt RPS resources from these gaming provisions. We find that a potential incentive for resources that have previously received State Subsidies to no longer accept them is not sufficient to overcome the market harm that would result if new resources were allowed to bypass the expanded MOPR by entering into the capacity market as though they were competitive and then subsequently accept a State Subsidy.

306. With regard to electric cooperatives, electric cooperatives receive State Subsidies by definition[646] and therefore do not qualify for the Competitive Exemption. We reject arguments that not exempting electric cooperatives will harm efforts to expand PJM

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opinion, it is the only or the more reasonable one.'") (quoting *Montana-Dakota Util. Co. v. Nw. Pub. Serv. Co.*, 341 U.S. 246, 250-52 (1951)).

[645] December 2019 Order, 169 FERC ¶ 61,239 at P 162.

[646] Namely, the State Subsidy definition states that any "direct or indirect payment, concession, rebate, subsidy, non-bypassable consumer charge, or other benefit that is (1) a result of any action, mandated process, or sponsored process of . . . *an electric cooperative*, and that is (2) derived from or connected to the procurement of (a) electricity or electric generation sold at wholesale interstate commerce, or (b) an attribute of the generation process for electricity or electric generation capacity sold at wholesale in interstate commerce, or (3) will support the construction, development or operation of a new or existing resource, (4) or could have the effect of allowing a resource to clear in any PJM capacity auction." *Id.* P 67. (emphasis added).

markets to new territories as immaterial. We have repeatedly addressed arguments regarding paying twice for capacity and therefore reject that argument again here.[647]

307. We clarify the December 2019 Order did not prejudge any future filings or alter any FPA section 205 or 206 filing rights. Finally, we clarify that the Competitive Exemption is available to State-Subsidized Resources receiving or entitled to receive a State Subsidy that certify they will forego the State Subsidy.[648] However, all resources seeking to employ the Competitive Exemption must certify whether or not they receive, or are entitled to receive, a State Subsidy.

E. Undue discrimination

1. Rehearing and Clarification Requests

308. Parties argue that the December 2019 Order treats existing nuclear resources differently from other existing resources and is thus unduly discriminatory.[649] NEI and Exelon argue that it is arbitrary and capricious to exempt existing RPS and self-supply resources on the rationale that these resources were previously exempt and to preserve existing investment decisions, but not exempt resources receiving ZECs, which have also made significant investments in light of their expectations that they would not be subject to the MOPR.[650] For example, Exelon states that it made capital investments in the Quad Cities nuclear plant against the backdrop of market rules that had not previously applied the MOPR to existing nuclear resources.[651] Exelon insists that there is no economic justification for distinguishing between groups of existing resources, pointing to the Commission's statement that self-supply resources may have the ability to suppress

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[647] *See, e.g.*, December 2019 Order, 169 FERC ¶ 61,239 at P 41.

[648] *See* Market Monitor Second Clarification Request at 2-3.

[649] *See, e.g.*, Exelon Rehearing and Clarification Request at 8, 28-29; NEI Rehearing Request at 12-13; FES Rehearing Request at 18-19; Consumer Representatives Rehearing and Clarification Request at 24; Ohio Commission Rehearing Request at 16.

[650] NEI Rehearing Request at 12-13; Exelon Rehearing and Clarification Request at 28-29; *see also* PSEG Rehearing Request at 5, 12-14; Illinois Commission Rehearing Request at 11; Ohio Commission Rehearing Request at 16-17; FES Rehearing Request at 18-19.

[651] Exelon Rehearing and Clarification Request at 28-29 (concluding that affording an exemption for existing self-supply resources while denying that exemption for other existing resources receiving state support provides the competitive advantage that the Commission finds illicit).

prices going forward. Exelon contends that exempting existing self-supply resources, while denying an exemption for existing nuclear resources, affords self-supply a competitive advantage.[652]

309. NEI contends that, while nuclear resources may have been on notice that they could be subject to the MOPR, they expected the replacement rate to include the resource-specific FRR Alternative.[653] PSEG contends that its nuclear resources have operated competitively within the rules and made decisions under the assumption that they would be able to continue to compete in the market, consistent with the Commission's reasoning that the exemptions "are an extension or re-adoption of the status quo ante for many types of resources that accept the premise of a competitive capacity market" and have operated within the market rules as they have evolved and made decisions "based on affirmative guidance [] indicating that those decisions would not be disruptive to competitive markets."[654]

310. Exelon points out that existing self-supply resources make up nearly 31 GWs of PJM's installed capacity, while existing nuclear units receiving ZECs are five GWs.[655] The Illinois Commission asserts that existing nuclear units currently receiving state support in PJM are finite and not growing, like the existing renewable and self-supply resources that the December 2019 Order exempted. The Illinois Commission further asserts the December 2019 Order is unduly discriminatory between nuclear resources because it exempts existing nuclear units owned by, or contracted to, vertically integrated utilities under the Self-Supply Exemption,[656] but subjects existing nuclear plants owned

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[652] Exelon Rehearing and Clarification Request at 28 (citing December 2019 Order, 169 FERC 61,239 at P 203).

[653] NEI Rehearing Request at 12-13; *see also* Consumer Representatives Rehearing and Clarification Request at 17-19.

[654] PSEG Rehearing Request at 13-14 (stating that more than $200 million has been invested in the Hope Creek plant since 2008 and those investments were made with the expectation that owners would recoup them over future years) (citing December 2019 Order, 169 FERC ¶ 61,236 at P 14).

[655] Exelon Rehearing and Clarification Request at 29.

[656] Illinois Commission Rehearing Request at 11 (citing December 19 Order, 169 FERC ¶ 61,239 at n.427).

by independent or utility-affiliated entities to the expanded MOPR due to state restructuring statutes.[657]

311. Consumer Representatives argue that the December 2019 Order fails to justify the different treatment of existing resources generally given that some existing resources are exempted and others, like coal, natural gas, and petroleum, are not.[658] Consumer Representatives further argue that requiring new natural gas-fired resources to be subject to mitigation unduly discriminates against these resources, given that other non-subsidized resources are not subject to the MOPR's default offer price floors,[659] asserting that requiring a nexus between State Subsidies and all other resources, but no nexus between State Subsidies and new natural gas-fired resources, undermines the Commission's objective of ensuring a competitive fuel-neutral process designed to select the most economic resources.[660]

312. NEI contends that State-Subsidized Resources will be also unduly discriminated against in terms of their ability to compete with resources that are not subject to the MOPR in energy and ancillary services markets because they may have to offer higher in those markets in the absence of capacity revenues.[661]

313. NEI argues that the December 2019 Order is unduly discriminatory because it may prevent some resources, which serve the same resource adequacy function as other resources, from selling their resource adequacy attributes in the capacity market merely because they are State-Subsidized Resources.[662] Clean Energy Associations state that the

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[657] *Id*.

[658] Consumer Representatives Rehearing and Clarification Request at 24-26 (noting the different treatment is not fuel neutral).

[659] *Id*. at 19-21.

[660] *Id*. at 22-26.

[661] NEI Rehearing Request at 13, n 43. NEI argues that the courts have previously required the Commission to remedy similarly impacts. *Id.* (citing *Conway*, 510 F.2d at 1274; *Boroughs of Ellwood City v. FERC*, 731 F.2d 959, 978 (D.C. Cir. 1984) ("[W]hen the Commission finds that wholesale rates, compared with retail rates, demonstrate non-cost-justified price discrimination with a significant impact on the wholesale customer's ability to compete in the retail market, it must at least consider this price discrimination and its anticompetitive effect in setting a just and reasonable rate.")).

[662] NEI Rehearing Request at 13; *see also* Clean Energy Associations Rehearing and Clarification Request at 25-26; Clean Energy Advocates Rehearing Request at 34.

Commission's failure to acknowledge that the December 2019 Order will produce a class of uncompensated resources that are similarly situated to other resources providing resource adequacy violates the Commission's statutory mandate to ensure that rates and practices are not unduly discriminatory or preferential.[663]

314. The Ohio Commission also characterizes as unduly discriminatory the Commission's finding, on the one hand, that there is no reason to give a competitive advantage to new self-supply entities in vertically integrated states, but then providing an exemption for existing self-supply entities to the prejudice of retail choice states like Ohio.[664] Similarly, AEP/Duke argue the Commission's finding that the state-approved retail rider related to OVEC is a State Subsidy is a direct attack on a state-retail ratemaking decision (Ohio's decision to be a retail choice state and use a state-approved retail rider) that has no connection to or impact on whether OVEC continues to operate within PJM.[665]

315. IMEA argues that, like other PJM market participants, municipal utilities own generation resources, procure and sell electricity and capacity at wholesale, and ensure that their customers receive electricity. But, IMEA points out, on the basis that a municipal utility's budget and business model are a State Subsidy, municipal utilities are treated differently than other market participants, which, IMEA contends, is unduly discriminatory against municipal utilities, as there is no record evidence that municipal utilities transact any differently than other types of utilities or that municipal utilities single out "preferred generation resources" or pay subsidies to specific generation resource types.[666] IMEA argues that the State Subsidy definition encompasses all decisions that IMEA makes regarding generating resources, as well as bilateral contracts regardless of whether they are for capacity or energy or bundled with both, thereby including all of IMEA's commercial activity. According to IMEA, encompassing all commercial decisions by municipal utilities, and electric cooperatives, within the State Subsidy definition is discriminatory.[667] IMEA further alleges as unduly discriminatory the fact that other market participants are afforded opportunities to reject or forego State Subsidies when municipal utilities may not. IMEA states that this consigns municipal utilities to mitigation, without the ability to respond to price signals and that denying certain market participants the ability to fully engage in the market results in undue

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[663] Clean Energy Associations Rehearing and Clarification Request at 26.

[664] Ohio Commission Rehearing Request at 10, 16.

[665] AEP/Duke Rehearing Request at 7.

[666] IMEA Rehearing and Clarification Request at 11, 15.

[667] *Id*. at 13-14.

discrimination and produces and unjust and unreasonable rate.[668] Public Power Entities contend that not providing an exemption for self-supply resources going forward is unduly discriminatory, given that the Commission previously found there are differences between utilities in restructured states and traditionally regulated states with regard to uneconomic entry.[669]

316. Clean Energy Associations and Clean Energy Advocates argue that the December 2019 Order discriminates between resources who obtain revenue outside Commission-jurisdictional markets depending on whether that revenue derives directly from state policies or from private transactions, citing the sale of RECs and coal ash.[670] In both cases, Clean Energy Associations argue that the receipt of "out-of-market" revenue has the potential to suppress capacity market prices and both are outside the Commission's jurisdiction, but the December 2019 Order only subjects renewable resources selling RECs to the MOPR, while taking no action against resources that sell coal ash, even though both groups of resources have the ability to suppress capacity market prices through the sale of RECs and coal ash.[671]

317. Consumers Coalition argue that the replacement rate permits emitting resources to include state-imposed environmental costs in their offers, like emissions costs, but excludes state-derived revenue from affected resources' capacity offers, preventing these resources from reducing wholesale capacity costs, and there is no basis for this different treatment.[672]

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[668] *Id*. at 15-17.

[669] Public Power Entities Clarification and Rehearing Request at 29 (citing 2013 MOPR Order, 143 FERC ¶ 61,090 at P 111 (rejecting arguments that it is unduly discriminatory against restructured states to exempt self-supply entities)).

[670] Clean Energy Associations Rehearing and Clarification Request at 25; Clean Energy Advocates Rehearing Request at 56-57.

[671] Clean Energy Associations Rehearing and Clarification Request at 25-26; Clean Energy Advocates Rehearing Request at 54, 57; *see also* Ohio Commission Rehearing Request at 6, 13 (contending that all resources are similarly situated in their ability to offer capacity, but only some resources are mitigated based on the type of subsidy they receive); Consumers Coalition Rehearing Request at 6-7, 8-9 (arguing that the December 2019 Order unduly discriminates based on the type of revenue).

[672] Consumers Coalition Rehearing Request at 39-40.

2. Commission Determination

318. We deny rehearing requests that argue the December 2019 Order is unduly discriminatory or preferential because it exempts some resources, but not others. As the Commission has previously explained, the FPA forbids "undue" preferences, advantages, and prejudices.[673] Whether a rate or practice is unduly discriminatory depends on whether it provides different treatment to different classes of entities and turns on whether those classes of entities are similarly situated. "To say that entities are similarly situated does not mean that there are no differences between them; rather, it means that there are no differences that are material to the inquiry at hand."[674] Moreover, undue discrimination can occur when a seller charges the same rate to differently situated customers.[675]

319. Parties who argue that the replacement rate unduly discriminates against one group of existing subsidized resources, while exempting other existing resources, are flipping the facts and the Commission's rationale upside down. The June 2018 Order was a necessary reaction to new and expanding State Subsidies that were distorting the capacity market and were not addressed by the limited scope of the MOPR—in particular, its confinement to new natural gas-fired resources—which resulted in unduly preferential treatment for State-Subsidized Resources and unduly discriminated against non-State-Subsidized Resources. As in past MOPR-related orders, the Commission has tailored its response to mitigate the practices that cause the most harm.[676] The subsidies that certain states enacted to keep struggling resources online were a new and expanding phenomenon that undermined the foundational assumptions of the PJM capacity market. For example, ZEC legislation was passed in Illinois and New Jersey, and then

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[673] 16 U.S.C. §§ 824a(b), 824e(a).

[674] *Transmission Agency of N. Cal. v. FERC*, 628 F.3d 538, 549 (D.C. Cir. 2010); *Town of Norwood*, 202 F.3d at 402 ("But differential treatment does not necessarily amount to *undue* preference where the difference in treatment can be explained by some factor deemed acceptable to regulators (and the courts).") (emphasis in original); *Cities of Newark v. FERC*, 763 F.2d 533, 546 (3d Cir. 1985) ("differences in rates are justified where they are predicated upon factual differences between customers").

[675] *See Ala. Elec., Inc. v. FERC*, 684 F.2d 20, 27-28 (D.C. Cir. 1982) ("If the costs of providing service to one group are different from the costs of serving the other, the two groups are in one important respect quite dissimilar."); *Elec. Consumers Res. Council v. FERC*, 747 F.2d 1511, 1515-16 (D.C. Cir. 1984).

[676] 2011 MOPR Order, 135 FERC ¶ 61,022 (eliminating state mandate exemption, permitting wind and solar resources to make zero dollar offers, among other things); 2011 MOPR Rehearing Order, 137 FERC ¶ 61,145, *aff'd sub nom*. *NJBPU*, 744 F.3d 74.

Pennsylvania considered ZEC legislation as well. The growing impact of state policies on organized capacity markets was so obvious as it developed that the Commissioners in 2017 presided over an extensive technical conference to explore solutions to this issue in PJM, NYISO and ISO-NE.[677] But that effort failed to produce decisive Commission action to address the issue in PJM, including any action on the original Calpine complaint, and the Commission's ability to respond was hampered by the absence of a quorum for some time. PJM ultimately stepped forward with its proposal under FPA section 205 in April 2018 and that proposal, which was subject to a statutory deadline, catalyzed a decisive Commission order. Even after the June 2018 Order, certain states pursued new or expanded out-of-market support for preferred resources.[678]

320. The new subsidies that states enacted to extend the commercial life of preferred generation resources in the face of competition with more cost-effective resources[679] (i.e., nuclear resources supported by ZECs, or coal-fired resources supported by more recent Ohio legislation) can distort the market in the absence of an explicit prohibition regarding existing resources in the MOPR, and highlight the clear tension between that new form of out-of-market support and the Commission's 2011 orders removing the state mandate exemption.[680] These circumstances are quite different from the perpetuation or expansion of various forms of state support for other types of resources that the Commission had expressly declined to address through capacity market rule changes—for example, the Commission's explicit statements regarding renewable resources and demand response,[681] as well as its authorization of a specific exemption for self-supply

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[677] June 2018 Order, 163 FERC ¶ 61,236 at P 16 (describing technical conference convened in Docket No. AD17-11-000 to explore the impact of out-of-market support for specific resources or resource types in PJM, ISO New England, and NYISO).

[678] December 2019 Order, 169 FERC ¶ 61,239 at P 22 n.55.

[679] The Commission is cognizant of the manner in which other market rules outside the scope of this proceeding have disadvantaged the resources that the states sought to support, and thereby allowed other resources to appear more cost-effective than they may actually be in a more refined head-to-head economic comparison of reliability and resilience value. We are addressing those matters in other dockets.

[680] 2011 MOPR Order, 135 FERC ¶ 61,022, *reh'g denied*, 137 FERC ¶ 61,145, *aff'd sub nom*. NJBPU, 744 F.3d 74.

[681] *See, e.g.*, 2013 MOPR Order, 143 FERC ¶ 61,090 at PP 166-167 (accepting PJM's proposal to apply the MOPR to only new natural gas-fired resources because they are the most likely resources to exercise buyer-side market power); 2011 MOPR Order, 135 FERC ¶ 61,022 at PP 152-153 (permitting wind and solar resources to make zero dollar offers); 2011 MOPR Rehearing Order, 137 FERC ¶ 61,145 at P 111; *see also N.Y. Pub. Serv. Comm.*, 158 FERC ¶ 61,137 at P 30 (exempting demand response resources

resources—albeit short-lived and reversed on direct judicial review.[682] As we explained in the December 2019 Order, the exemptions "are an extension or re-adoption of the *status quo ante* for many types of resources that accept the premise of a competitive capacity market, have operated within the market rules as those rules have evolved over time, and made decisions based on affirmative guidance from the Commission indicating that those decisions would not be disruptive to competitive markets."[683] In short, the exemptions reflect an equitable judgement that the exempted resources, unlike the non-exempt resources, *entered* the market based on the Commission's prior statements.

321. The parties argue that the Commission's prior orders had also insulated nuclear and coal resources from mitigation under the preexisting MOPR and that the December 2019 Order's reasoning for exempting self-supply and renewable resources applies to other existing resources[684] But there are two problems with that argument. First, the Commission's prior statements concerning nuclear and coal-fired generation were made in the context of a MOPR that only applied to *new* resources, not existing resources. Moreover, the Commission limited mitigation to new gas-fired resources because that was the threat presented at the time, finding that the rule did not need to extend to new nuclear or coal-fired resources because those types of resources are too large and expensive, and take too long to build, to be effective tools for the exercise of buyer-side market power. Second, no new nuclear or coal-fired resources have been constructed in PJM since the Commission made those statements. The same cannot be said about demand response, renewable resources, or self-supply resources—all of which have seen new entry in reliance on the Commission's prior determinations. That difference is crucial and it is more than sufficient to find that pre-existing nuclear and coal plants receiving post-construction/operation subsidies like ZECs are not similarly situated to the

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from the New York market power mitigation rules), *order on reh'g*, 170 FERC ¶ 61,120 (2020) (granting rehearing, in part, to find that it is not unjust and unreasonable to apply the buyer-side market mitigation rules to demand response resources).

[682] *See NRG Power Mktg., LLC, v. FERC*, 862 F.3d 108 (D.C. Cir. 2017) (*NRG*), *order on remand*, 161 FERC ¶ 61,252 (2017), *reh'g denied*, 169 FERC ¶ 61,237 (2019).

[683] December 2019 Order, 169 FERC ¶ 61,239 at P 17.

[684] *See, e.g.*, FES Rehearing Request at 18-19 (asserting that nuclear resources have traditionally been exempt from review) (citing 2013 MOPR Order, 143 FERC ¶ 61,090 at PP 166-167); Exelon Rehearing and Clarification Request at 28-29 (arguing that not exempting existing nuclear resources causes "disruption to the industry" and threatens "existing investments") (citing December 2019 Order, 169 FERC ¶ 61,239 at P 203); PSEG Rehearing Request at 13 (asserting that it operated within the market rules and made investment decisions under assumption that they would be able to continue to compete in the market).

more recent entry of demand response, renewable, and self-supply resources for purposes of granting an exemption. Moreover, the Commission has developed a replacement rate intended to place all new resources on a level playing field with regard to out-of-market support going forward, with the exception a new gas-fired resources, which we have explained will remain subject to the existing MOPR because that rule was not the subject of these consolidated complaint proceedings and new gas-fired resources remain the best-positioned resources through which to exercise buyer-side market power.

322. We disagree with Consumer Representatives that new natural gas-fired resources are unduly discriminated against because they are mitigated regardless of whether they receive or are entitled to receive State Subsidies. As stated in the December 2019 Order, new natural gas-fired resources remain able to suppress capacity prices based on the exercise of buyer-side market power, not based on whether they receive State Subsidies, which justifies the different treatment of new natural gas-fired resources.[685] The Commission has also confronted attempts by states to subsidize new natural gas-fired resources, which were the impetus for the 2011 MOPR reforms that eliminated the state mandate exemption.[686] Moreover, the Calpine complaint did not argue, and the Commission did not find, that the existing MOPR for new natural gas-fired resources was unjust and unreasonable. Changes to that rule are beyond the scope of the replacement rate set in this proceeding, which confronts a new variety of threats to the integrity of the wholesale capacity market.

323. Parties state that the December 2019 Order treats State-Subsidized Resources differently than non-subsidized resources, resulting in State-Subsidized Resources having to offer higher in the energy and ancillary markets in the absence of capacity revenues, and unduly discriminates against State-Subsidized Resources by not recognizing or compensating these resources for their resource adequacy contributions. We disagree that the December 2019 Order results in undue discrimination. State-Subsidized Resources are not similarly situated to non-subsidized resources for purposes of offering at a competitive price in the capacity market. State-Subsidized Resources that are not able to clear the market absent the State Subsidy are not economic and represent excess

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[685] *Id*. P 42; *see also* June 2018 Order, 163 FERC ¶ 61,236 at P 155 (reiterating that new natural gas-fired resources are the most efficient resources to suppress capacity market prices, but no longer the only resources able to do so due to the advent of increased out-of-market support). As discussed below, the December 2019 Order did not move away from applying the MOPR to address buyer-side market power, rather, the December 2019 Order continues with prior precedent extending the MOPR to address the effects of State Subsidies in addition to buyer-side market power.

[686] 2011 MOPR Order, 135 FERC ¶ 61,022 at P 139, *reh'g denied*, 137 FERC ¶ 61,145, *aff'd sub nom*. NJBPU, 744 F.3d 74.

capacity. Such resources are not similarly situated to resources retained for reliability. The replacement rate does not unduly discriminate against these resources; rather it ensures that State-Subsidized Resources do not distort market outcomes.

324. Parties assert that it is unduly discriminatory to provide an exemption for existing self-supply resources, but not new self-supply resources. We disagree. The December 2019 Order explains that existing self-supply was built under prior MOPR rules finding that self-supply resources are not disruptive to competitive markets,[687] thus recognizing that existing self-supply resources have already made investment decisions based on our prior affirmative finding that they should not be subject to the default offer price floors. The Ohio Commission avers that exempting existing self-supply resources unduly prejudices retail choice states. Yet, State-Subsidized Resources in retail choice states are treated similarly to those in regulated states—all State-Subsidized Resources are subject to the expanded MOPR. While some State-Subsidized Resources in retail choice states may not be exempt under the Self-Supply Exemption, they may nonetheless avoid the expanded MOPR through the Competitive or Unit-Specific Exemptions and are thus not treated differently.

325. We disagree with IMEA that the December 2019 Order discriminates against municipal utilities because they cannot elect the Competitive Exemption. Municipal utilities receive State Subsidies by definition and it would undermine the purpose of the expanded MOPR to exempt them. Parties argue that self-supply resources are unduly discriminated against because their very business model is a State Subsidy and that non-subsidized utilities also engage in long-term decision making and make resource planning decisions, but are not mitigated. Public Power Entities suggest that it is unduly discriminatory to impose the expanded MOPR on self-supply utilities since the Commission previously found differences between utilities in restructured and traditional states warranting different treatment. The December 2019 Order addresses these points, explaining that the Commission is not persuaded that new self-supply resources should face less risk than other types of businesses in choosing whether to build their own generation or rely on the capacity market to satisfy their energy and capacity needs.[688] Further, self-supply entities engaging in long-term contracts are not similarly situated to private entities engaging in purely private long-term bilateral contracts because self-supply entities rely on State Subsidies, rather than just competitive revenue. The receipt of State Subsidies and corresponding ability to offer below cost are what distinguish self-supply resources from other market participants. Thus, the Commission determined that new self-supply resources should not be given special treatment based on their business

[687] December 2019 Order, 169 FERC ¶ 61,239 at P 203.

[688] *Id*. P 204.

model.[689] Moreover, when self-supply entities, including municipals and cooperatives, seek to have resources participate in the capacity market with the potential to receive capacity payments, they can influence the market price for capacity and therefore must abide by the same rules as other participating resources.

326. We disagree with the parties' arguments that the December 2019 Order unduly discriminates among the types of out-of-market revenue that triggers the MOPR, pointing to RECs, which are mitigated, and coal ash sales and general economic and siting subsidies, which are not. The December 2019 Order explains why some out-of-market revenue is different from other types, so as to justify applying the expanded MOPR to resources receiving them. Specifically, we explained that those out-of-market payments included in the definition of State Subsidy are those that "squarely impact the production of electricity or supply-side participation in PJM's capacity market by supporting the entry or continued operation of preferred generation resources that may not otherwise be able to succeed in a competitive wholesale capacity market."[690] The Commission further explained that "[t]his definition is not intended to cover every form of state financial assistance that might indirectly affect FERC-jurisdictional rates or transactions; nor is it intended to address other commercial externalities or opportunities that might affect the economics of a particular resource."[691] Consistent with this finding, general economic and economic siting subsidies are not mitigated because they do not squarely impact the production of electricity or supply-side participation in the capacity market, but are available to all business types.[692] And, to the extent coal ash sales are purely voluntary, such that they do not fall under the definition of State Subsidy, they are similarly situated to voluntary RECs, which are not mitigated under the replacement rate. Further, the sale of coal ash is a general commercial opportunity unrelated to load-serving entities' participation in the capacity market and is not mitigated under the replacement rate.

327. Consumers Coalition argue that the expanded MOPR permits emitting resources to include state-imposed environmental costs in their offers, like emissions costs, but excludes state-derived revenue from affected resources' capacity offers, preventing these resources from reducing wholesale capacity costs, and that there is no basis for this different treatment. However, this proceeding does not deal with environmental costs, but rather the price-distorting effect of resources receiving out-of-market State

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[689] *Id.*

[690] *Id.* P 68.

[691] *Id.*

[692] *Id.* P 83. As discussed above, we disagree that general economic and siting subsidies are the same as State Subsidies based on the tethered to/directed at language.

Subsidies.[693] Such environmental costs are outside the scope of this proceeding because they do not serve to retain or support the entry of uneconomic resources in the capacity market as State Subsidies have been shown to do.

F. Prior Precedent

1. Rehearing and Clarification Requests

328. Parties argue that the Commission departs from past precedent without a reasoned explanation because the December 2019 Order creates a capacity market that is no longer residual in nature.[694] Consumers Coalition state that the PJM capacity market was established as a mechanism to procure capacity as a "last resort," after load-serving entities have had an opportunity to procure capacity on their own, which they then offer into the capacity auction as price-takers, and designed to produce the clearing price needed to elicit enough competitive supply to satisfy unmet need.[695] As it relates to self-supply entities, NRECA/EKPC argue subjecting new public power resources to the MOPR, unless exempted, abandons the residual nature of the capacity market[696] because self-supply resources used to meet a load-serving entity's capacity obligation must first clear the market in order for a load-serving entity to use them.[697] Moreover, NRECA/EKPC contend that subjecting self-supply to the MOPR forces PJM to violate its Tariff, which describes the capacity market as a mechanism for load-serving entities to meet obligations not satisfied by self-supply.[698]

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[693] *See* December 2019 Order, 169 FERC ¶ 61,239 at PP 37-38; June 2018 Order, 163 FERC ¶ 61,236 at PP 151-155 (discussing evidence of growing state subsidies).

[694] *See, e.g.*, Consumers Coalition Rehearing Request at 10-15; ODEC Rehearing Request at 8-9; NCEMC Clarification and Rehearing Request at 18-20.

[695] Consumers Coalition Rehearing Request at 8 (citing *PJM*, 115 FERC ¶ 61,079 at PP 71, 91; *PJM Interconnection, L.L.C.*, 135 FERC ¶ 61,331, at P 13 (2006); 2011 MOPR Order, 135 FERC ¶ 61,022 at P 4).

[696] NRECA/EKPC Clarification and Rehearing Request at 31 (citing *PJM*, 115 FERC ¶ 61,079 at PP 55, 71).

[697] NRECA/EKPC Clarification and Rehearing Request at 31-37; *see also* ODEC Rehearing Request at 6, 8, 10-11; Buckeye Clarification and Rehearing Request at 7; NCEMC Clarification and Rehearing Request at 19-20.

[698] NRECA/EKPC Clarification and Rehearing Request at 32 (citing PJM OATT, Attach. DD, § 1).

329. PJM asserts that the Commission did not provide a reasoned explanation for departing from prior PJM MOPR precedent focusing the MOPR on those resources and developments that posed the most substantial risk of interfering with efficient price formation, while exempting offers that posed less concern, and respecting the longstanding integrated utility resource planning models.[699] PJM further argues that the December 2019 Order departs from the accommodative approach in ISO New England through CASPR, which accommodated state sponsored resources in a second auction.[700]

330. Moreover, previous MOPR applications, parties contend, were based on identified instances of buyer-side market power, and mitigating resources without identified market power violates longstanding Commission policy.[701] Clean Energy Associations state that administrative intervention has focused on preventing the exercise of market power, consistent with court decisions that transactions in the absence of market power can be assumed reasonable.[702] Clean Energy Associations argue that the December 2019 Order also departs from precedent regarding what constitutes a just and reasonable rate in the context of market-based rates, stating that financial support from state action is not new, but has been a dominant form of support, through including capital costs in a utility's rate base, or through RPS and REC programs.[703] ELCON contends that market participants have been allowed to sell at rates below that which allows them to recover their capital

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[699] PJM Rehearing and Clarification Request at 7, 12 (citing 2013 MOPR Order, 143 FERC ¶ 61,090; 2011 MOPR Order, 135 FERC ¶ 61,022; *PJM*, 117 FERC ¶ 61,331); *see also* ELCON Rehearing Request at 9 (contending that administrative interventions are ill-suited to "correct" subsidies).

[700] PJM Rehearing and Clarification Request at 7-10 (citing June 2018 Order, 163 FERC ¶ 61,236 at PP 157-61; CASPR Order, 162 FERC ¶ 61,205).

[701] Clean Energy Associations Rehearing and Clarification Request at 19-20 (citing *PJM.*, 117 FERC ¶ 61,331 at P 104; 2013 MOPR Order, 143 FERC ¶ 61,090 at PP 20, 53, 107; *PJM Interconnection, L.L.C.*, 153 FERC ¶ 61,066, at PP 32, 52 (2015); *ISO New England Inc.*, 158 FERC ¶ 61,138 at P 10); Public Power Entities Rehearing and Clarification Request at 43-47 (arguing the Commission erred in reframing the MOPR as a tool required to prevent price suppression); Exelon Rehearing and Clarification Request at 19; ELCON Rehearing Request at 3-4.

[702] Clean Energy Associations Rehearing and Clarification Request at 19 (citing *Tejas*, 908 F.2d at 1004).

[703] Clean Energy Associations Rehearing and Clarification Request at 20-21 (citing *Cal. ex rel. Lockyer v. FERC*, 383 F.3d 1008 (9th Cir. 2004) (evaluating the Commission's market-based rate tariff program and finding that, in the absence of market power, voluntary exchanges are reasonable).

costs since the beginning of allowing market-based rates, and there is nothing different in either the type or scale of state policy support in the PJM region now as compared to the past.[704] ELCON further insists that the Commission cannot rely on *NJBPU*[705] or *NRG*[706] to justify the replacement rate, as the state polices at issue in those cases dealt with subsidies to isolated generators, whereas the replacement rate affects most new generation.[707] Clean Energy Associations further contend that in *NRG* and *NJBPU* there were identified instances of monopsony power.[708]

331. Stating that prior PJM MOPR orders have focused on mitigating state policies that could rationally be aimed at exercising market power to depress prices, such as support for gas-fired generation, parties argue that the December 2019 Order fails to provide a reasoned explanation for its departure from the Commission's precedent finding that renewable resources have neither the incentive nor ability to suppress capacity market prices.[709] Clean Energy Associations assert that the Commission previously approved PJM mitigation measures excluding renewable resources from the MOPR, restricted application of NYISO's buyer-side mitigation measures to renewable resources, and specifically held that renewable resources have little ability to suppress market prices in ISO-NE or PJM.[710]

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[704] ELCON Rehearing Request at 8.

[705] *NJBPU*, 744 F.3d at 97 (observing that the MOPR "ensures that its sponsor cannot exercise market power").

[706] *NRG*, 862 F.3d 108.

[707] ELCON Rehearing Request at 6; *see also* Clean Energy Associations Rehearing and Clarification Request at 29.

[708] Clean Energy Associations Rehearing and Clarification Request at 29.

[709] New Jersey Board Rehearing and Clarification Request at 20-21 (citing 2011 MOPR Order, 135 FERC ¶ 61,022 at PP 152-153; 2011 MOPR Rehearing Order, 137 FERC ¶ 61,145 at P 111; 2013 MOPR Order, 143 FERC ¶ 61,090 at PP 166-167); Clean Energy Associations Rehearing and Clarification Request at 24-25 (same); *see N.Y. Pub. Serv. Comm'n*, 153 FERC ¶ 61,022 at PP 2, 47 (exempting certain renewable resources that have limited or no incentive to exercise buyer-side market power); *ISO New England Inc.*, 150 FERC ¶ 61,065, at P 26 (2015) (renewables are a poor choice if a "developer's primary purpose is to suppress capacity market prices").

[710] *Id*.

332. Consumers Coalition argue that the Commission's authority to promote competition does not extend to neutralizing advantages and disadvantages, noting that in Order No. 888, the Commission disclaimed the obligation to "create a level competitive playing field among generators," instead noting that power generation technologies have different costs and sellers come with a variety of advantages and disadvantages.[711] ODEC argues the December 2019 Order is a departure from Commission precedent encouraging the development and participation of a diversity of resource types in the wholesale markets, asserting that the December 2019 Order will make it more difficult to invest in emerging technologies.[712]

333. Exelon argues that the December 2019 Order is contrary to the Commission's reasoning for rejecting a complaint that California Independent System Operator Corporation's (CAISO) resource adequacy program resulted in insufficient revenues for efficient generators due to the influx of state-subsidized renewable generation.[713] In *La Paloma*, Exelon states that the Commission refused to find the existing resource adequacy construct unjust and unreasonable based on economic theory or speculation regarding the long-term effects on investor confidence, instead demanding concrete evidence of a shortfall in resource adequacy and finding that the complainants had made only broad and general claims about revenue insufficiency.[714] Exelon concludes that the record here is not appreciably different in that complainants made generalized assertions

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[711] Consumers Coalition Rehearing Request at 21-22 (citing Order No. 888, FERC Stats. & Regs. ¶ 31,036, *order on reh'g*, Order No. 888-A, FERC Stats. & Regs. ¶ 31,048, *order on reh'g*, Order No. 888-B, 81 FERC ¶ 61,248, *order on reh'g*, Order No. 888-C, 82 FERC ¶ 61,046, *aff'd in relevant part sub nom. Transmission Access Policy Study Grp. v. FERC*, 225 F.3d 667, *aff'd sub nom. New York v. FERC*, 535 U.S. 1).

[712] ODEC Rehearing Request at 9-10 (citing *e.g.*, *Elec. Storage Participation in Mkts. Operated by Reg'l Transmission Organs. & Indep. Sys. Operators*, Order No. 841, 162 FERC ¶ 61,127 (2018), *order on reh'g and clarification*, Order No. 841-A, 167 FERC ¶ 61,154 (2019)).

[713] Exelon Rehearing and Clarification Request at 19-20 (citing *CXA La Paloma, LLC v. Cal. Indep. Sys. Operator Corp.*, 165 FERC ¶ 61,148 (2018), *order on reh'g*, 169 FERC ¶ 61,045, at P 8 (2019) (*La Paloma*)).

[714] Exelon Rehearing and Clarification Request at 20 (noting that the Commission stated that "low capacity prices are not necessarily indicative of an unjust and unreasonable construct" and that the California market continued to exhibit significant capacity oversupply) (citing *La Paloma*, 169 FERC ¶ 61,045 at P 9)).

of revenue insufficiency, belied by evidence of continuing new entry and oversupply in the capacity market.[715]

334. Consumers Coalition argue that it is inefficient to ignore resources' resource-adequacy contributions if resources fail to clear the capacity auction and that the Commission has previously determined that RTOs should accept price taker capacity offers from resources retained for reliability or fuel security reasons through out-of-market payments, stating that low or zero dollar capacity offers accurately reflect the resource's low going-forward costs and are consistent with competitive market outcomes. Consumers Coalition argue that the December 2019 Order provides no basis for departing from these findings.[716]

2. Commission Determination

335. We disagree that the replacement rate changes the residual nature of the PJM capacity market. The December 2019 Order does not change how load-serving entities meet unmet capacity obligations; rather, the replacement rate only affects the price at which resources may offer into the capacity market to ensure that the price paid by all capacity market participants for unmet capacity needs is just and reasonable. The December 2019 Order, as discussed further below, is no different from prior PJM MOPR orders, in that it is focused on ensuring that resources are not able to distort capacity market prices.[717]

336. Load-serving entities may still supply capacity needs through a combination of owned or contracted generation, demand response resources, energy efficiency, and bilateral contracts. The December 2019 Order only finds that if a capacity resource is a State-Subsidized Resource, the resource must offer competitively. Likewise, if a self-supply entity wishes to use a new resource to meet its capacity obligations through the capacity market, the self-supply entity must offer that resource at a competitive price, which could include using the Unit-Specific Exemption. While mitigated resources can

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[715] Exelon Rehearing and Clarification Request at 21.

[716] Consumers Coalition Rehearing Request at 45-47 (citing *ISO New England Inc.*, 165 FERC ¶ 61,202, at P 88 (2018); *N.Y. Indep. Sys. Operator, Inc.*, 155 FERC ¶ 61,076, PP 79, 82-83 (2016); *Indep. Power Producers of N.Y. v. N.Y. Indep. Sys. Operator, Inc.*, 150 FERC ¶ 61,214, at PP 1, 2, 66, 68 (2015)).

[717] *See PJM.*, 117 FERC ¶ 61,331 at P 34 (stating that the MOPR would apply to sellers who may have incentives to depress market clearing prices below competitive levels); 2011 MOPR Order, 135 FERC ¶ 61,022 at P 141 (subjecting state-supported new natural gas-fired resources to the MOPR because uneconomic entry can produce unjust and unreasonable rates by artificially suppressing capacity prices).

no longer offer below the default offer price floors without an exemption, and thus may not clear the capacity auction under the expanded MOPR, this only means that the self-supply entity will have to use a competitive resource to meet unmet load obligations. Moreover, subjecting State-Subsidized Resources to the expanded MOPR with the option for unit-specific review appropriately balances the need to protect the capacity market from uneconomic entry or retention with the concern that some self-supply resources may not be used for capacity obligations because they did not clear.

337. We also disagree that the December 2019 Order is a departure from prior precedent that focused application of the MOPR on resources that posed the most substantial risk of interfering with efficient price formation while exempting those that did not. The replacement rate directed in the December 2019 Order addresses State-Subsidized Resources, which pose a risk to the integrity of competition in the wholesale capacity market and create unreasonable price distortions and cost shifts, while exempting resources that either justify lower offers through the Unit-Specific Exemption or certify that they will forego any State Subsidy, through the Competitive Exemption. These two exemptions, in addition to exempting certain existing resources based on the Commission's prior guidance, confine the replacement rate going forward to those resources that have the ability to suppress capacity market prices.[718] This is consistent with MOPR precedent, which has applied to the MOPR to address price suppression.[719] Moreover, the Commission's acceptance of ISO New England's CASPR proposal to accommodate state-sponsored resources is distinguishable. In *CASPR*, the Commission accepted a section 205 filing as a just and reasonable means to both (1) ensure a competitive capacity market that appropriately incentivizes entry and exit decisions; and (2) provide an accommodation mechanism for state-supported resources that does not inhibit the competitive capacity market.[720] As discussed below, the Commission determined that the accommodation method developed in the record in this proceeding, the resource-specific FRR Alternative, is not just and reasonable because it results in the same price suppression as the status quo.[721]

338. Because a purpose of the MOPR is to address price suppression, and the expanded MOPR specifically addresses price suppression as a result of State Subsidies, we disagree that the Commission is required to show the exercise of buyer-side market power prior to

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[718] December 2019 Order, 169 FERC ¶ 61,239 at PP 7-8, 12-16, 37-38.

[719] *See PJM*, 117 FERC ¶ 61,331 at P 34 (stating that the MOPR applies to sellers that "may have the incentive to depress market clearing prices below competitive levels").

[720] *See* CASPR Order, 162 FERC ¶ 61,205 at PP 20, 25.

[721] *See supra* Section IV.G.

applying the MOPR. The MOPR has previously been used to address buyer-side market power, and the December 2019 Order left in place the existing MOPR, which serves that function.[722] The December 2019 Order explains why it is necessary to expand the MOPR to apply to State Subsidies, because, in addition to market power concerns, out-of-market support poses price suppression risks. In other words, the December 2019 Order expands the scope of the MOPR, but not its underlying purpose.[723] Further, cases finding that a transaction is just and reasonable in the absence of market power[724] do not dictate that rates in every context are just and reasonable where there is no market power. *Tejas* and *Lockyer* merely stand for the premise that in the absence of market power, voluntary exchanges between entities and market-based rates may be deemed just and reasonable, not that the lack of market power demands a just and reasonable finding in the context of capacity market offers.

339. Clean Energy Associations and ELCON aver that state support for resources in some form has long been included in utilities' capital costs and that market participants have been allowed to sell at rates below that which allow them to recover their capital costs. We agree that state support is not new, but disagree that the December 2019 Order is not justified by relying on increased out-of-market support to expand the MOPR.[725] As pointed out in the June 2018 Order, the MOPR has had to change in light of changing circumstances.[726] Further, the court's decision in *NJBPU* supports the December 2019 Order because there, as here, the Commission's decision to eliminate the state mandate exemption was based on the "mounting evidence of risk" that out-of-market support could permit uneconomic entry. *NJBPU* affirmed the Commission's decision to subject state-supported new natural gas-fired resources to the MOPR because out-of-market support permits below-cost entry suppresses capacity prices.[727] Further, while the

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[722] December 2019 Order, 169 FERC ¶ 61,239 at P 42.

[723] *Id*. P 39; *see also* June 2018 Order, 163 FERC ¶ 61,236 at P 155 (finding that there is no substantive difference between price suppression triggered by the exercise of buyer-side market power and that triggered by out-of-market support); December 2019 Order, 169 FERC ¶ 61,239 at P 161 (distinguishing between the mitigating resources as a result of buyer-side market power and State Subsidies).

[724] *See* Clean Energy Associations Rehearing and Clarification Request at 19 (citing *Tejas*, 908 F.2d at 1004; *Lockyer*, 383 F.3d at 1013).

[725] December 2019 Order, 169 FERC ¶ 61,239 at PP 37-38.

[726] June 2018 Order, 163 FERC ¶ 61,236 at P 150 n.276.

[727] *NJBPU*, 744 F. 3d at 100. *NRG* likewise does not undermine the December 2019 Order because the underlying factual context supporting PJM's proposed changes in

December 2019 Order replacement rate includes more resources than PJM's prior MOPR limited to new gas-fired resources at issue in *NJBPU* or *NRG*, that is a reflection of the increased scope of the problem here.[728]

340. Nor is the December 2019 Order an unexplained departure from, or contrary to, prior precedent finding that renewable resources have little ability to suppress capacity market prices.[729] Prior MOPR orders exempting renewable resources found that renewable resources are not the most efficient resources to suppress capacity market prices,[730] not that they were unable to suppress capacity prices. Based on the record in this proceeding, circumstances have changed, warranting expanding the MOPR to renewable resources. Increasing State Subsidies permit renewable resources to offer non-competitively. That renewable resources have low capacity thresholds is not dispositive, because, on aggregate, renewable resources have the same ability as a larger generator to influence the clearing price. As the Commission stated in the June 2018 Order, price suppression stemming from State Subsidies is indistinguishable from price suppression triggered through the potential exercise of buyer-side market power and should therefore be addressed similarly.[731]

341. ODEC argues that the December 2019 Order will make it more difficult for a diverse mix of resources to participate in the capacity market, which ODEC contends is inconsistent with the Commission's rules encouraging the participation of electric storage

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that case related to price suppression stemming from out-of-market support generally. *NRG*, 862 F.3d at 112-13.

[728] *See* December 2019 Order, 169 FERC ¶ 61,239 at PP 37-38. June 2018 Order, 163 FERC ¶ 61,236 at PP 151-155 (discussing evidence of growing state subsidies).

[729] *See* 2011 MOPR Order, 135 FERC ¶ 61,022 at P 153 ("wind and solar resources are a poor choice if a developer's primary purpose is to suppress capacity market prices"); 2013 MOPR Order, 137 FERC ¶ 61,090 at P 166 (the "MOPR may be focused on those resources that are most likely to raise price suppression concerns"); *N.Y. Pub. Serv. Comm'n*, 153 FERC ¶ 61,022 at PP 2, 47 (exempting renewable resources from MOPR that have "limited or no incentive and ability to exercise buyer-side market power")); *ISO New England Inc.*, 150 FERC ¶ 61,065 at P 26 ("renewable resources are not similarly situated to other types of resources in that they are unlikely to be used for price suppression" because they can qualify only a fraction of their nameplate capacity).

[730] *See* 2013 MOPR Order, 143 FERC ¶ 61,090 at P 166; 2011 MOPR Order, 135 FERC ¶ 61,022 at P 153.

[731] June 2018 Order, 163 FERC ¶ 61,236 at P 155.

in the PJM markets.[732] ODEC's concern that the replacement rate will discourage participation in the capacity market is speculative. A diversity of resources may still compete in the capacity market and states may well continue to invest in them. The December 2019 Order merely establishes rules prioritizing competitive offers so that the wholesale capacity market produces just and reasonable wholesale capacity rates for every type of resource and utility in the multi-state PJM region. Nor, as Consumers Coalition allege, does the December 2019 Order depart from the reasoning in Order No. 888 where the Commission rejected arguments to "create a level competitive playing field among generators," noting that "all power generation technologies have different costs."[733] In fact, these statements were made in a different context—declining to impose environmental mitigation conditions on resources—and the Commission concluded that it did not have the power to equalize the environmental costs of electric production to ensure economic fairness. Here, in contrast, the Commission is regulating wholesale power market rules, and determined that, in order to produce just and reasonable rates, resources offering into the capacity market must do so from an even playing field. Moreover, read as a whole, Order No. 888 promotes the Commission's general policy of ensuring that all resources are able to compete in wholesale markets on a level playing field.

342. Exelon contends that the December 2019 Order is contrary to the Commission's reasoning in *La Paloma* where the Commission rejected a complaint that CAISO's resource adequacy program provided insufficient revenues for generators due to subsidized resources.[734] This is an out-of-time rehearing argument of the June 2018 Order. The Commission's decision in *La Paloma* found that complainants failed to meet their initial burden under FPA section 206 to demonstrate that the CAISO tariff or resource adequacy construct was unjust and unreasonable.[735] *La Paloma* thus deals with issues relevant to the June 2018 Order finding the PJM Tariff unjust and unreasonable and not the December 2019 Order, at issue here, regarding the just and reasonable replacement rate. Generally, though, we disagree that *La Paloma* contradicts findings in this proceeding because the Commission found in *La Paloma* that the complainant did not provide record evidence to support its allegations.[736] Here, the Commission's finding that PJM's pre-existing Tariff was unjust and unreasonable is based on record evidence that out-of-market support is increasing, combined with economic theory that out-of-

[732] ODEC Rehearing Request at 9-10.

[733] Order No. 888, FERC Stats. & Regs. ¶ 31,036 at 31,687.

[734] *See La Paloma*, 165 FERC ¶ 61,148 at P 69.

[735] *Id.*

[736] *Id.* P 43; *La Paloma*, 165 FERC ¶ 61,148 at PP 170-172.

market support suppresses capacity market clearing prices, unlike the resource adequacy construct in California, which is not a centralized market.

343. We acknowledge that the Commission has held that a competitive offer could be low for an existing resource and permitted price-taker offers from resources retained for reliability. We disagree, however, that the December 2019 Order is an unexplained departure from this precedent. First, the replacement rate is not intended to address reliability from only from those resources deemed necessary for fuel-security, but rather is a mechanism to ensure resource adequacy from a variety of resources at just and reasonable rates. As such, the December 2019 Order directs PJM to implement rules to ensure that State-Subsidized Resources do not distort capacity market outcomes. Whether certain resources are needed for specific reliability reasons and rules facilitating this need are not at issue in this proceeding. Second, the December 2019 Order does not find that resources will not be able to offer low or close to zero where those prices are competitive. It is possible that a competitive offer could be low or zero. The resource specific default offer price floors have not yet been determined by PJM. The replacement rate also permits resources to offer below the default offer price floors through the Competitive Exemption for State Subsidized Resources or the Unit-Specific Exemption.

G. Resource-Specific FRR Alternative

1. Proposed Resource-specific FRR Alternative

a. Rehearing and Clarification Requests

344. Parties argue that the Commission's one sentence rationale rejecting the resource-specific FRR Alternative—that the expanded MOPR without an accommodation mechanism is superior to the proposed resource-specific FRR Alternative and PJM's proposed resource carve-out (RCO)—is arbitrary and capricious.[737] The Maryland Commission contends that, in not adopting the resource-specific FRR Alternative, the Commission rejected the forward capacity market concept by effectively inviting states to exit the capacity market.[738]

345. Parties further argue that the June 2018 Order explained that the resource-specific FRR Alternative was a necessary component of a just and reasonable rate, and that the

[737] Clean Energy Associations Rehearing and Clarification Request at 36; PSEG Rehearing Request at 12; Consumer Representatives Rehearing and Clarification Request at 14-16 (citing December 2019 Order, 169 FERC ¶ 61,239 at P 6).

[738] Maryland Commission Rehearing and Clarification Request at 13.

December 2019 Order conflicts with this finding.[739] FES argues the December 2019 Order's reversal of the proposed resource-specific FRR Alternative is arbitrary and capricious because the Commission has not provided any evidence of changed circumstances, nor did the June 2018 Order suggest that the Commission would pursue an expanded MOPR without an accommodation mechanism.[740]

346. Parties argue that that the December 2019 Order erred by rejecting the resource-specific FRR Alternative, or RCO,[741] because not accommodating states and forcing ratepayers to ignore capacity from certain resources and pay twice for capacity is unjust, unreasonable and unduly discriminatory.[742] Further, parties contend that a market design without a resource-specific FRR Alternative results in an inefficient market with distorted energy and capacity market prices, and leads to capacity over-procurement.[743] FES argues, for example, that the rejection of the resource-specific FRR Alternative undermines the Commission's stated objective, to protect the integrity of the wholesale markets, because it will result in PJM procuring unneeded capacity, artificially inflating

[739] Clean Energy Associations Rehearing and Clarification Request at 38; DC Attorney General Rehearing Request at 24-25 & nn.83-85; NEI Rehearing Request at 3-4 (citing *Hatch v. FERC*, 654 F.2d 825, 834-35 (D.C. Cir. 1981)); Maryland Commission Rehearing and Clarification Request at 14; Illinois Commission Rehearing Request at 22; PJM Rehearing and Clarification Request at 7-10 (citing June 2018 Order, 163 FERC ¶ 61,236 at PP 157-61); PSEG Rehearing Request at 12.

[740] FES Rehearing Request at 2-3, 11-13.

[741] Public Power Entities Rehearing and Clarification Request at 47-49; Clean Energy Associations Rehearing and Clarification Request at 36; DC Attorney General Rehearing Request at 24 (citing December 2019 Order, 169 FERC ¶ 61,239 at P 219); NEI Rehearing Request at 3; Illinois Commission Rehearing Request at 22-23; Consumer Representatives Rehearing and Clarification Request at 14-16; SMECO Rehearing Request at 4; OSPI Rehearing Request at 3.

[742] Maryland Commission Rehearing and Clarification Request at 7, 14, 19; *see also* Ohio Commission Rehearing Request at 25; Illinois Commission Rehearing Request at 22.

[743] PSEG Rehearing Request at 11 (contending that an efficient market would place value on the delivered energy product and minimize the "missing money" supplied by the capacity market).

capacity prices, which will attract excess capacity and further distort prices, and suppressing prices in the energy and ancillary services markets.[744]

347. The New Jersey Board asserts that the Commission has provided accommodation in other regions and that an accommodation mechanism is required to honor the fundamental right of states to incent the development of new carbon-free resources before funding new resources that are incapable of providing these benefits.[745] The New Jersey Board adds that the ability to prefer one generation technology over another is a critical expression of the states' jurisdiction over generation resources and cooperative federalism.[746] FES contends that the Commission's decision to abandon accommodation mechanisms "pulls the rug out" from under legitimate state policy programs without explanation and creates uncertainty in the market.[747]

b. Commission Determination

348. We disagree with parties that the Commission erred in rejecting the resource-specific FRR Alternative. As stated in the December 2019 Order, we find an expanded MOPR without a resource-specific FRR Alternative is just and reasonable. We further continue to find, based on the record, that the proposed resource-specific FRR Alternative could undermine the MOPR's purpose by failing to correct the impact of State-Subsidized Resources on the capacity market. As PJM notes in its initial testimony, "removing subsidized resources and an equivalent amount of load from a capacity auction would likely result in a suppressed clearing price similar to that which would result in retaining the subsidized resource and load."[748] While paper hearing parties contend that this suppressed price can still be competitive and just and reasonable because all participating resources would be offering competitively, we disagree. Based on the record in the paper hearing proceeding, we find that the resulting lower price is not just and reasonable, because it would not ensure the capacity market is able to fulfill its

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[744] FES Rehearing Request at 2-3, 10-12.

[745] New Jersey Board Rehearing and Clarification Request at 28; *see also* DC Attorney General Rehearing Request at 24-25 (stating that the Commission does not discuss why it is just and reasonable not to accommodate state policy decisions and to potentially force renewable resources offline).

[746] New Jersey Board Rehearing and Clarification Request at 28-31 (citing CASPR Order, 162 FERC ¶ 61,205; *N.Y. Indep. Sys. Operator*, 150 FERC ¶ 61,208, at PP 6, 46-48 (2015)).

[747] FES Rehearing Request at 12-14 (quoting *NJBPU*, 744 F.3d at 102).

[748] PJM Initial Testimony at 5 n 9 (filed Oct. 2, 2018).

primary purpose—securing future capacity to ensure resource adequacy and reliability in the PJM footprint at just and reasonable rates.[749]

349. In addition, we find that the bifurcated capacity market would fail to incent long-term investment. At a fundamental level, the resource-specific FRR Alternative would allow subsidized, uneconomic resources to displace competitive, economic ones, just as under the Tariff rules found unjust and unreasonable in the June 2018 Order, albeit via a different mechanism. Thus, the resource-specific FRR Alternative could prevent non-subsidized resources from clearing the capacity auctions, including resources that would have cleared absent the State-Subsidized Resources electing to use the resource-specific FRR Alternative. Further, potential investors may not be able to predict when pockets of load may be pulled into the resource-specific FRR Alternative construct to accommodate a subsidized resource and further reduce the size of the capacity market. These factors would likely have a chilling effect on private investment, which could lead to resource adequacy concerns. For these reasons, we affirm the December 2019 Order's finding that a resource-specific FRR Alternative would have unacceptable market distorting impacts that would inhibit incentives for competing investment in the PJM market over the long-term.[750]

350. We do not agree with parties that a resource-specific FRR Alternative, or any other accommodation scheme, is a necessary corollary to an expanded MOPR because it would avoid or mitigate consumers double paying for capacity, load-serving entities from over-procuring capacity, or accommodate state policy choices. We do not take these concerns lightly. However, the courts have not required accommodation as part of a just and reasonable rate.[751] Especially where, as here, we have determined that the accommodation mechanism developed in the record in this proceeding could result in price suppression and impair resource adequacy similarly to the PJM Tariff provisions found unjust and unreasonable in the June 2018 Order, we decline to pursue this option.[752]

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[749] *See* PJM OATT, Attach. DD, § 1 (Introduction).

[750] December 2019 Order, 169 FERC ¶ 61,239 at P 6.

[751] *See, e.g.*, *NJPBU*, 744 F.3d at 97 (stating that states are free to make their own decisions on how to meet capacity needs, but must bear the costs of those decisions) (citing *Connecticut PUC*, 569 F.3d at 481; *NEGPA*, 757 F.3d at 295).

[752] *Id.*; *see also Coal. for Competitive Elec.*, 272 F. Supp. 3d at 576 (finding that when the Commission exercises authority over state concerns, accommodation is necessary unless "clear damage to federal goals would result"); *S.C. Pub. Serv. Auth.*,

351. With regard to arguments that the expanded MOPR without the resource-specific FRR Alternative would harm the markets or otherwise have negative impacts, we address those above, in Section IV.B.7. While we have found that alternative capacity market constructs are just and reasonable in other regions,[753] we are not required to implement the same rules here.[754] The expanded MOPR approach detailed in this order is a just and reasonable means to solve the problems identified in Calpine's complaint and address harm to PJM's capacity market caused by out-of-market state support to keep existing uneconomic resources in operation and to support the uneconomic entry of new resources. The Commission accepted ISO New England's CASPR proposal as just and reasonable under FPA section 205, unlike here where accommodation has not been shown to be just and reasonable.

352. Further, contrary to parties' suggestion, the June 2018 Order did not find that the resource-specific FRR Alternative would be necessary for the expanded MOPR to be just and reasonable. Rather, the June 2018 Order preliminarily proposed, as part of a *potential* just and reasonable replacement rate, a resource-specific FRR Alternative option and then sought comment on implementation, as well as how an accommodation might impact capacity prices.[755] Having reviewed the testimony provided in the paper hearing, the Commission determined that adopting a resource-specific FRR Alternative in this instance would vitiate the expanded MOPR. Given that the resource-specific FRR Alternative was a proposed course of action, the Commission thus did not depart from precedent or inappropriately engender a reliance interest.[756]

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762 F.3d at64 (upholding Commission's authority to establish rules that may implicate matters within state jurisdiction).

[753] *See* New Jersey Board Rehearing and Clarification Request at 29-30).

[754] *N.Y. Pub. Serv. Comm'n*, 153 FERC ¶ 61,022 at P 38. Specifically, with regard to the NYISO capacity market rules, the Commission has repeatedly noted the differences between the PJM and NYISO markets making different rules appropriate. *Id.*; *see also N.Y. Indep. Sys. Operator, Inc.*, 170 FERC ¶ 61,121, at P 16 n.39 (2020). Regional markets are also not required to have the same rules. December 2019 Order, 169 FERC ¶ 61,239 at P 204 n.431.

[755] June 2018 Order, 163 FERC ¶ 61,236 at PP 157, 160, 164-170.

[756] Indeed, section 206 of the FPA states that when the Commission finds a Tariff unjust and unreasonable, the Commission shall determine the just and reasonable replacement and "shall fix the same by order," which the Commission did not do until the December 2019 Order. 16 U.S.C. § 824e(a). Parties thus had no right to rely on a proposed framework that was not a final solution. *Cf. Am. Fed'n Of Labor and Congress of Indus. Org.*, 757 F.2d 330, 338 (D.C. Cir. 1985) ("It is, of course, elementary that a

2. Existing FRR Alternative

a. Rehearing and Clarification Requests

353. EPSA/P3 request clarification that the December 2019 Order does not make a finding with regard to the justness and reasonableness of the existing FRR Alternative. EPSA/P3 explain that the existing FRR Alternative rules were not at issue in the underlying complaint or the paper hearing and are not found in the Tariff, and argues that the Commission could not, therefore, make a substantive determination on their merits.[757] EPSA/P3 state that the existing FRR construct has been little-used and that, to the extent more parties elect that option as a result of the December 2019 Order, changes to the construct may prove necessary.[758]

354. Parties disagree with the December 2019 Order's statement that if self-supply utilities wish to craft their own resource adequacy plans or not be subject to the expanded MOPR, they may do so through the existing FRR Alternative.[759] Parties argue that the existing FRR alternative is not a viable solution for states required to fundamentally alter an existing framework,[760] nor a suitable option for public power self-supply entities.[761] Public Power Entities state that the Commission's suggestion that the existing FRR Alternative accommodates public power self-supply resources is factually incorrect, arbitrary and capricious, and without evidentiary support.[762] Public Power Entities argue

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final rule need not be identical to the original proposed rule."); *Am. Coke and Coal Chemicals Inst. v. Envtl. Protection Agency*, 452 F.3d 930, 938-39 (D.C. Cir. 2006) (affirming changes to final rule that were a "logical outgrowth" of the proposed rule).

[757] EPSA/P3 Rehearing and Clarification Request at 18.

[758] *Id*. at 18; *see also* Calpine Clarification and Rehearing Request at 10.

[759] December 2019 Order, 169 FERC ¶ 61,239 at PP 12, 202, 204.

[760] New Jersey Board Rehearing and Clarification Request at 32; Clean Energy Advocates Rehearing Request at 77 (arguing that the Commission must ensure that the rules governing the existing FRR Alternative do not arbitrarily limit its use and that eligible entities that had never previously contemplated use of the existing FRR have adequate time to obtain needed clarification or authority from regulators).

[761] Public Power Entities Rehearing and Clarification Request at 34-39; EKPC Rehearing and Clarification Request at 10; ODEC Rehearing Request at 10 (noting "onerous" FRR requirements).

[762] Public Power Entities Rehearing and Clarification Request at 9.

that because the existing FRR Alternative requires utilities to meet capacity obligations entirely outside the capacity market, it is ill suited for public power utilities who have limited capacity resource options and whose unforced capacity obligations fluctuate over time.[763] In constrained LDAs, Public Power Entities further state that opting for the existing FRR Alternative is a risk given the five year commitment and potential addition of new LDAs or changing LDA boundaries with differing internal minimum resource requirements, as this may result in a greater capacity obligations than existed at the time of the five year FRR plan and subsequent penalties for not meeting resource adequacy commitments.[764]

355. Additionally, Clean Energy Advocates contend that, in 2013, the Commission rejected arguments that the availability of the existing FRR Alternative obviated the need for a self-supply exemption, but that the Commission has not explained why it now believes it is just and reasonable to point to the FRR Alternative as a way for affected customers to avoid the Commission's replacement rate.[765] Clean Energy Advocates argue that the Commission erred when it determined that self-supply entities may avoid the MOPR by using the existing FRR alternative because single customer entities are not currently eligible to use an FRR plan, which leaves single customer entities unduly discriminated against relative to other entities the December 2019 Order identifies as identically situated.[766]

356. Parties argue that use of the existing FRR Alternative will result in undesirable consequences and undermine the capacity market.[767] The Maryland Commission notes that the December 2019 Order deems the existing FRR Alternative similar to the rejected resource-specific FRR Alternative, but does not explain why the existing FRR is okay or can be used alongside the replacement rate in a just and reasonable manner.[768] For example, the Maryland Commission posits that if the replacement rate were implemented in constrained zones, certain resources could exercise market power by preventing

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[763] *Id*. at 35-36.

[764] *Id*. at 36-37 (also opining that the "lumpy nature" of investments in generation means that capacity in the early life of a resource in excess of what is needed will become stranded under the existing FRR Alternative).

[765] Clean Energy Advocates Rehearing Request at 77-78 (citing 2013 MOPR Order, 143 FERC ¶ 61,090 at P 110).

[766] Clean Energy Advocates Rehearing Request at 53-54.

[767] *See, e.g.*, Pennsylvania Commission Rehearing and Clarification Request at 8.

[768] Maryland Commission Rehearing and Clarification Request at 14-15.

investor-owned utilities from pursuing the FRR Alternative option.[769] EKPC suggests that if a sufficient number of utilities opt for the existing FRR Alternative, it could lead to the balkanization of the PJM region, leading to a diminished wholesale capacity market and diminished consumer benefits in the PJM region.[770] Because the FRR Alternative removes load and supply from the market, PJM contends that it does not provide transparent price signals to market participants, and if significant additional load were to utilize the FRR Alternative, some efficiencies of the capacity market may be lost.[771] ODEC argues that PJM submitted a report by the Brattle Group which suggested that if self-supply is not exempt from the MOPR, and instead elects the FRR Alternative, it will create market inefficiencies which undermine the capacity market.[772]

357. The Ohio Commission argues that the existing FRR works against the notion that the replacement rate will make the market more just and reasonable and cites a December 2019 report from the Market Monitor estimating that the rest of RTO clearing price would drop $61.77 per MW-day compared to the reference-case actual BRA result if Illinois elected the FRR Alternative, but that the price in some Ohio zones would remain unchanged.[773]

358. Parties further argue that the existing FRR Alternative presents challenges to retail competition.[774] SMECO contends that the existing FRR Alternative is unwieldy and unworkable for load-serving entities planning new capacity because the FRR requires a load-serving entity to carve out its entire load, including load for retail choice states.[775] Consumer Representatives ask that the Commission clarify that the replacement rate includes any necessary changes to the existing FRR Alternative to ensure that the exercise of this option does not undermine state decisions to allow retail competition or

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[769] *Id*. at 15.

[770] EKPC Rehearing and Clarification Request at 10.

[771] PJM Rehearing and Clarification Request at 5.

[772] ODEC Rehearing Request at 14 (citing PJM Interconnection, L.L.C., Docket No. ER12-513-000, Att. E (2011 RPM Performance Assessment) (filed Dec. 1, 2011)).

[773] Ohio Commission Rehearing Request at 10-11, n. 11 (citing Market Monitor, *Potential Impacts of the Creation of a ComEd FRR* (December 18, 2019)).

[774] Maryland Commission Rehearing and Clarification Request at 16; Consumer Representatives Rehearing and Clarification Request at 44-45.

[775] SMECO Rehearing Request at 7.

otherwise undermine the ability of retail customers to shop for electricity where permitted.[776]

359. Buckeye states that if it elects the FRR Alternative, it faces the risk of its generation not matching its load in specific LDAs, which could cause serious economic problems.[777] Buckeye seeks clarification or rehearing to permit load-serving entities to be assigned their own LDA under the FRR Alternative regardless of whether they own a transmission system or are otherwise assigned an LDA for transmission purposes. Buckeye states that unless the Commission makes this requested change, the December 2019 Order is arbitrary and capricious and cannot meet the requirements of reasoned decision-making under the law and well settled precedent.[778] Buckeye explains that it is a small load-serving entity and does not have its own LDA or transmission, which may prevent it from using the existing FRR Alternative. Buckeye states that its overall load matches its generation, but that this generation and load is spread through several different LDAs, and may not match up within each LDA, separately, for the FRR.[779]

360. AES requests the Commission adopt the same reserve requirement for the FRR Alternative as the rest of the capacity market. AES argues that the December 2019 Order encourages states or load-serving entities to exit the market in favor of the FRR Alternative, which AES contends may harm reliability because FRR entities are currently required to maintain lower reserve margins.[780]

b. Commission Determination

361. We grant EPSA/P3's request for clarification that the December 2019 Order does not make any findings with regard to the justness and reasonableness of the existing FRR Alternative.

362. Parties arguing that the existing FRR Alternative is not a viable option or is ill-suited to the particular needs of states or load-serving entities misconstrue the December 2019 Order's statements regarding the FRR Alternative. The Commission did not suggest that the FRR Alternative is an accommodation mechanism for State-Subsidized Resources. Rather, the FRR Alternative is just that, an alternative to the capacity market.

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[776] Consumer Representatives Rehearing and Clarification Request at 44-45.

[777] Buckeye Clarification and Rehearing Request at 4.

[778] *Id*. at 4-5.

[779] *Id*.

[780] AES Rehearing and Clarification Request at 14.

The capacity market's objective is to procure the least-cost, competitively-priced combination of resources necessary to meet the multi-state region's reliability objectives on a three-year forward basis. The FRR Alternative permits load-serving entities to construct their own resource adequacy plans and procure the necessary capacity to meet this plan outside the capacity market. The capacity market and FRR Alternative are thus two different resource adequacy paradigms, either of which load-serving entities, including self-supply entities, may use. But if entities wish to meet resource adequacy obligations through the capacity market, they must do so in a manner that does not distort capacity prices and undermine resource adequacy at just and reasonable rates.

363. Moreover, that the existing FRR Alternative may be better suited for some load-serving entities and states, but not others, does not call into question the December 2019 Order's finding. States and load-serving entities may each determine what resource adequacy frameworks are best suited for their individual needs, consistent with the premise that if entities and states choose to participate in the capacity market, they must do so competitively.[781]

364. Clean Energy Advocates point out that when the Commission accepted PJM's proposed self-supply exemption in 2013, the Commission dismissed arguments that a self-supply exemption was not needed because the FRR Alternative is available. However, in 2013, the Commission merely found that the option to use the FRR Alternative did not mean that PJM's request to establish a self-supply exemption was not just and reasonable, meaning that the FRR Alternative did not bear on the just and reasonableness of the self-supply exemption. Similarly, here, the December 2019 Order merely stated that the existing FRR Alternative is available to utilities not wishing to be subject to the replacement rate. The December 2019 Order did not find that the existence of the FRR Alternative is a factor making the replacement rate just and reasonable.[782]

365. The Maryland Commission asserts that the December 2019 Order did not explain how it is just and reasonable to use the existing FRR Alternative with the replacement rate, suggesting that it could lead to market power concerns. Other parties assert that additional entities using the FRR Alternative could result in lower clearing prices, a

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[781] *NJBPU*, 744 F.3d at 102 (opining that while the FRR Alternative may not be a viable alternative for some entities, because there is no authority requiring the Commission to provide an alternative to the capacity market, the "lack of a feasible alternative that would allow states and load-serving entities to avoid having their capacity sell offers mitigated" is not fatal to the Commission's MOPR determinations).

[782] Nor does the fact that single customer entities may not use the FRR Alternative lead to the conclusion that single customer entities are discriminated against or call into the question the December 2019 Order. The December 2019 Order does not change the FRR Alternative's eligibility requirements.

diminished capacity market, lost market efficiencies, and harm to reliability. These arguments are outside the scope of this proceeding. The December 2019 Order determined how the expanded MOPR would be applied to resources in order to ensure just and reasonable capacity prices.

366. Likewise, we do not address parties' arguments that the existing FRR Alternative does not work in retail choice states. Because changes to the existing FRR Alternative are beyond the need to address the impact of State Subsidies, these arguments are outside the scope of this proceeding.

367. For the same reason, we decline to address requested changes to the existing FRR Alternative. Not only are such requests outside the scope, but the justness and reasonableness of the FRR Alternative was not under debate in this proceeding and thus the record does not support changes to the FRR Alternative. Should PJM and/or stakeholders wish to propose changes to the existing FRR Alternative, they are free to do so in a separate proceeding.

H. Auction Timeline and Transition Mechanism

1. Rehearing and Clarification Requests

368. EPSA/P3 urge the Commission to require PJM to conduct its next two BRAs before the end of 2020, as recommended by the Market Monitor, and resist calls for unnecessary delay.[783] EPSA/P3 argue that such a timetable is feasible and necessary to prevent further delay relating to the 2022/2023 delivery year.

369. The DC Commission urges the Commission to consider waiving the application of the expanded MOPR for the upcoming auction and instead implement those changes for the 2020 BRA, to help states and the District of Columbia plan and implement any changes required as a result of the replacement rate.[784]

370. FEU argues that, in the upcoming auction, market participants may not have sufficient time to consider or elect the existing FRR Alternative, given that PJM's Tariff currently requires load-serving entities to elect the FRR Alternative no later than four months before the auction.[785] FEU explains that election of the FRR Alternative is only

[783] EPSA/P3 Rehearing and Clarification Request at 4.

[784] DC Commission Rehearing and Clarification Request at 12.

[785] FEU Rehearing and Clarification Request at 2.

reversable under certain limited circumstances and four months may not be sufficient time.[786]

371. The Maryland Commission contends the Commission should instruct PJM to delay the BRA until no earlier than May 2021.[787] The Maryland Commission asserts that states need more time to digest the new market rules and states will need a full legislative session to consider options for state preferred resources excluded from clearing the PJM capacity market.[788]

372. NEI, OPSI, and the Illinois Commission argue that the December 2019 Order erred in dismissing requests for a transition mechanism. NEI and the Illinois Commission assert that a transition mechanism is needed, relative to the replacement rate approved in the December 2019 Order, because there may not be sufficient time for entities to adopt PJM's existing FRR Alternative, to the extent state approval is required.[789] OPSI and the Illinois Commission add that if the Commission does not permit states enough time and opportunity to respond to the complex challenges presented by an expanded MOPR, certain resources affected by state policy may be forced offline or prevented from entering the market, thus nullifying state policy decisions.[790]

2. Commission Determination

373. We deny rehearing of the December 2019 Order on the issue of PJM's upcoming auction timelines. We expect the next annual capacity auction to be held under the replacement rate and PJM is in the best position to propose timing. We also deny rehearing of the December 2019 Order on the issue of transition mechanisms. The Commission's orders in this proceeding have consistently supported the proposition that PJM's pre-existing Tariff is unjust and unreasonable and requires changes to ensure it

[786] *Id*. at 5-6.

[787] Maryland Commission Rehearing and Clarification Request at 17.

[788] *Id*. at 17-18

[789] NEI Rehearing Request at 14; Illinois Commission Rehearing Request at 23.

[790] Illinois Commission Rehearing Request at 23; OPSI Rehearing and Clarification Request at 10; *see also* Ohio Commission Rehearing Request at 26 (requesting a transition mechanism).

accounts for increasing out-of-market support for resources.[791] The December 2019 Order further found that PJM's replacement rate should be implemented without a transition mechanism.[792] NEI and OPSI continue to insist that a bridge of some kind is required because there *may* not be sufficient time for entities to adopt PJM's existing FRR Alternative, or because certain State-Subsidized Resources may be forced offline or prevented from entering the market. However, we are not persuaded that these concerns, on balance, outweigh the benefits of a competitive market, or otherwise address the threats, as outlined by the Commission's orders in this proceeding.

I. Alternative Proposals

1. Rehearing and Clarification Requests

374. AES and the Maryland Commission argue that the Commission failed to consider their preferred alternative approaches to address resources that receive out-of-market support. AES asserts as error the Commission's rejection of a proportional MOPR accounting for differences in the magnitude of state subsidies and their proportional impact on PJM's capacity market.[793] The Maryland Commission argues that the Commission erred in rejecting its proposed version of a competitive carve-out allowance, to fully accommodate state-supported resources.[794]

375. FEU and OCC argue that the December 2019 Order erred by failing to adopt revisions beyond PJM's capacity market. FEU asserts that the Commission erred by failing to address its proposed holistic market reform approach, covering all of PJM's markets, including issues related to resilience, fuel security, and fuel diversity.[795] The Ohio Commission argues that the December 2019 Order failed to adopt mitigation for the negative effect of subsidized generation in PJM's energy and ancillary services markets.[796]

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[791] *See, e.g.*, June 2018 Order, 163 FERC ¶ 61,236 at P 1; December 2019 Order, 169 FERC ¶ 61,239 at P 7.

[792] December 2019 Order, 169 FERC ¶ 61,239 at P 219.

[793] AES Rehearing and Clarification Request at 5.

[794] Maryland Commission Rehearing and Clarification Request at 20.

[795] FEU Rehearing and Clarification Request at 3.

[796] OCC Rehearing Request at 3.

2. Commission Determination

376. We deny rehearing of the December 2019 Order regarding parties' alternative proposals. The Commission, in this proceeding, was not required to determine whether its replacement rate was more, or less, reasonable than the alternative proposals advanced by intervenors.[797] Likewise, the Commission also did not err in not expanding the scope of this proceeding as suggested by FEU and the Ohio Commission.

3. Additional Issue

377. We reject Public Citizen's argument that PJM's stakeholder process is unjust and unreasonable because it "bans" Public Citizen from meaningful participation.[798] The rules governing PJM's stakeholder process were not at issue or addressed in the December 2019 Order, and are outside the scope of this proceeding.

J. Other Requests for Clarification

1. Voluntary RECs

a. Requests for Clarification

378. Parties request that the Commission clarify that purely voluntary bilateral transactions for RECs are not considered State Subsidies.[799] Parties argue these

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[797] *See Petal Gas Storage, L.L.C. v. FERC*, 496 F.3d 695, 703 (D.C. Cir. 2007) ("FERC is not required to choose the best solution, only a reasonable one"); *Cal. Indep. Sys. Operator Corp.*, 128 FERC ¶ 61,282, at P 31 (2009) (having found the independent system operator's proposal just and reasonable, the Commission was not required to assess the justness and reasonableness of an alternative proposal); *ISO New England Inc.*, 153 FERC ¶ 61,223, at P 90 (2015) (it is well established that there can be more than one just and reasonable rate).

[798] Public Citizen Rehearing Request at 4.

[799] EKPC Rehearing and Clarification Request at 17; EPSA/P3 Rehearing and Clarification Request at 16-17; Buyers Group Clarification and Rehearing Request at 10; Pennsylvania Commission Rehearing and Clarification Request at 11; Advanced Energy Entities Rehearing and Clarification Request at 26-27 (joining with Buyers Group); Clean Energy Associations Rehearing and Clarification Request at 58-59 (arguing that subjecting voluntary RECs to the MOPR would exceed the Commission's authority under the FPA); Exelon Rehearing and Clarification Request at 31-32; Consumer Representatives Rehearing and Clarification Request at 27; Illinois Attorney General

transactions are not influenced by state policy or otherwise meet the definition of State Subsidy and should not be considered State Subsidies.[800] Parties argue that, contrary to the December 2019 Order's findings, voluntary RECs are often distinguishable from state-mandated RECs.[801]

379. Several parties request clarification that PJM may propose a process to allow a resource to demonstrate it receives only voluntary RECs that will not be used for compliance with a state RPS program or other state mandate.[802] Buyers Group requests that the Commission clarify that, at minimum, a renewable energy project selling its output to a voluntary off-taker who will retire and not resell RECs created the by the project will be exempt from the MOPR.[803] Buyers Group contends that voluntary renewable energy purchases may include, but are not limited to, power purchase agreements, virtual or financial power purchase agreements, market REC purchases, utility REC programs, and utility green tariff programs.[804] Vistra offers two possible approaches to distinguish voluntary RECs from RECs used to satisfy RPS programs: (1) PJM could require resources receiving voluntary REC revenues to demonstrate that such RECs have been sold to buyers that will voluntarily retire the RECs or (2) PJM could establish as a proxy the percentage of RECs that are retired voluntarily in relevant jurisdictions based on historical averages and update this percentage periodically.[805]

Rehearing Request at 16; Vistra Clarification Request at 2; Dominion Rehearing and Clarification Request at 9, 22; PJM Rehearing and Clarification Request at 17-19.

[800] ELCON Rehearing Request at 10; Clean Energy Associations Rehearing and Clarification Request at 58 (citing December 2019 Order, 169 FERC ¶ 61,239 at P 67); EKPC Rehearing and Clarification Request at 13-14; Illinois Attorney General Rehearing Request at 16.

[801] PJM Rehearing and Clarification Request at 18-19 (arguing that the Commission should have accepted PJM's proposed exemption); EKPC Rehearing and Clarification Request at 13-14 (citing PJM Initial Testimony at 21-22 (filed Oct. 2, 2018)); Consumer Representatives Rehearing and Clarification Request at 27-28.

[802] EKPC Rehearing and Clarification Request at 17; EPSA/P3 Rehearing and Clarification Request at 16-17; Buyers Group Clarification and Rehearing Request at 4, 13.

[803] Buyers Group Clarification and Rehearing Request at 4, 13.

[804] *Id*. at 9.

[805] Vistra Clarification Request at 3-4.

380. Should the Commission not grant this clarification, the Pennsylvania Commission requests rehearing to either find that they are not State Subsidies or to allow parties to seek a Competitive Exemption by documenting that these are bilateral agreements.[806]

b. Commission Determination

381. We grant clarification that purely voluntary transactions for RECs are not considered State Subsidies.[807] New and existing resources, other than new gas-fired resources, that apply for the Competitive Exemption may, as part of that process, certify that they will only sell their RECs through voluntary REC arrangements, meaning those which are not associated with state-mandated or state-sponsored procurement. Such new and existing resources (other than new gas-fired resources) must likewise ensure that no broker or direct buyer will resell voluntary RECs to state compliance purchasers.[808]

2. State Default Service Auctions

a. Requests for Rehearing or Clarification

382. Parties request rehearing or clarification that state-organized default service procurement programs are not State Subsidies.[809] PJM contends that state default service programs are mechanisms by which load-serving entities in retail choice states acquire obligations to provide energy and related services to retail customers through state-directed auctions. Absent any reason to believe that winning load-serving entities in such auctions are receiving out-of-market payment for resources they then procure to provide

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[806] Pennsylvania Commission Rehearing and Clarification Request at 11; *see also* EKPC Rehearing and Clarification Request at 17.

[807] This determination relates to the State Subsidy definition and we are not opining on the effect of voluntary RECs on capacity market outcomes.

[808] The treatment of voluntary RECs in this order is not a determination regarding whether the revenue from voluntary REC transactions results or could result in capacity market distortions; this proceeding, and the evidence presented herein, was limited to the effect of State Subsidies.

[809] DC Commission Rehearing and Clarification Request at 1-3; PJM Rehearing and Clarification Request at 23; New Jersey Board Rehearing and Clarification Request at 44-45; Market Monitor First Clarification Request at 2 (arguing the New Jersey Basic Generation Service auction is not a subsidy); Pennsylvania Commission Rehearing and Clarification Request at 13; Consumers Coalition Rehearing Request at 43-44 (seeking clarification that prongs one and two do not cover state auctions to serve default load).

such retail service, it is not apparent how these actions constitute a State Subsidy, argues PJM.[810]

383. The DC Commission requests clarification as to whether the MOPR applies to the DC Standard Offer Service auction stating that under the auction, the electric distribution company signs a contract with the winning wholesale bidders to procure full requirement services for retail default customers in a competitive process. The DC Commission argues that these competitive processes are not subsidies because suppliers are already on a level playing field.[811] The DC Commission argues that offerors in its Standard Offer Service auction must comply with DC's RPS program, but that a MOPR is not needed because both the Standard Offer Service auction and the RPS program are based on state legislation that has been in place for years.[812]

384. The New Jersey Board argues that its auction is competitive and open to any electricity sellers, without discrimination.[813] The New Jersey Board also argues that the Basic Generation Service auction is best viewed as a hedging mechanism used by state regulators, exercising their plenary powers over retail sales, to ensure a fair procurement process for retail load. In addition, the New Jersey Board explains that the Basic Generation Service auction is voluntary, meaning the costs are bypassable for retail customers.[814] Finally, the New Jersey Board explains that there is typically no direct link between the state's Basic Generation Service contract and the continued operation of any particular resource, because the participants in the auction are typically power marketers "electing to use financial or physical hedging to ensure competitive pricing."[815]

385. The Pennsylvania Commission explains that, in Pennsylvania, electric distribution companies conduct state-commission-approved default service supply procurements for "full requirements" supply contracts, including energy, capacity, ancillary, and certain transmission related services. The Pennsylvania Commission states that these procurements are not "generator unit specific" and are open to any wholesale supplier. The Pennsylvania Commission also states that these auctions procure alternative energy credits required under Pennsylvania legislation, which can be traced to specific resources

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[810] PJM Rehearing and Clarification Request at 23.

[811] DC Commission Rehearing and Clarification Request at 5-6.

[812] *Id*. at 6.

[813] New Jersey Board Rehearing and Clarification Request at 47.

[814] *Id*. at 48.

[815] *Id*.

and should not render the entire auction a State Subsidy. Therefore, the Pennsylvania Commission requests the Commission grant an ongoing competitive exemption for such auctions to encourage continued competitive market procurements in PJM markets.[816]

b. Commission Determination

386. We deny rehearing and clarification requests regarding state default service auctions. State default service auctions meet the definition of State Subsidy to the extent they are a payment or other financial benefit that is a result of a state-sponsored or state-mandated process and the payment or financial benefit is derived from or connected to the procurement of electricity or electric generation capacity sold at wholesale, or an attribute of the generation process for electricity or electric generation capacity sold at wholesale, or will support the construction, development, or operation of a capacity resource, or could have the effect of allowing a resource to clear in any PJM auction. If these auctions are truly competitive, as parties assert, and a winning resource wishes to offer below the default offer price floor for its resource type, the resource may demonstrate that its costs are competitive through the Unit-Specific Exemption, or qualify for another exemption elaborated on in the December 2019 Order. Nor do we find it meaningful that the New Jersey Basic Generation Service auction is voluntary or used by power marketers because a state default service auction qualifies as a State Subsidy because it is a state- sponsored process and includes indirect payments to the resource.

3. Carbon pricing/Regional Greenhouse Gas Initiative (RGGI)

a. Requests for Clarification

387. Parties ask the Commission to clarify that carbon pricing programs, like RGGI, are not considered State Subsidies.[817] Parties argue that RGGI should not be considered a State Subsidy because it does not provide payments to generators, but rather collects

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[816] Pennsylvania Commission Rehearing and Clarification Request at 13.

[817] EPSA/P3 Rehearing and Clarification Request at 13; Pennsylvania Commission Rehearing and Clarification Request at 12 (arguing no carbon pricing program should be considered a subsidy); PJM Rehearing and Clarification Request at 22-23; AES Rehearing and Clarification Request at 2; Calpine Clarification and Rehearing Request at 1-2, 4-7 (arguing no carbon pricing program should be considered a subsidy); Delaware DPA Clarification and Rehearing Request at 2, 6; Market Monitor First Clarification Request at 2; New Jersey Board Rehearing and Clarification Request at 44-45; Exelon Rehearing and Clarification Request at 30-31 (stating that including RGGI would cover virtually the entire market); Maryland Commission Rehearing and Clarification Request at 6, 25; Consumer Representatives Rehearing and Clarification Request at 43.

payments from generators and provides them to the states.[818] EPSA/P3 explain that resources in participating states are required to purchase emissions allowances sufficient to cover their emissions above the cap through either regional auctions or secondary market transactions.[819]

388. PJM contends that RGGI is like any other environmental regulation or limit on power plants, that the auction permits those resources that emit CO2 can compete between one another to determine the price per-ton each will pay that quarter for CO2 emissions. PJM states that the auction is not a purchase of clean power credits sold by renewable resources, and thus the RGGI cap and auction system is not a subsidy any more than any other environmental limit on a resource.[820] EPSA/P3 argue that RGGI is consistent with competitive markets and does not provide the sort of out-of-market payments discussed in the December 2019 Order.[821] The Pennsylvania Commission argues that RGGI is not connected to the PJM auction.[822]

389. The New Jersey Board states that the Commission has found that emission trading costs are appropriately included in energy offers.[823] The New Jersey Board further argues that applying the MOPR to RGGI raises due process issues because it was not discussed on the record, nor did the Commission clearly explain its rationale for doing so.[824] Delaware DPA contends that there is only one instance in which RGGI should be considered a State Subsidy—when a state pays RGGI revenue to a specific resource in the state.[825]

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[818] EPSA/P3 Rehearing and Clarification Request at 13; Pennsylvania Commission Rehearing and Clarification Request at 12; Delaware DPA Clarification and Rehearing Request at 12-13.

[819] EPSA/P3 Rehearing and Clarification Request at 13.

[820] PJM Rehearing and Clarification Request at 22-23.

[821] EPSA/P3 Rehearing and Clarification Request at 14; s*ee also* New Jersey Board Rehearing and Clarification Request at 45.

[822] Pennsylvania Commission Rehearing and Clarification Request at 12.

[823] New Jersey Board Rehearing and Clarification Request at 45-46.

[824] *Id*. at 46-47.

[825] Delaware DPA Clarification and Rehearing Request at 13-14.

b. Commission Determination

390. We grant clarification that RGGI is not considered a State Subsidy because RGGI does not provide payments, concessions, rebates, or other financial benefits to resources. However, we also clarify that, while RGGI fees paid by resources are not a State Subsidy, RGGI revenues paid to certain resources would be considered a State Subsidy, assuming it meets the criteria in the definition. We decline to address arguments regarding carbon pricing programs generally, as we do not prejudge future programs or those on which do not have a record.

4. Other

a. Requests for Clarification

391. J-POWER requests that the Commission clarify that the expanded MOPR will apply to all resources in the PJM region and not only to resources in LDAs for which a separate demand curve is established.[826] J-POWER explains that PJM and the Market Monitor have interpreted the current MOPR to be limited in this fashion.[827]

392. The Market Monitor requests clarification all new natural gas-fired resources, regardless of location, would be subject to the MOPR and that that default offer price floor would be equal to 100% of default Net CONE or Net ACR.[828] The Market Monitor also requests clarification regarding whether the Commission intends to apply the current MOPR only to new, including repowered, natural gas-fired resources, regardless of technology type, or to all resources types identified in the current Tariff.[829] The Market Monitor requests the Commission clarify that if a resource partially clears the capacity market, only the cleared portion is considered existing.[830]

393. The Market Monitor requests the Commission clarify what changes to the demand resource offer rules are necessary to implement the December 2019 Order. The Market Monitor contends that it will be necessary to require that demand response aggregators have a contract with actual resources before offering as demand response in the capacity

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[826] J-POWER Clarification Request at 2.

[827] *Id.* at 4 (citing PJM OATT, Attach. DD, § 5.14(h)(4)).

[828] Market Monitor Second Clarification Request at 3.

[829] Market Monitor First Clarification Request at 3 (citing PJM OATT, Attach. DD, § 5.14 (h)).

[830] *Id.*

auction.[831] AEMA requests clarification that the December 2019 Order does not prevent PJM from continuing to allow demand response or energy efficiency resources to aggregate.[832] CPower/LS Power request that the Commission clarify that demand aggregators should not be required to have customers under contract before offering into the auction. CPower/LS Power point out that customers typically make participation decisions in a shorter timeline than the three-year forward auction, particularly as some customers switch aggregators in search of a better deal. CPower/LS Power state that requiring commitments three years out would limit competition to the detriment of end-use customers.[833]

394. The Market Monitor further requests clarification that subsidized capacity resources cannot serve as replacement capacity for unsubsidized capacity resources.[834] EKPC requests that the Commission deny this clarification request, arguing that clarifying so would prevent or limit the ability of any new capacity resource to replace an existing resource of an electric cooperative, forcing EKPC to purchase additional capacity from the PJM market, resulting in double payment.[835]

395. OPSI requests that the Commission clarify that generation resources financially benefiting from transmission resources planned by PJM pursuant to the public policy provisions of Order No. 1000[836] are not subject to the State Subsidy definition set forth in the December 2019 Order.[837] OPSI asserts that such a result would bring about further conflict among the Commission's Orders, leading to an arbitrary and capricious result.[838] Similarly, the Maryland Commission requests clarification that transmission resources

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[831] Market Monitor First Clarification Request at 5-6.

[832] AEMA Clarification Request at 3-4.

[833] CPower/LS Power Rehearing and Clarification Request at 10-11.

[834] Market Monitor Second Clarification Request at 3.

[835] EKPC Answer at 4-5.

[836] *See Transmission Planning & Cost Allocation by Transmission Owning & Operating Pub. Utils.*, Order No. 1000, 136 FERC ¶ 61,051 (2011), *order on reh'g and clarification*, Order No. 1000-A, 139 FERC ¶ 61,132, *order on reh'g and clarification*, Order No. 1000-B, 141 FERC ¶ 61,044 (2012), *aff'd sub nom. S.C. Pub. Serv. Auth.*, 762 F.3d 41.

[837] OPSI Rehearing and Clarification Request at 12.

[838] *Id*. at 13.

planned by PJM pursuant to Order No. 1000 public policy provisions and sponsored by states attempting to meet public policy goals by delivering power to state-preferred generation resources do not cause the generation resource to receive a State Subsidy.[839]

396. Clean Energy Advocates state that the Commission should clarify that the general provisions of metering services and meter data do not constitute a State Subsidy triggering the MOPR for demand resources and energy efficiency resources, even when such services are funded by retail rate riders.[840]

b. Commission Determination

397. We clarify that the December 2019 Order did not order any changes to PJM's existing natural-gas MOPR. PJM's compliance filing should not contain any substantive changes to that section unrelated to the replacement rate. With respect to the expanded MOPR, State-Subsidized Resources will be subject to the MOPR regardless of their location.

398. We grant the Market Monitor's request for clarification that only the cleared portion of a resource is considered existing, unless otherwise specified in this order.

399. We reject the Market Monitor's request that the Commission clarify what changes to the demand response resource offer rules are necessary to implement the December 2019 Order. Those rules were not at issue at in the December 2019 Order and so the Commission does not have a record on which to base this clarification. The December 2019 Order did recognize that some changes to the demand response resource offer rules may be necessary to accommodate the application of the MOPR as described in the December 2019 Order, including requiring demand response resource aggregators to contract with resources sooner, and directed PJM to file any such changes on compliance.[841] However, we have not yet directed PJM to make that change and will not prejudge PJM's compliance filing here. Similarly, we clarify that the December 2019 Order did not make a finding on whether resources would continue to be able to aggregate, and we decline to do so here.

400. With respect to the Market Monitor's other request, we clarify that, to the extent the Market Monitor refers to replacement capacity bilaterally procured to fulfill a capacity commitment, capacity from State-Subsidized Resources cannot serve as replacement capacity for unsubsidized capacity resources.

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[839] Maryland Commission Rehearing and Clarification Request at 6, 25.

[840] Clean Energy Advocates Rehearing Request at 52.

[841] December 2019 Order, 169 FERC ¶ 61,239 at P 144 n.297.

401. We decline to address OPSI's and the Maryland Commission's broad requests for clarification concerning whether any Order No. 1000-related benefits generators may accrue are State Subsidies. The requests raise issues that require fact-specific determinations and are more appropriately addressed in a compliance proceeding or other separate proceeding.

402. With regard to Clean Energy Advocates' request, we reiterate that resources receiving any out-of-market payment that meets the definition of State Subsidy outlined in the December 2019 Order will be subject to the expanded MOPR, unless they qualify for one of the limited exemptions.

The Commission orders:

(A) Requests for rehearing are hereby granted in part, and denied in part, as discussed in the body of this order.

(B) Requests for clarification are hereby granted in part, and denied in part, as discussed in the body of this order.

(C) PJM is directed to submit a compliance filing within 45 days of the date of this order, as discussed in the body of this order.

By the Commission. Commissioner Glick is dissenting with a separate statement attached.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.

Appendix

Parties Requesting Rehearing and/or Clarification

Advanced Energy Buyers Group (Buyers Group)
Advanced Energy Economy and Advanced Energy Management Alliance (Advanced Energy Entities)
Advanced Energy Management Alliance (AEMA)
Allegheny Electric Cooperative, Inc. (Allegheny)
American Electric Power Service Corporation and Duke Energy Corporation (AEP/Duke)
American Public Power Association, American Municipal Power, Inc., and Public Power Association of New Jersey (Public Power Entities)
American Wind Energy Association, Solar Energy Industries Association, Advance Energy Economy, America Council on Renewable Energy, and the Solar Council (Clean Energy Associations)
AES Corporation (AES)
Buckeye Power, Inc. (Buckeye)
Calpine Corporation (Calpine)
Delaware Division of the Public Advocate (Delaware DPA)
District of Columbia Attorney General (DC Attorney General)
Dominion Energy Services Company, Inc. (Dominion)
East Kentucky Power Cooperative, Inc. (EKPC)
Electric Power Supply Association and the PJM Power Providers Group (EPSA/P3)
Electricity Consumers Resource Council (ELCON)
Environmental Defense Fund, Natural Resources Defense Council, Sierra Club, Sustainable FERC Project, and Union of Concerned Scientists (Clean Energy Advocates)
Enerwise Global Technologies, Inc., d/b/a/ CPower and LS Power Associates, L.P. (CPower/LS Power)
Exelon Corporation (Exelon)
FirstEnergy Solutions Corp. (FES)
FirstEnergy Utility Companies (FEU)
Illinois Attorney General (Illinois Attorney General)
Illinois Commerce Commission (Illinois Commission)
Illinois Municipal Electric Agency (IMEA)
J-POWER USA Development Co., LTD (J-POWER)
Maryland Public Service Commission (Maryland Commission)
Monitoring Analytics, Inc., acting as PJM Independent Market Monitor (Market Monitor)

National Rural Electric Cooperative Association and
East Kentucky Power Cooperative, Inc. (NRECA/EKPC)
New Jersey Board of Public Utilities (New Jersey Board)
New Jersey Division of Rate Counsel, Office of Peoples'
Counsel for the District of Columbia, and the Maryland
Office of Peoples; Counsel (Consumers Coalition)
North Carolina Electric Membership Corporation (NCEMC)
Nuclear Energy Institute (NEI)
Ohio Consumers' Counsel (OCC)
Old Dominion Electric Cooperative (ODEC)
Organization of PJM States, Inc. (OPSI)
Pennsylvania Public Utility Commission (Pennsylvania Commission)
PJM Industrial Customer Coalition, Illinois Industrial Energy
Consumers, Electricity Consumers Resource Council,
Industrial Energy Consumers of America, Pennsylvania
Energy Consumer Alliance, Industrial Energy Consumers
Of Pennsylvania, and American Forest and Paper
Association (Consumer Representatives)
PJM Interconnection, L.L.C. (PJM)
PSEG Companies (PSEG)
Public Citizen, Inc. (Public Citizen)
Public Service Commission of the District of Columbia (DC Commission)
Public Utilities Commission of Ohio (Ohio Commission)
Public Service Commission of West Virginia (West Virginia Commission)
Southern Maryland Electric Cooperative, Inc. (SMECO)
Vistra Energy Corp. and Dynegy Marketing and Trade, LLC (Vistra)

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Calpine Corp.; Dynegy Inc.; Eastern Generation, LLC; Homer City Generation, L.P.; NRG Power Marketing LLC; GenOn Energy Management, LLC; Carroll County Energy LLC; C.P. Crane LLC; Essential Power, LLC; Essential Power OPP, LLC; Essential Power Rock Springs, LLC; Lakewood Cogeneration, L.P.; GDF SUEZ Energy Marketing NA, Inc.; Oregon Clean Energy, LLC; and Panda Power Generation Infrastructure Fund, LLC	Docket Nos.	EL16-49-002 EL18-178-002 (Consolidated)
v.		
PJM Interconnection, L.L.C.		
PJM Interconnection, L.L.C.		

(Issued April 16, 2020)

GLICK, Commissioner, *dissenting*:

1. From the beginning, this proceeding has been about two things: Dramatically increasing the price of capacity in PJM Interconnection, L.L.C. (PJM) and slowing the region's transition to a clean energy future. Today's orders on rehearing make that even more clear.[1] Accordingly, I dissent as strongly as I can from both orders, which are illegal, illogical, and truly bad public policy.

2. The Commission started down this road in June 2018, when it is issued a deeply misguided order finding that PJM's capacity market was unjust and unreasonable because it did not prevent state public policies from influencing the resource mix in PJM's

[1] *Calpine Corp. v. PJM Interconnection, L.L.C.*, 171 FERC ¶ 61,035 (2020) (December 2019 Rehearing Order); *Calpine Corp. v. PJM Interconnection, L.L.C.*, 171 FERC ¶ 61,034 (2020) (June 2018 Rehearing Order).

capacity market.[2] Then-Commissioner LaFleur aptly described that decision, which was based on a tenuous theory and a thin record, as "a troubling act of regulatory hubris."[3] To address the purported problems with the capacity market, the June 2018 Order proposed a so-called "resource-specific FRR Alternative"[4] that would have bifurcated the market and cordoned off state-sponsored resources.

3. Then, in December 2019, after a year and a half of indecision, the Commission took a sharp right turn, altogether abandoning the resource-specific FRR Alternative in favor of a radical effort to extirpate state subsidies from the capacity market.[5] That order established a sweeping definition of state subsidy that will subject much, if not most, of the resources in PJM's capacity market to a minimum offer price rule (MOPR). In so doing, the Commission turned the "market" into a system of bureaucratic pricing so pervasive that it would have made the Kremlin economists in the old Soviet Union blush. In addition, the order created a number of exemptions to the MOPR that will have the principal effect of entrenching the current resource mix by excluding several classes of existing resources from mitigation. Finally, in ditching the resource-specific FRR Alternative, the Commission made clear that it had no concern for the interests of states seeking to exercise their authority over generation resources or for the customers that would be left to pick up the tab.

4. Today's orders affirm the conclusions in both the June 2018 and December 2019 Orders with a degree of condescension that is unbecoming of an agency of the federal government. And, as if that were not enough, today's orders show no interest in the careful, detailed analysis that has long been the Commission's hallmark. Instead, they turn away the several dozen rehearing requests with little more than generalities and claims that the parties misunderstood the underlying orders or the governing law—a charge that often more accurately describes the Commission's orders today than it does

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[2] *Calpine Corp. v. PJM Interconnection, L.L.C.*, 163 FERC ¶ 61,236 (2018) (June 2018 Order).

[3] *Id.* (LaFleur, Comm'r, dissenting at 5) ("The majority is proceeding to overhaul the PJM capacity market based on a thinly sketched concept, a troubling act of regulatory hubris that could ultimately hasten, rather than halt, the re-regulation of the PJM market.").

[4] "FRR" stands for Fixed Resource Requirement.

[5] *Calpine Corp. v. PJM Interconnection, L.L.C.*, 169 FERC ¶ 61,239 (2019) (December 2019 Order).

those rehearing requests.[6] All parties deserve better from this Commission, even the ones that will benefit financially from today's orders.

I. Today's Orders Unlawfully Target a Matter under State Jurisdiction

5. The FPA is clear. The states, not the Commission, are the entities responsible for shaping the generation mix. Although the FPA vests the Commission with jurisdiction over wholesale sales of electricity as well as practices affecting those wholesale sales,[7] Congress expressly precluded the Commission from regulating "facilities used for the generation of electric energy."[8] Congress instead gave the states exclusive jurisdiction to regulate generation facilitates.[9]

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[6] Today's orders address both the requests filed in response to the June 2018 Order and the December 2019 Order. Unless otherwise indicated, citations to rehearing requests refer to requests filed in response to the December 2019 Order.

[7] Specifically, the FPA applies to "any rate, charge, or classification, demanded, observed, charged, or collected by any public utility for any transmission or sale subject to the jurisdiction of the Commission" and "any rule, regulation, practice, or contract affecting such rate, charge, or classification." 16 U.S.C. § 824e(a) (2018); *see also id*. § 824d(a) (similar).

[8] *See id.* § 824(b)(1) (2018); *Hughes v. Talen Energy Mktg., LLC*, 136 S. Ct. 1288, 1292 (2016) (describing the jurisdictional divide set forth in the FPA); *FERC v. Elec. Power Supply Ass'n*, 136 S. Ct. 760, 767 (2016) (*EPSA*) (explaining that "the [FPA] also limits FERC's regulatory reach, and thereby maintains a zone of exclusive state jurisdiction"); *Panhandle E. Pipe Line Co. v. Pub. Serv. Comm'n of Ind.*, 332 U.S. 507, 517-18 (1947) (recognizing that the analogous provisions of the NGA were "drawn with meticulous regard for the continued exercise of state power"). Although these cases deal with the question of preemption, which is, of course, different from the question of whether a rate is just and reasonable under the FPA, the Supreme Court's discussion of the respective roles of the Commission and the states remains instructive when it comes to evaluating how the application of a MOPR squares with the Commission's role under the FPA.

[9] 16 U.S.C. § 824(b)(1); *Hughes*, 136 S. Ct. at 1292; *see also Pac. Gas & Elec. Co. v. State Energy Res. Conservation & Dev. Comm'n*, 461 U.S. 190, 205 (1983) (recognizing that issues including the "[n]eed for new power facilities, their economic feasibility, and rates and services, are areas that have been characteristically governed by the States").

6. But while those jurisdictional lines are clearly drawn, the spheres of jurisdiction themselves are not "hermetically sealed."[10] One sovereign's exercise of its authority will inevitably affect matters subject to the other sovereign's exclusive jurisdiction.[11] For example, any state regulation that increases or decreases the number of generation facilities will, through the law of supply and demand, inevitably affect wholesale rates.[12] But the existence of such cross-jurisdictional effects is not necessarily a "problem" for the purposes of the FPA. Rather, those cross-jurisdictional effects are the product of the "congressionally designed interplay between state and federal regulation"[13] and the natural result of a system in which regulatory authority over a single industry is divided between federal and state government.[14] Maintaining that interplay and permitting each

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[10] *EPSA*, 136 S. Ct. at 776; *see Oneok, Inc. v. Learjet, Inc.*, 135 S. Ct. 1591, 1601 (2015) (explaining that the natural gas sector does not adhere to a "Platonic ideal" of the "clear division between areas of state and federal authority" that undergirds both the FPA and the Natural Gas Act).

[11] *See EPSA*, 136 S. Ct. at 776; *Oneok*, 135 S. Ct. at 1601; *Coal. for Competitive Elec. v. Zibelman*, 906 F.3d 41, 57 (2d Cir. 2018) (explaining that the Commission "uses auctions to set wholesale prices and to promote efficiency with the background assumption that the FPA establishes a dual regulatory system between the states and federal government and that the states engage in public policies that affect the wholesale markets").

[12] *Zibelman*, 906 F.3d at 57 (explaining how a state's regulation of generation facilities can have an "incidental effect" on the wholesale rate through the basic principles of supply and demand); *id.* at 53 ("It would be 'strange indeed' to hold that Congress intended to allow the states to regulate production, but only if doing so did not affect interstate rates." (quoting *Nw. Cent. Pipeline Corp. v. State Corp. Comm'n of Kansas*, 489 U.S. 493, 512-13 (1989) (*Northwest Central*))); *Elec. Power Supply Ass'n v. Star*, 904 F.3d 518, 524 (7th Cir. 2018) (explaining that the subsidy at issue in that proceeding "can influence the auction price only indirectly, by keeping active a generation facility that otherwise might close . . . . A larger supply of electricity means a lower market-clearing price, holding demand constant. But because states retain authority over power generation, a state policy that affects price only by increasing the quantity of power available for sale is not preempted by federal law.").

[13] *Hughes*, 136 S. Ct. at 1300 (Sotomayor, J., concurring) (quoting *Northwest Central*, 489 U.S. at 518); *id.* ("recogniz[ing] the importance of protecting the States' ability to contribute, within their regulatory domain, to the Federal Power Act's goal of ensuring a sustainable supply of efficient and price-effective energy").

[14] *Cf. Star*, 904 F.3d at 523 *(*"For decades the Supreme Court has attempted to confine both the Commission and the states to their proper roles, while acknowledging

sovereign to carry out its designated role is essential to the cooperative federalist regime that Congress made the foundation of the FPA.

7. In recent years, the Supreme Court has repeatedly admonished both the Commission and the states that the FPA prohibits actions that "aim at" or "target" the other sovereign's exclusive jurisdiction.[15] Beginning with *Oneok*, the Court underscored that its "precedents emphasize the importance of considering the *target* at which the state law *aims.*"[16] The Court has subsequently explained how that general principle plays out in practice when analyzing the limits on both federal and state authority. In *EPSA*, the Court held that the Commission can regulate a practice affecting wholesale rates, provided that the practice "directly" affects those rates and that the Commission does not regulate or target a matter reserved for exclusive state jurisdiction.[17] And, in *Hughes*, the Court returned to this theme, explaining that the FPA prohibits one sovereign from exercising its authority in a manner that aims at or targets the other sovereign's exclusive jurisdiction, which, in that case, meant that a state could not "tether" its regulations to the Commission-jurisdictional wholesale market by requiring the resource to bid and clear in that market in order to secure a subsidy.[18] Together, those cases stand for the unremarkable proposition that the FPA prohibits one sovereign from taking advantage of

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that each use of authorized power necessarily affects tasks that have been assigned elsewhere.").

[15] *E.g.*, *Hughes*, 136 S. Ct. at 1298 (relying on *Oneok*, 135 S. Ct. at 1599, for the proposition that a state may regulate within its sphere of jurisdiction even if its actions "incidentally affect areas within FERC's domain" but that a state may not target or intrude on FERC's exclusive jurisdiction); *EPSA*, 136 S. Ct. at 776 (emphasizing the importance of "'the *target* at which [a] law *aims*'" (quoting *Oneok*, 135 S. Ct. at 1600)); *Oneok*, 135 S. Ct. at 1600 (recognizing "the distinction between 'measures *aimed directly at* interstate purchasers and wholesales for resale, and those aimed at' subjects left to the States to regulate") quoting *N. Nat. Gas Co. v. State Corp. Comm'n of Kan.*, 372 U.S. 84, 94 (1963) (*Northern Natural*))).

[16] *Oneok*, 135 S. Ct. at 1600 (discussing *Northern Natural*, 372 U.S. at 94, and *Northwest Central*, 489 U.S. at 513-14).

[17] *EPSA*, 136 S. Ct. at 775-77; *id.* at 776.

[18] *Hughes*, 136 S. Ct. at 1298, 1299. In the intervening few years, the lower federal courts have carefully followed the Court's discussion of the prohibition on one sovereign regulating in a manner that interferes with the other sovereign's authority by targeting matters subject to their exclusive jurisdiction. *See, e.g.*, *Zibelman*, 906 F.3d at 50-51, 53; *Star*, 904 F.3d at 523-24; *Allco Fin. Ltd. v. Klee*, 861 F.3d 82, 98 (2d Cir. 2017).

the law's cooperative federalist model to aim at or target, and, thus, interfere with, the other sovereign's exclusive jurisdiction.

8. But that is exactly what the Commission's new MOPR does. The record in this proceeding makes unmistakably clear that the purpose and effect of the new MOPR is to interfere with state regulation of generation facilities. Indeed, at every turn, the Commission's has described the new MOPR as targeting the PJM states' exercise of their exclusive jurisdiction to regulate generation facilities under FPA section 201(b). For example, the Commission began its determination section in the June 2018 Order with a discussion of purported problems evidenced in "[t]he records [before it, which] demonstrate that states have provided or required meaningful out-of-market support to resources in the current PJM capacity market, and that such support is projected to increase substantially in the future"[19]—*i.e.*, the simple fact that states are exercising their reserved authority. The Commission explained that states' exercise of their reserved authority created "significant uncertainty" and left other resources unable to "predict whether their capital will be competing against" subsidized or unsubsidized units,[20] again making clear that it is the mere exercise of that authority that is the purported problem. And, ultimately, the Commission found that PJM's tariff was unjust and unreasonable because it did not prevent the ineluctable effects of state action from making their way to the wholesale market.[21]

9. The December 2019 order made the Commission's attempt to interfere with state authority even more clear. Its rationale for the new MOPR was that it was needed to combat increasing state policies and ensure that state actions do not shape entry and exit through the capacity market.[22] In addition, the Commission focused *only* on what it deemed to be states' regulation of generation facilities, explicitly ignoring other state policies that might equally affect wholesale rates, such as so-called general industrial development policies or local siting support.[23] That concession is plain evidence that the

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[19] June 2018 Order, 163 FERC ¶ 61,236 at P 149.

[20] *Id.* P 150.

[21] *Id.* P 156; *EPSA*, 136 S. Ct. at 776 (explaining that because the federal and state spheres of jurisdiction "are not hermetically sealed from each other," " virtually any action" one sovereign takes pursuant to its authority will have "some effect" on matters within the other's sphere of jurisdiction).

[22] December 2019 Order, 169 FERC ¶ 61,239 at P 37.

[23] *Id.* P 83; *see* December 2019 Rehearing Order, 171 FERC ¶ 61,035 at PP 68, 108. The Commission has never attempted to provide a rational justification for that distinction. It certainly did not distinguish between acceptable and unacceptable state

new MOPR is not about the effects of state actions on wholesale rates, but rather all about blocking particular state efforts to shape the generation mix. Indeed, it is irrational in the extreme to profess concern about the effects of state policies on the generation mix, but then completely ignore whole classes of state policies that significantly affect wholesale prices in order to focus exclusively on the particular subsidies that various states have enacted pursuant to their reserved authority under FPA section 201(b). That result, and the Commission's total failure to provide a reasoned explanation for the arbitrary lines it drew, show this proceeding for what it is: An effort aimed directly at state efforts to shape the generation mix, price suppression pretext notwithstanding.[24]

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policies based on their effects on wholesale rates given that there is no record evidence bearing on that point and certainly no discussion of such a distinction in any of the Commission's orders in this proceeding. *See infra* section II.B.1.c. Instead, the Commission asserted that it was concerned only with those state efforts that it determined (again with no analysis) to be "most nearly directed at or tethered to" the wholesale rate. December 2019 Order, 169 FERC ¶ 61,239 at P 68 (internal quotation marks and footnotes omitted); *see* Clean Energy Advocates Rehearing Request at 32 ("The Commission . . . cobbles together a test of whether policies are 'nearly directed at' or 'tethered to' new entry or continued operation of generating capacity. This test, too, lacks any substantive articulation of explanation, and the Commission does not establish how or why such policies would have the greatest impact on rates." (footnotes omitted)). That rather awkward repurposing of a preemption term of art tells us nothing. The term "untethered" first entered the FPA lexicon in *Hughes*, 136 S. Ct. at 1299, and the specific concept of "tethering" described in that opinion has played an important role in subsequent FPA preemption litigation. *E.g.*, *Zibelman*, 906 F.3d at 51-55; *Star*, 904 F.3d at 523-24; *Allco*, 861 F.3d at 102. But until December 2019, it was never used as the yardstick for targeting particular state policies that are concededly "untethered" to the wholesale rate. It is not obvious, and the Commission certainly does not explain, why being a valid exercise of state jurisdiction that is close-to-but-not preempted should be relevant to our analysis, especially if that analysis is nominally only about wholesale market effects. Preemption is a binary determination, which is distinctly unlike horseshoes or hand grenades. The failure to provide a reasoned basis for distinguishing between acceptable and unacceptable state policies is itself arbitrary and capricious and only underscores the extent to which the Commission's order targets state jurisdiction, notwithstanding its scattered statements about price suppression and wholesale rates.

[24] In addition, the disparate treatment that the Commission accords different types of state policies underscores the extent to which it is meddling in state jurisdiction. The new MOPR is laser-focused on mitigating anything that increases a resource's revenue, but expressly excludes anything that decreases its costs. *See infra* Section II.B.1.d; December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 390 (explaining that the Commission will not treat the Regional Greenhouse Gas Initiative (RGGI) as a subsidy

10. And, lest there be any doubt, the December 2019 Order made clear that the Commission fully understood the effect of the MOPR on those disfavored state policies. As discussed further below,[25] the Commission refused to extend the MOPR to federal policies because doing so would "nullify" those policies.[26] Indeed, the Commission asserted that federal subsidies "distort competitive market outcomes" every bit as much as state subsidies[27] and that the only reason to refrain from applying the new MOPR to federal subsidies is that the Commission lacks the power to "nullify" or "disregard" federal legislation."[28] That moment of honesty revealed that the Commission knew exactly what its new MOPR did to the state regulation of generation facilities targeted in its order, undercutting its various statements about the MOPR's supposed limited effect on state resource decisionmaking. The problem for the Commission, is that it is equally impermissible for it to use its authority over wholesale rates in an attempt to nullify state regulation of the generation mix and it cannot, consistent with reasoned decisionmaking, insist that the MOPR has one effect on federal policies and a totally different effect on state policies. If the MOPR would nullify federal policies—an assessment with which I agree—than it must equally nullify state policies.

11. And, finally, the December 2019 Order admitted that its purpose was to the disfavored state actions with what the Commission described as "price signals on which investors and consumers can rely to guide the orderly entry and exit of economically

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because it "does not provide payments, concessions, rebates, or other financial benefits to resources" even though it meets every other prong of the Commission's subsidy definition, *see* December 2019 Order, 169 FERC ¶ 61,239 at P 67). That means that, in the Commission's eyes, any state policy that augments a resource's revenue is a "problem" that must be solved, but that any state policy that decreases its relative costs is not. But, in a construct where offer prices are calculated as costs *net* of revenues, *see infra* Section II.B.4, as both the net cost of new entry (Net CONE) and net avoidable cost rate (Net ACR) offer floors are, *see* Section II.B.4, whether a state policy operates on the revenue or cost side of resource's equation is utterly immaterial. Putting aside whether that distinction makes any sense, it shows the extent to which the Commission is meddling in state resource decisionmaking by finding that the effects of certain state policies are legitimate while the identical effects of others are not.

[25] *See infra* Section II.B.1.a.

[26] December 2019 Order, 169 FERC ¶ 61,239 at PP 10, 89.

[27] *Id.* P 10.

[28] *Id.* PP 10, 89.

efficient capacity resources."[29] That is to say, its goal was to establish a set of price signals to determine resource entry and exit in the capacity market *for the explicit purpose* of superseding state resource decisionmaking and to better reflect the Commission's preferences for merchant generators that do not rely on compensation they receive for addressing externalities.

12. In short, the December 2019 Order conceded that the "problem" was state efforts to shape the generation mix, that the Commission was focused *only* on those state efforts, that the Commission's action would "nullify" those state efforts, and that it would override those efforts in order to send price signals that better aligned with the Commission's preferences.[30] That directly targets states' reserved authority under section 201(b).

13. Today's orders erase any lingering doubt about the purpose and effect of the Commission's new MOPR. In addition to affirming its earlier statements, the Commission doubles down on its still unexplained "most nearly tethered" standard, this time describing it as some form of administrative grace for which states should thank their lucky stars.[31] Putting aside the dripping arrogance of that worldview, the only issue that phrase elucidates is the extent to which today's orders are focused on blocking state efforts to shape the resource mix and not on the effects of state policies on wholesale markets.[32] After all, if today's orders were actually concerned with the wholesale-market

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[29] *Id.* P 40.

[30] As discussed further below, it is hard to tally up the cumulative effect of today's orders and find that characterization even remotely accurate. In any case, a policy of blocking state efforts to address externalities is itself very much a policy, not the absence thereof. Elsewhere, the Commission suggests that it lacks the authority to directly address any environmental considerations. *E.g.*, December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 41. Assuming, for the moment, the accuracy of that statement, it still does not explain why the Commission should or must affirmatively block state efforts to the same using authority that no one contests they possess.

[31] December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 78; *see supra* note 23.

[32] As discussed above, *supra note* 23 and accompanying text, the Commission's unexplained focus on only certain state policies, and not others that might equally cause the sort of price suppression about which it purports to be so concerned, lays bare that today's orders is about blocking disfavored state policies and not wholesale market effects. *See* December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 106 ("[T]he expanded MOPR is not intended to address all commercial externalities or opportunities that might affect the economics of a particular resource.").

effects of state policies, they would not excuse from the new MOPR general industrial development policies and local siting support—categories which have much larger effects on the wholesale market than many of the policies targeted in today's orders.[33]

14. But that is not even the half of it. A few hundred paragraphs later, the Commission comes right out and admits that its goal is to penalize and, ultimately, discourage states from exercising their exclusive jurisdiction. In patting itself on the back for issuing what it describes as a "decisive order," the Commission laments the fact that its supposedly decisive order was not enough to deter states from continuing to exercise their section 201(b) jurisdiction.[34] But it is no more our role to deter states from regulating generation facilities than it is the states' role to prevent us from ensuring that rates are just and reasonable.[35] And, as the Supreme Court has repeatedly made clear, the FPA does not permit FERC or the states to exercise their authority under the FPA to target the other sovereign's exclusive jurisdiction.[36]

15. All told, this simply is not a proceeding where "the Commission's justifications for regulating . . . are all about, and only about, improving the wholesale market."[37] Unlike the rule upheld in *EPSA*, where the matters subject to state jurisdiction "figure[d] no more in the Rule's goals than in the mechanism through which the Rule operates,"

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[33] *See infra* Section II.B.3.

[34] December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 319 ("Even after the June 2018 Order, certain states pursued new or expanded out-of-market support for preferred resources").

[35] Elsewhere in today's orders, the Commission suggests that federal subsidies, presumably in contrast to state subsidies, are as "equally valid" as regulations under the FPA. December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 120. There is no basis for the insinuation that state subsidies are somehow less valid than federal ones. Although it is true that state subsidies that directly regulate or aim at the Commission's exclusive jurisdiction or that conflict with a Commission regulation are preempted, *see supra* P 7, the December 2019 Rehearing Order deals with state actions that are concededly not preempted and were enacted pursuant to the states exercise of their reserved authority under the FPA. *See, e.g.*, December 2019 Rehearing Order, 171 FERC ¶ 61,035 at PP 76-77. But, although the Commission's "equally valid" rationale is unhelpful as a statement of law, it is a revealing illustration of the attitude toward state authority that pervades the order.

[36] *See supra* P 7.

[37] *EPSA*, 136 S. Ct. at 776 (citing *Oneok*, 135 S. Ct. at 1599).

state actions are front and center in the Commission's justification for acting.[38] To be sure, the Commission doffs its hat to "price suppression" throughout the orders. But repeating the phrase "price suppression" does not change the fact that the Commission's stated concern in the June 2018 Order, the December 2109 Order, and today's orders is the states' exercise of their authority under section 201(b) or the fact that the goal of the new MOPR is to "nullify" and "disregard" the effects of state resource decisionmaking. Similarly, the Commission's observation that it is not literally precluding states from building new resources is beside the point. As I explained in my earlier dissent, that is the equivalent of saying that a grounded teenager is not being punished because he can still play in his room—it deliberately mischaracterizes both the intent and the effect of the action in question.[39]

16. The extent to which the Commission is attempting to interfere with state resource decisionmaking is even clearer with a little context. The MOPR was originally used to mitigate buyer-side market power within the wholesale market[40]—a concern at the heart of the Commission's responsibility to ensure that wholesale rates are just and unreasonable.[41] And for much of the MOPR's history, that is what it did. Even when the

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[38] *Id*.

[39] December 2019 Order, 169 FERC ¶ 61,239 (Glick, Comm'r, dissenting at P 13).

[40] Specifically, those early MOPRs were designed to ensure that net buyers of capacity were not able to use market power to drive down the capacity market price. *See N.Y. Indep. Sys. Operator, Inc.*, 170 FERC ¶ 61,121 (2020) (Glick, Comm'r, dissenting at P 2); *see generally* Richard B. Miller, Neil H. Butterklee & Margaret Comes, *"Buyer-Side" Mitigation in Organized Capacity Markets: Time for a Change?*, 33 Energy L.J. 459 (2012) (discussing the history of buyer-side mitigation at the Commission).

[41] *See, e.g.*, *Nat'l Ass'n of Regulatory Util. Comm'rs v. FERC*, 475 F.3d 1277, 1280 (D.C. Cir. 2007) (noting that "FERC's authority generally rests on the public interest in constraining exercises of market power"); *Pub. Util. Dist. No. 1 of Snohomish Cty. v. Dynegy Power Mktg., Inc.*, 384 F.3d 756, 760 (9th Cir. 2004) (explaining that the absence of market power could provide a strong indicator that rates are just and reasonable); *Tejas Power Corp. v. FERC*, 908 F.2d 998, 1004 (D.C. Cir. 1990) ("In a competitive market, where neither buyer nor seller has significant market power, it is rational to assume that the terms of their voluntary exchange are reasonable, and specifically to infer that the price is close to marginal cost, such that the seller makes only a normal return on its investment."); *see also N.Y. Indep. Sys. Operator, Inc.*, 170 FERC ¶ 61,121 (Glick, Comm'r, dissenting at P 2) (explaining that "the Commission's buyer-side market power mitigation regime should focus only on actual market power" a concern that "is both more consistent with the FPA's dual-federalist design and the Commission's core responsibility as a regulator of monopoly/monopsony power").

Commission eliminated the categorical exemption for resources developed pursuant to state public policy, the Commission limited the MOPR's application only to natural gas-fired resources—*i.e.*, those that would most likely be used as part of an effort to decrease capacity market prices.[42]

17. How things have changed. Today, the Commission expressly admits that, for the first time, the MOPR is no longer about buyer-side market power.[43] Instead, as noted, it is all about and only about nullifying the effects of state public policies. That dramatic shift began only in 2018, more than a decade after the MOPR was first employed to mitigate the exercise of market power.[44] The intervening two years have been head-spinning as the Commission has rapidly transformed a narrowly tailored anti-monopsony measure into a regime for blocking state efforts to shape the generation mix.

18. At no point, however, has the Commission been able to coherently justify the MOPR's change of target. It first claimed that this transformation of the MOPR was necessary to ensure "investor confidence" and the ability of unsubsidized resources to compete against resources receiving state support.[45] A few months later, at the outset of this proceeding, the Commission abandoned "investor confidence" and asserted that the need to mitigate state policies in order to protect the "integrity" of the capacity market—another concept that it did not bother to explain.[46] And last December, the Commission

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[42] *See N.J. Bd. of Public Utils. v. FERC*, 744 F.3d 74, 106-07 (3d Cir. 2014) (*NJBPU*) (summarizing the Commission's reasoning for limiting the MOPR to only natural gas-fired resources). The Commission asserts, without explanation, that there is a "clear tension" between the 2011 order eliminating the public policy exemption to then-limited MOPR and recent state efforts to shape the generation mix. December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 320. Nonsense. The 2011 order specifically exempted all non-natural-gas-fired resources from the MOPR, squarely foreclosing whatever tension the Commission pretends to uncover today. In any case, it is hardly fair to assign states the responsibility for predicting when the Commission will abandon its precedent and entirely reorient its approach to regulating a construct like the PJM capacity market.

[43] December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 45 (stating that "the expanded MOPR does not focus on buyer-side market power mitigation").

[44] *See ISO New England Inc.*, 162 FERC ¶ 61,205, at PP 20-26 (2018). That order also came after every existing court case considering the legality of the Commission's use of the MOPR.

[45] *Id.* P 21.

[46] June 2018 Order, 163 FERC ¶ 61,236 at PP 150, 156, 161.

added yet another new twist: That state subsidies "reject the premise of the capacity market."[47] But, as with investor confidence and market integrity, it is hard to know exactly what that premise is. Today's orders provide more of the same, reiterating those buzz words without any further explanation.[48] If there is one thing that those inscrutable terms share, it is their inability to conceal, much less justify, the fundamental shift in the Commission's focus.[49] The Commission's effort to recast the MOPR as always having been about price suppression at some level of generality[50] obfuscates that point and badly mischaracterizes the recent shift in the MOPR's focus.

19. Neither of the Commission's responses provide it much cover. First, the Commission asserts that the new MOPR does not intrude on states' exclusive jurisdiction just because it "affect[s] matters within the states' jurisdiction."[51] Of course that is true; *EPSA* tells as much.[52] But it is also beside the point. My argument—and the arguments

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[47] December 2019 Order, 169 FERC ¶ 61,239 at P 17.

[48] *E.g.*, December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 78 (asserting that "[t]he Commission may, as here, take action to protect the integrity of federally-regulated markets against state policies" without explaining what exactly integrity means in this context); *id.* P 320 (explaining that the various exemptions provided for in the December 2019 Order are for "resources that accept the premise of a competitive capacity market" (quoting December 2019 Order, 169 FERC ¶ 61,239 at P 17)); *id.* P 337 (asserting that "[t]he replacement rate directed in the December 2019 Order addresses State-Subsidized Resources, which pose a risk to the integrity of competition in the wholesale capacity market").

[49] Public Power Entities Rehearing Request at 6-7 ("The Commission did not justify the transformation of the MOPR from a limited mechanism aimed at preventing price suppression by subsidized new entry into a sweeping restriction on almost all forms of non-federal support for generation resources.").

[50] December 2019 Order, 169 FERC ¶ 61,239 at 136; *see* December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 338 ("[T]he December 2019 Order expands the scope of the MOPR, but not its underlying purpose."). As I noted in my underlying dissent, suggesting that the MOPR has always been about price suppression is the equivalent of saying that speed limits have always been about keeping people from getting to their destination too quickly. There is a sense in which that is true, but it kind of misses the point. December 2019 Order, 169 FERC ¶ 61,239 (Glick, Comm'r, dissenting at n.35).

[51] December 2019 Rehearing Order, 171 FERC ¶ 61,035 at PP 15-16.

[52] *EPSA*, 136 S. Ct. at 776 ("[A] FERC regulation does not run afoul of § 824(b)'s proscription just because it affects—even substantially—the quantity or terms of retail

made by several parties on rehearing[53]—is that the Commission is exercising its authority over wholesale sales to "aim at" or "target" matters subject to exclusive state jurisdiction. As explained above, the "goals" of the new MOPR and the mechanism "through which [it] operates" demonstrate an unmistakable focus on states' exercise of their reserved authority.[54] That means that, unlike the rule in *EPSA*, today's orders are not "all about, and only about, improving the wholesale market."[55] Accordingly, the Court's precedent regarding the incidental effects of a valid exercise of Commission authority are beside the point.

20. In addition, the Commission appears to suggest that it can overstep its jurisdictional bounds only if it *literally* requires states to build certain resources or prevents states from doing the same.[56] In other words, the Commission's theory of the case is that it exceeds its jurisdiction *only* if it directly regulates the construction of new resources. But that suggestion is inconsistent with the Supreme Court's recent cases, including *EPSA*, that make clear that the FPA does not permit federal or state regulators to use their authority in an attempt to interfere with the other's sphere of exclusive jurisdiction by aiming at or targeting the matters peculiarly within that sphere.[57] Accordingly, the Commission's reasoning is both a misapplication of the law and arbitrary and capricious insofar as it utterly misses the point of the argument made by several parties on rehearing.[58]

21. Second, the Commission points to a handful of court of appeals decisions upholding various Commission orders addressing capacity markets. None of those cases sanction the Commission's actions in this proceeding. The December 2019 Rehearing Order contends principally that the U.S. Court of Appeals for the Third Circuit's (Third

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sales.").

[53] *See, e.g.* Public Power Entities Rehearing Request at 13-15; Clean Energy Advocates Rehearing Request at 85-89.

[54] *EPSA* 136 S. Ct. at 776-77.

[55] *Id*. at 776.

[56] *See* December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 17.

[57] *See supra* P 7; *EPSA* 136 S. Ct. at 776-77.

[58] *See, e.g.*, Public Power Entities Rehearing and Clarification Request at 13-16; Clean Energy Associations Rehearing and Clarification Request at 10-11; Maryland Commission Rehearing and Clarification Request at 9-13; *see also supra* P 7; December 2019 Order, 169 FERC ¶ 61,239 (Glick, Comm'r, dissenting at PP 7-17).

Circuit) decision in *NJPBU* inoculates the Commission against any charge that it has exceeded its jurisdiction by intruding on state authority over resource decisionmaking.[59] That is not how precedent works. Just because a court upheld one order against a particular challenge does not mean that it would uphold all similar orders against other challenges.

22. In any case, the orders in this proceeding bear only a surface-level similarity to *NJBPU*.[60] As the Third Circuit explained, the purpose of the MOPR on review in that case was limited to mitigating the exercise of buyer-side market power[61]—a concern that, as noted, lies at the core of the Commission's authority over wholesale rates and practices.[62] Consistent with that focus, that MOPR applied only to natural gas-fired power plants because they were the resources that a large net buyer of capacity could rationally use to suppress the capacity market clearing price.[63] In that case, the Commission eliminated an "exception" from the MOPR that had previously allowed state-sponsored natural gas-fired units to skirt the MOPR.[64] The Commission justified its decision by pointing to a pair of (ultimately preempted) state laws that subsidized new natural gas plants by effectively guaranteeing them a predetermined wholesale rate.[65]

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[59] December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 16 ("The court's decision in *NJBPU* demonstrates that the findings from the December 2019 Order are within the Commission's jurisdiction."); June 2018 Rehearing Order, 171 FERC ¶ 61,034 at P 66.

[60] *See supra* PP 16-18 (discussing the MOPR's evolution).

[61] *NJBPU*, 744 F.3d at 84-85. In other words, the "aim" or "target" of the MOPR was limited to the exercise of wholesale market power. *Id.*

[62] *See supra* note 41.

[63] *NJBPU*, 744 F.3d at 106 ("[T]he only resources subject to the MOPR are natural gas-fired technologies."); *id.* ("FERC asserts that the characteristics of gas units make them more likely to be used as price suppression tools." (internal quotation marks omitted)).

[64] *Id.* at 79.

[65] *PJM Interconnection, L.L.C.*, 135 FERC ¶ 61022, at P 139 (2011); *id.* PP 128-138 (discussing the evidence in the record). In *Hughes*, the Supreme Court subsequently held that the Maryland law, which was functionally identical to the New Jersey law, was preempted because it aimed at FERC's exclusive jurisdiction over wholesales. 136 S. Ct. at 1928. That the Commission's elimination of the state resource exemption was both focused exclusively on the exercise of buyer-side market power and in response to a

The court concluded that all the MOPR did in that case was ensure a "new resource is economical—*i.e.,* that it is needed by the market—and ensures that its sponsor cannot exercise *market power* by introducing a new resource into the auction at a price that does not reflect its costs and that has the effect of lowering the auction clearing price."[66] In addition, in reviewing those facts, the court observed that "FERC's enumerated reasons for approving the elimination of the state-mandated exception relate directly to the wholesale price for capacity."[67]

23. Today's orders are an altogether different animal. As noted above, the December 2019 Rehearing Order explicitly disavows the mitigation of market power as the basis for the new MOPR,[68] instead making it "all about and only about"[69] "nullifying"[70] state efforts to shape the generation mix[71]—or at least those state efforts that the Commission

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state's "intrusion" on FERC's exclusive jurisdiction, *id.* n.11, only underscores the differences between that decision and today's orders.

[66] *NJBPU*, 744 F.3d at 97 (emphasis added).

[67] *Id*.

[68] *See supra* P 7; December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 45 ("[T]he expanded MOPR does not focus on buyer-side market power mitigation."); June 2018 Rehearing Order, 171 FERC ¶ 61,034 at P 56.

[69] *EPSA*, 136 S. Ct. at 776.

[70] As noted, this is the Commission's own term for describing the effect that applying the MOPR has on a particular policy. December 2019 Order, 169 FERC ¶ 61,239 at P 87. On rehearing, several parties identified the tension between the Commission's assertions that it could not apply the MOPR to federal policies because to do so would "nullify" those policies and its statements that applying the MOPR to state policies has no effect whatsoever. December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 12. Although the Commission summarizes some of those arguments, it does not respond to them.

[71] *See supra* P 9 (explaining how the Commission's orders focus only on state efforts to regulate the generation mix and not on other state efforts that could conceivably have the same price suppressive effects). Even PJM, which brought this problem to our doorstep in 2018, criticizes the Commission for abandoning the MOPR's role as "guardrail" and turning it into an "over-broad and over-prescriptive" rule that "needlessly interferes with state resource policies." PJM Rehearing and Clarification Request at 6-9.

dislikes.[72] As explained above, today's orders—and, indeed, every order in this proceeding—has made clear that the aim of the new MOPR is to "deter" states from taking actions of which the Commission disapproves.[73] That makes today's orders a far cry from *NJBPU*. In addition, the new MOPR mitigates indiscriminately and explicitly does not require that the mitigated state policy actually affect the capacity market clearing price or even be likely to have such an effect.[74] That is distinctly unlike the targeted MOPR in *NJBPU* that addressed only the resources most likely to be used in an exercise of market power.[75] Simply put, the MOPR addressed in today's orders is so fundamentally different from that before the court in *NJBPU* as to render the holding in that case next to meaningless as applied to these orders.

24. The Commission also suggests that the D.C. Circuit's decisions in *Connecticut Department* and *Municipalities of Groton* support today's outcome.[76] But those cases have even less in common with the facts before us than *NJBPU*. In both instances, the court upheld the Commission's authority to require wholesale buyers to purchase particular quantities of capacity.[77] As the Court explained in *Connecticut Department*, the Commission's focus was squarely on market structures that would motivate utilities to develop or acquire the necessary capacity.[78] But the Court went out of its way to explain that nothing in the Commission's orders in any way limited the states' ability to *influence* or, indeed, directly select the resources that would meet those capacity

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[72] *See supra* PP 11-12; *infra* Section II.B.1.d.

[73] *See supra* P 14.

[74] December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 132.

[75] Public Power Entities Rehearing Request at 15 (The "expansion of the MOPR fundamentally alters its purposes and impact in a way that impermissibly intrudes on state authority.").

[76] December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 15 & n.45 (citing *Conn. Dep't of Pub. Util. Control v. FERC*, 569 F.3d 477, 481-82 (D.C. Cir. 2009) and *Muns. of Groton v. FERC*, 587 F.2d 1296, 1301 (D.C. Cir. 1978)).

[77] *Connecticut Dep't*, 569 F.3d 481-85; *id.* at 482 (explaining that *Municipalities of Groton* "sustained the Commission's jurisdiction to review the 'deficiency charges' . . . charged . . . when member utilities failed to live up to their share of NEPOOL's reliability requirement").

[78] *Id.* at 482.

requirements.[79] And that is where any superficial similarity to today's orders ends. As noted, the new MOPR is expressly about limiting—"nullify[ing]" to use the Commission's word[80]—state efforts to shape the resources that meet those requirements.[81] What is more, that nullification is the express reason for of the Commission's action: The orders' goal is to block the effects of state policies and deter states from exercising their authority over generation facilities.[82]

25. Finally, it is important to be precise about my jurisdictional argument. I do not believe that any MOPR is *per se* invalid just because it complicates state efforts to regulate generation facilities.[83] After all, *NJBPU* indicates that the use of a MOPR that addresses matters squarely within the Commission's authority is permissible, at least in certain circumstances.[84] But that is not what we have here. As explained above, today's orders confirm that the Commission is deploying its new MOPR to aim at state resource decisionmaking and for the purpose of substituting its own policy preferences for those of the states. That "fatal defect" renders this particular MOPR in excess of the Commission's jurisdiction.[85]

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[79] *Id.*

[80] December 2019 Order, 169 FERC ¶ 61,239 at PP 10, 89.

[81] *See supra* P 10.

[82] December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 319. The Commission is also fond of pointing to the U.S. Court of Appeals for the Seventh Circuit's statement, in resolving preemption litigation regarding Illinois's zero-emissions credits, that the Commission has the authority to make "adjustments" to its regulations in light of state action. *Star*, 904 F.3d at 524. And indeed it does. But it does not follow that the Commission can make *any* "adjustment" that it wants, certainly not one inconsistent with Supreme Court's holdings on the limit of federal authority under the FPA.

[83] As I have elsewhere explained, the proper role for MOPRs is in combatting exercises of market power, not state efforts to shape the generation mix. *N.Y. Indep. Sys. Operator, Inc.*, 170 FERC ¶ 61,121 (2020) (Glick, Comm'r, dissenting at PP 15-16).

[84] *NJBPU*, 744 F.3d at 96-98.

[85] *Cf. Hughes*, 136 S. Ct. at 1299.

II. The Commission's Orders Are Arbitrary and Capricious

26. Today's orders are also arbitrary and capricious. The upshot of the majority's position is that PJM's capacity market is a just and reasonable construct *only* if the Commission "nullifies" the effects of state public policies. That interpretation of the FPA is as radical as it is wrong and finds no support in the 80-year history of the Act or in any Commission or court precedent.[86] I suppose it should be no surprise that installing such an unprecedented mitigation regime proves to be a difficult task. But that is no excuse for an order riddled with determinations that are unsupported by the record and deeply arbitrary and capricious. The whole purpose of the Administrative Procedure Act is to prevent an agency from relying on fundamentally flawed reasoning in order to impose its policy preferences. If ever those protections were needed to address an action of the Commission, it is this one, both because of the shoddy reasoning on which the Commission's actions are based and the tremendous damage they may ultimately do. In the following sections, I detail several of what I view to be the most serious flaws in the Commissions reasoning, any of which should be sufficient to invalidate today's orders.

A. The Commission Has Not Shown that the Existing Rate Was Unjust and Unreasonable

27. Section 206 of the FPA requires the Commission to show that the existing rate is unjust and unreasonable or unduly discriminatory or preferential before it can set a replacement rate.[87] The June 2018 Rehearing Order fails to articulate a reasoned basis for concluding that the pre-existing capacity market rules were unjust and unreasonable or unduly discriminatory or preferential. Instead, the Commission doubles down on a

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[86] The December 2019 Order also swept beyond what was contemplated in the original *Calpine* complaint by suggesting that voluntary commercial transactions involving renewable energy credits (RECs) would constitute a state-subsidized transaction and be subject to the MOPR. In response, several parties sought late intervention, which the Commission denies. December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 4. I would have granted those interventions. The December 2019 Order took an approach to mitigation that was far broader than any that had been contemplated to date in this proceeding and, indeed, in the Commission's history. Under those circumstances, we would be better served by letting would-be parties have their full say, rather than forcing them to sit on the sidelines.

[87] *Emera Maine v. FERC*, 854 F.3d 9, 25 (D.C. Cir. 2017) ("[A] finding that an existing rate is unjust and unreasonable is the 'condition precedent' to FERC's exercise of its section 206 authority to change that rate." (quoting *FPC v. Sierra Pac. Power Co.*, 350 U.S. 348, 353 (1956))).

conclusory theory of the case that does not seriously wrestle with the contrary arguments and evidence in the record.

28. The June 2018 Rehearing Order does not rely on any evidence that state policies are actually distorting prices, much less that they are doing so in a way that imperils resource adequacy in the region. Instead, the Commission's case rests on two propositions: (1) that certain state subsidies permit resources to lower their capacity market offers, which, if enough resources do it, will lower the clearing price[88] and (2) that the number of potentially subsidized megawatts in PJM appears likely to grow in coming years.[89] That is the entirety of the Commission's theory. And that is not enough, on this record, to reasonably conclude that PJM's existing tariff was unjust and unreasonable or unduly discriminatory or preferential.

29. As numerous parties argued on rehearing, the idea that resource adequacy in PJM is currently imperiled by state subsidies is, frankly, laughable. The Base Residual Auction has consistently procured more resources than required to meet PJM's reliability requirement and thousands of megawatts of additional resources have elected not to retire, even though they are not receiving any capacity market payment.[90] If state policies are, in fact, a threat to resource adequacy, there is certainly no evidence of that in PJM's current reserve margins. Instead, as discussed in some detail in another statement I am issuing today, if there is a problem in PJM's capacity market, it is not that prices are too low, but rather that the market is designed to produce prices that are too high, over-procuring capacity and dulling the price signals in the energy and ancillary service

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[88] *E.g.*, June 2018 Rehearing Order, 171 FERC ¶ 61,034 at P 28 ("It is axiomatic that resources receiving out-of-market subsidies need less revenue from the market than they otherwise would. The rational choice for such resources, given their need to participate in PJM's capacity market, is to reduce their offers commensurably to ensure they clear in the market.").

[89] *E.g.*, *id.* P 29 ("Rather, the June 2018 Order emphasized the significant and continued growth of out-of-market support. As this growth continues, more subsidized resources will have the ability to offer below their costs and suppress prices" (footnotes omitted)).

[90] *See, e.g.*, Joint Consumer Advocates June 2018 Order Rehearing Request at 8 (citing PJM 2021/2022 RPM Base Residual Action Results at 1, https://www.pjm.com/-/media/markets-ops/rpm/rpm-auction-info/2021-2022/2021-2022-base-residual-auction-report.ashx (2021/2022 BRA Summary)); *see also* 2021/2022 BRA Summary ("The 2021/2022 Reliability Pricing Model (RPM) Base Residual Auction (BRA) cleared 163,627.3 MW of unforced capacity in the RTO *representing a 22.0% reserve margin*." (emphasis added)).

markets.[91] Faced with that fact, the Commission responds with the assertion that state subsidies will surely cause a problem in the future.[92] Maybe, but there is no evidence in this record that suggests that state policies will cause any resource adequacy concerns whatsoever.

30. Apparently recognizing that point, the Commission pivots to economic theory as the basis for its action.[93] It is true that the Commission need not prove *basic* economic principles every time that it seeks to act on them. After all, "[a]gencies do not need to conduct experiments in order to rely on the prediction that an unsupported stone will fall."[94] Instead, agencies can rely on economic theory to make predictive judgments about how the future will play out.[95] But that does not mean that an agency can turn "economic theory" into a "talismanic phrase that does not advance reasoned decision making" and claim to have satisfied its obligations under the APA.[96] In other words, an agency cannot articulate a principle, label it "economic," make a prediction, and move on without wrestling with contrary record evidence or reasonable alternative applications of that economic theory.

31. But that is exactly what the June 2018 Rehearing Order does. It asserts that state subsidies in PJM are increasing, that subsidies reduce the costs of the resource being subsidized and, therefore, subsidies will cause more subsidized resources to clear the capacity market. All true. From that though, the Commission concludes that PJM's tariff will no longer ensure resource adequacy at rates that are just and reasonable and not

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[91] *See PJM Interconnection, L.L.C.*, 171 FERC ¶ 61,040 (2020) (Glick, Comm'r. dissenting).

[92] June 2018 Rehearing Order, 171 FERC ¶ 61,034 at PP 29-30.

[93] *E.g.*, *id.* PP 25, 27, 29, 34, 37.

[94] *Assoc. Gas Distributors v. FERC*, 824 F.2d 981, 1008 (D.C. Cir. 1987). I cannot help but note the mild irony that the rest of that example of an assumable economic theory is that "competition will normally lead to lower prices," *id.* at 29, while the Commission's theory of the case today rests on the supposedly urgent need to raise prices.

[95] *See, e.g.*, *NextEra Energy Res., LLC v. FERC*, 898 F.3d 14, 23 (D.C. Cir. 2018); *S.C. Pub. Serv. Auth. v. FERC*, 762 F.3d 41, 65, 76 (D.C. Cir. 2014) ("[A]t least in circumstances where it would be difficult or even impossible to marshal empirical evidence, the Commission is free to act based on reasonable predictions rooted in basic economic principles.").

[96] *TransCanada Power Mktg. Ltd. v. FERC*, 811 F.3d 1, 13 (D.C. Cir. 2015).

unduly discriminatory or preferential, which is where its reasoning gets a little tenuous, as the economic principle articulated does not lead ineluctably to the regulatory conclusion reached. Instead, the record is replete with evidence and reasonable theories that could support an alternative conclusion. For one thing, the evidence in the record of continued high prices and entry of new resources (not to mention, retention of old ones) could just as easily support the conclusion that a more-than-adequate quantity of resources will remain in the market, state subsidies notwithstanding.[97] As numerous parties point out, that has been the experience to date in PJM.[98] Why the Commission is so confident that things will change at some undefined future inflection point is never explained. Nor does the Commission explain why it is confident that those assumed effects justify an increase in customer's rates.

32. In addition, it is equally reasonable to suggest that the natural effect of state subsidies (indeed, in many cases, their intended result) will be to bring online large amounts of new resources that will themselves help to ensure resource adequacy.[99] Nothing in today's orders explains why the Commission is so confident that the deployment of state-sponsored resources will impair PJM's ability to ensure resource adequacy at just and reasonable rates rather than enhancing it. After all, it is worth remembering that, as discussed above, the FPA expressly reserved the regulation of generation facilities to the states and Congress presumably expected the states to wield that reserved authority.[100] Why the exercise of that authority is inherently unjust and unreasonable or a "problem" in need of "solving" is never clearly explained. Repeated

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[97] Today's orders contain several variations on the notion that "adequate reserve margins today do not necessarily mean that such conditions will continue into the future." June 2018 Rehearing Order, 171 FERC ¶ 61,034 at P 35. Sure. But the burden of proof is on the Commission to show that the current tariff is unjust and unreasonable, not on proponents of the status quo to show that the tariff will necessarily remain just and reasonable in perpetuity. *See Emera Maine*, 854 F.3d at 24 ("'The proponent of a rate change under section 206, however, bears "the burden of proving that the existing rate is unlawful.'" (quoting *Ala. Power Co. v. FERC*, 993 F.2d 1557, 1571 (D.C. Cir. 1993)).

[98] June 2018 Rehearing Order, 171 FERC ¶ 61,034 at PP 16-17.

[99] It is certainly possible that the entry of those resources will lower the capacity market clearing price, which should not necessarily be a bad result in the eyes of an agency whose "primary purpose" is to protect customers. *See, e.g.*, *City of Chicago, Ill. v. FPC*, 458 F.2d 731, 751 (D.C. Cir. 1971) ("[T]he primary purpose of the Natural Gas Act is to protect consumers." (citing, *inter alia*, *City of Detroit v. FPC*, 230 F.2d 810, 815 (1955)).

[100] *See supra* P 5.

incantations of the phrase "economic theory" does not provide a reasoned answer to the question.

33. The closest the Commission comes to explaining its confidence in a looming future problem is its series of elliptical statements about investor confidence and the merchant business model. Throughout this proceeding, the Commission has relied on various inscrutable principles, such as "investor confidence" or "market integrity," to justify its new MOPR.[101] At various points in the June 2018 Order, and again today, the Commission expressed concern about the challenges state policymaking may create for investors in particular resources in the capacity market[102] and the June 2018 Rehearing Order specifically raises the concern that state policies may harm unsubsidized generators.[103] These statements seem to suggest that the problem with the state policies is that they may reduce the profit margins of unsubsidized resources and make it correspondingly less likely investors will pour their money into those resources, which the Commission assumes will impair resource adequacy.

34. I recognize and appreciate the large influx of capital that investors and the merchant business model, more generally, have brought to PJM over the last two decades. Those investments have enhanced the grid's reliability while helping to decrease its carbon intensity—both good outcomes. But it is not our responsibility to protect particular businesses, business models, or their investors from state regulation. If states choose to address a market failure by promoting particular resource types or business models over others, it is not for the Commission to give a leg up to business models that might lose out as a result. In any case, PJM's generation resource mix has long reflected a mix of vertically integrated utilities and merchant generators, both of which have benefited from public policies. The June 2018 Rehearing Order does not adequately explain the Commission's apparent confidence that that cannot continue in a future in which states continue to exercise their authority under FPA section 201(b).

35. The Commission also makes the assertion that state policies are a problem because they create "significant uncertainty" and "investors cannot predict whether their capital will be competing" against subsidized resources.[104] As I explained in my dissent from

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[101] *Supra* P 18.

[102] *E.g.*, June 2018 Rehearing Order, 171 FERC ¶ 61,034 at P 35 ("[I]nvestors may be hesitant to invest in a market where both new entry and the viability of uneconomic existing resources is dictated largely by state subsidy programs."); June 2018 Order, 163 FERC ¶ 61,236 at P 150 (similar).

[103] June 2018 Rehearing Order, 171 FERC ¶ 61,034 at P 28 (noting the potential that state policies will "injure[] non-subsidized competitors").

[104] June 2018 Order, 163 FERC ¶ 61,236 at P 150.

the June 2018 Order, uncertainty about regulation will always be endemic in a regulated industry.[105] And nothing in the June 2018 Order or the June 2018 Rehearing Order explains why the purported uncertainty caused by state policymaking is more problematic than the other forms of uncertainty that pervade the industry.

36. The bottom line is that neither the June 2018 Order nor today's order on rehearing has adequately explained why the existing tariff is unjust and unreasonable or unduly discriminatory or preferential. The sum total of the Commission's analysis is that the PJM states will likely, in the future, subsidize more generating resources and that, all else equal, those subsidies will cause those resources to offer into the capacity market at lower prices than they would otherwise. But that alone does not prove the existing tariff is unjust and unreasonable, especially given the long history of state policies affecting the capacity market and the equally plausible future scenarios in which the capacity market continues to ensure resource adequacy at just and reasonable rates while state-sponsored resources co-exist with other business models. After all, to carry its burden under section 206, the Commission must do more than articulate a theory, label it "economics," and call it a day.

B. The Commission Has Not Shown that Its Replacement Rate Is Just and Reasonable

37. If the Commission meets its burden to show that the existing rate is unjust and unreasonable or unduly discriminatory or preferential, then the burden is again on the Commission to establish a "replacement rate" that is itself just and unreasonable and not unduly discriminatory or preferential.[106] The December 2019 Rehearing Order fails to articulate a reasoned basis for concluding that the new MOPR meets that burden. Instead, like the June 2018 Rehearing Order, it doubles down on a conclusory statements that do not seriously wrestle with the contrary arguments and evidence in the record.

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[105] *Id.* (Glick, Comm'r, dissenting at 11)

[106] *Advanced Energy Mgmt. All. v. FERC*, 860 F.3d 656, 663 (D.C. Cir. 2017) ("When the Commission changes an existing filed rate under section 206, it is 'the Commission's burden to prove the reasonableness of its change in methodology.'" (quoting *PPL Wallingford Energy L.L.C. v. FERC*, 419 F.3d 1194, 1199 (D.C. Cir. 2005))); *see also Emera Maine*, 854 F.3d at 27 ("'Although it is not our role to tell the Commission what the correct rate of return calculation is . . . we do have an obligation to remand when the Commission's conclusions are contrary to substantial evidence or not the product of reasoned decisionmaking.'" (quoting *Pub. Serv. Comm'n of N.Y. v. FERC*, 813 F.2d 448, 465 (D.C. Cir. 1987))).

1. The Commission's Definition of State Subsidy Is Arbitrary and Capricious

38. The crux of the December 2019 Order, and today's order on rehearing, is the Commission's definition of subsidy. That definition, however, is also the source of many of the Commission's most arbitrary and capricious determinations. Simply put, it is little more than a series of arbitrary lines that do not comport with the Commission's explanation for why the existing tariff was unjust and unreasonable or why the new MOPR will produce a just and reasonable rate.

a. Excluding Federal Subsides Is Arbitrary and Capricious

39. No single determination is in today's orders is more arbitrary than the Commission's exclusion of all federal subsidies from the new MOPR.[107] Federal subsidies have pervaded the energy sector for more than a century, beginning even before Congress, in the FPA, declared that the "business of transmitting and selling electric energy . . . is affected with a public interest."[108] Since 1916, federal taxpayers have supported domestic exploration, drilling, and production activities for our nation's fossil fuel industry.[109] And since 1950, the federal government has provided roughly a trillion dollars in energy subsidies, of which 65 percent has gone to fossil fuel technologies.[110] Those federal policies present all the same "problems" that the Commission identifies

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[107] December 2019 Order, 169 FERC ¶ 61,239 at P 89; *see* December 2019 Rehearing Order, 171 FERC ¶ 61,035 at PP 118-120.

[108] 16 U.S.C. § 824.

[109] *See* Molly Sherlock, Cong. Research Serv., *Energy Tax Policy: Historical Perspectives on and Current Status of Energy Tax Expenditures* 2-3 (May 2011), *available at* https://fas.org/sgp/crs/misc/R41227.pdf (Energy Tax Policy).

[110] *See* Nancy Pfund and Ben Healey, DBL Investors, *What Would Jefferson Do? The Historical Role of Federal Subsidies in Shaping America's Energy Future*, (Sept. 2011), *available at* http://www.dblpartners.vc/wp-content/uploads/2012/09/What-Would-Jefferson-Do-2.4.pdf; *New analysis: Wind energy less than 3 percent of all federal incentives*, Into the Wind: The AWEA Blog (July 19, 2016), https://www.aweablog.org/14419-2/ (citing, *inter alia*, Molly F. Sherlock and Jeffrey M. Stupak, *Energy Tax Incentives: Measuring Value Across Different Types of Energy Resources*, Cong. Research Serv. (Mar. 19, 2015), *available at* https://fas.org/sgp/crs/misc/R41953.pdf; The Joint Committee on Taxation, *Publications on Tax Expenditures*, https://www.jct.gov/publications.html?func=select&id=5 (last visited Apr. 16, 2020)) (extending the DBL analysis through 2016).

with state policies. They have "artificially" reduced the price of natural gas, oil, and coal, which in turn has allowed resources that burn these fuels—including many of the so-called "competitive" resources that stand to benefit from today's orders—to submit "uncompetitive" bids into PJM's markets. By lowering the marginal cost of fossil fuel-fired units, federal policies have allowed those units to operate more frequently and have encouraged the development of more of those units than would otherwise have been built. Indeed, those subsidies, even ones that have subsequently lapsed, are a major reason why many of the current resources in PJM are able to bid into the capacity market at the levels they do.

40. Federal subsidies remain pervasive in PJM. The federal tax credit for nonconventional natural gas[111] sparked the shale gas revolution, triggering a steep decline in natural gas prices, which, in turn, drove the spike in new natural gas-fired power plants starting in the early 2000s. Similarly, federal subsidies such as the percentage depletion allowance and the ability to expense intangible drilling costs have shaved billions of dollars off the cost of extracting coal and natural gas—two of the principal sources of electricity in PJM.[112] In addition, the domestic nuclear power industry would not exist without the Price-Anderson Act, which saves nuclear power generators billions of dollars through indemnity limits that enable them to secure financing and insurance at rates far below their true cost.[113] Federal subsidies have also promoted the growth of renewable resources through, for example, the production tax credit (largely used by wind resources)[114] and the investment tax credit (largely used by solar resources).[115] These and

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[111] Energy Tax Policy at 2 n.3. That credit has lapsed. *Id.* at 18.

[112] The Joint Committee on Taxation, Estimates Of Federal Tax Expenditures For Fiscal Years 2018-2022 at 21-22 (2018); Monitoring Analytics, *Analysis of the 2021/2022 RPM Base Residual Auction: Revised* 95 (2018), *available at* https://www.monitoringanalytics.com/ reports/Reports/2018/ IMM_Analysis_ of_the_20212022_RPM_BRA_Revised _20180824.pdf (Market Monitor 2021/2022 BRA Analysis) (reporting that coal, natural gas, and nuclear collectively make up more than three-quarters of the generation mix in PJM); *see generally* Molly Sherlock, Cong. Research Serv., Energy Tax Policy: Historical Perspectives on and Current Status of Energy Tax Expenditures 2-6 (May 2011) (discussing the history of energy tax policy in the United States).

[113] 42 U.S.C. § 2210(c).

[114] U.S. Department of Energy, 2018 Wind Technologies Market Report 70, *available at* http://eta-publications.lbl.gov/sites/default/files/ wtmr_final_for_posting_8-9-19.pdf (last viewed Apr. 16, 2020).

[115] Solar Energy Industries Assoc., *History of the 30% Solar Investment Tax*

other federal government interventions have had a far greater "suppressive" impact on the capacity market than the "state subsidies" targeted by today's orders, especially when you consider that resources having benefited from them make up the vast majority of the cleared capacity in PJM.[116]

41. Nevertheless, today's order affirms the December 2019 Order's decision to exclude all federal subsidies from the new MOPR on the theory that the Commission lacks the authority to "disregard or nullify the effect of federal legislation."[117] It is true that the FPA does not give the Commission the authority to undo other federal legislation. But the Commission's defense of applying the new MOPR to state policies is that it neither disregards nor nullifies those policies, but instead addresses only the effects that those policies have on the PJM market.[118]

42. "[T]he Commission cannot have it both ways."[119] If the MOPR disregards or nullifies federal policy, then it must do the same to state policy. And if it does not nullify or disregard state policy, then the Commission's justification for exempting federal subsidies collapses. The Commission, however, does not even attempt to explain its conclusion that applying the new MOPR to state policies respects authority, but applying

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Credit 3-4 (2012), https://www.seia.org/sites/default/files/resources/History%20of%20ITC%20Slides.pdf.

[116] Market Monitor 2021/2022 BRA Analysis 95 (reporting that coal, natural gas, and nuclear collectively make up more than three-quarters of the generation mix in PJM).

[117] December 2019 Order, 169 FERC ¶ 61,239 at P 87; December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 119.

[118] December 2019 Rehearing Order, 171 FERC ¶ 61,035 at PP 16, 17, 19; December 2019 Order, 169 FERC ¶ 61,239 at PP 7, 40; June 2018 Order, 163 FERC ¶ 61,236 at P 153. The December 2019 Rehearing Order shies away from the words "nullify" and "disregard" that it used (quite accurately) in the underlying order. I can understand why. Those terms so clearly laid bare the glaring inconsistencies in the Commission's effort to explain why the MOPR did not target state authority, but could not legally be applied to federal subsidies. Nevertheless, the rationale in today's order is the same: The new MOPR cannot be applied to federal subsidies because doing so would somehow contravene an act of Congress, which is precisely the result that the Commission insists it would not have on state policies.

[119] *Atlanta Gas Light Co. v. FERC*, 756 F.2d 191, 198 (D.C. Cir. 1985); *Cal. ex rel. Harris v. FERC*, 784 F.3d 1267, 1274 (9th Cir. 2015) (same).

it to federal policies would "disregard" or "nullify" federal authority. The failure to address, much less resolve, that tension is arbitrary and capricious.

43. Instead of confronting this tension, the December 2019 Order cited to a number of cases for well-established canons of statutory interpretation, such as that the general cannot control the specific and that federal statutes must, when possible, be read harmoniously.[120] Today's order does the same.[121] But those general canons do not help much. They discuss rules of statutory interpretation that are not disputed here and they certainly do not give the Commission license to pretend that the new MOPR has one type of effect on state policies and another type on federal policies.[122] In any case, if we assume, for the sake of argument, that the Commission's benign characterization of the effect of the new MOPR on state policies is accurate,[123] then no number of interpretive canons can cure the Commission's arbitrary refusal to apply the MOPR to federal subsidies.

44. In addition, the Commission asserts that it may treat state and federal subsidies differently because it "has a reasonable basis to distinguish federal subsidies and State Subsidies, that is, whether the subsidies were established via federal law or state law."[124] But that tautology is not as helpful as it might at first seem. Just as not all discrimination is undue, irrelevant differences do not make parties dissimilarly situated.[125] Today's

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[120] December 2019 Order, 169 FERC ¶ 61,239 at n.177.

[121] December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 120.

[122] Today, the Commission tries a slightly different tack, responding to rehearing requests raising this very point with the assertion that the cited canons "reflect judicial guidance regarding the appropriate way to reconcile Congressional directives." December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 120. No doubt they do, but all the interpretive canons in the world cannot explain why it is rational to pretend that applying the MOPR to a federal subsidy has an inherently different effect than applying it to a state subsidy.

[123] To be clear, I vehemently disagree that is, but I'll indulge the hypothetical for the moment.

[124] December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 119.

[125] *Complex Consol. Edison Co. of N.Y. v. FERC*, 165 F.3d 992, 1013 (D.C. Cir. 1999) ("'Differences . . . based on *relevant, significant* facts which are explained are not contrary to the NGA.'" (quoting *TransCanada Pipelines Ltd. v. FERC,* 878 F.2d 401, 413 (D.C. Cir. 1989)) (emphasis added)).

order does not coherently explain why the difference between federal and state subsidies is relevant to its theory of the case.

45. The Commission's apparent belief—implicit today, but stated explicitly in the December 2019 order—is that resources that receive federal subsidies are not similarly situated to resources that receive state subsidies because the Commission cannot nullify or disregard federal policies, but can do that to state subsidies.[126] Putting aside whether that is true,[127] that line of reasoning just brings us back to square one as it relies on an unexplained distinction in the differing effects that the MOPR has on state and federal policies.

b. Treating Any Revenue or Other Funding Tangentially Related to a State Law As a Subsidy Is Arbitrary and Capricious

46. As discussed at the outset, the FPA divides jurisdiction between the Commission and the states, envisioning an important role for both in ensuring that the electricity sector is regulated in a manner consistent with the public interest. As the Commission explains, Congress enacted Title II of the FPA to fill the "*Attleboro* Gap" by "allow[ing] the federal government to step in and regulate interstate transactions over which no single state had authority to regulate."[128] And while the FPA did more than just "fill the gap,"[129] it was nevertheless "'drawn with meticulous regard for the continued exercise of state power.'"[130] It would be strange if, having so "meticulous[ly]" preserved state authority, Congress believed that the "continued exercise of" that authority would become inherently a problem.[131]

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[126] December 2019 Order, 169 FERC ¶ 61,239 at P 89; December 2019 Rehearing Order, 171 FERC ¶ 61,035 at PP 118-119 & n.298.

[127] *See supra* Section I.

[128] December 2019 Rehearing Order, 171 FERC ¶ 61,035 at n.298.

[129] *New York v. FERC*, 535 U.S. 1, 6 (2002) ("[W]hen it enacted the FPA in 1935, Congress authorized federal regulation of electricity in areas beyond the reach of state power, such as the gap identified in *Attleboro*, but it also extended federal coverage to some areas that previously had been state regulated." (footnotes omitted)).

[130] *Zibelman*, 906 F.3d at 50 (quoting *Rochester Gas & Elec. Corp. v. Pub. Serv. Comm'n of N.Y.*, 754 F.2d 99, 104 (2d Cir. 1985)).

[131] *See supra* note 10 and accompanying text.

47. And yet that is precisely what the December 2019 Rehearing Order does. It treats many fundamental elements of state regulation as impermissible subsidies simply because the state is involved. Even putting aside the jurisdictional problems with that approach,[132] today's order does not explain why it is just and reasonable to mitigate any resource that is affected by many of the most foreseeable consequences of the FPA's jurisdictional framework. Nor does it make any effort to consider the litany of practical challenges and complications that that approach creates, even though many of them were squarely presented on rehearing.

48. Take the example of state default service auctions. As PJM explained in its rehearing request, state default service auctions are state-directed "mechanisms by which load-serving entities in retail choice states acquire obligations to provide energy and related services to retail customers."[133] In layman's terms, that means that they are a market-based mechanism for ensuring that all retail customers have access to reliable and affordable electricity. As the New Jersey Board of Public Utilities—which oversees one of these auctions—explained, these mechanisms are best viewed as hedging constructs that help ensure that state-regulated retail suppliers have access to reliable electricity without wild swings in price.[134] In New Jersey's case, the default service auction is a voluntary mechanism that will rarely, if ever, produce a state-regulated contract with an actual generator (as opposed to a power marketer—*i.e.*, a middle man) or support the retention or new entry of particular resources[135]—details that are apparently too complicated or too inconvenient for the Commission to wrestle with. Today's order finds that a state default service auction qualifies as a State Subsidy because it is a state sponsored process that results in indirect payments to various resources.[136]

49. It is not clear from the record before us exactly how far reaching this decision will be. New Jersey alone serves over 7,000 MW of retail load through its BGS auctions,[137] and every indication is that other retail-choice states have similar mechanisms.[138] To

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[132] *See supra* Section I.

[133] PJM Rehearing and Clarification Request at 23.

[134] New Jersey Board Rehearing Request at 47-48.

[135] *Id.* at 48.

[136] December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 386.

[137] *See The 2019 BGS Auctions*, www.bgs-auction.com http://www.bgs-auction.com/documents/ 2019_BGS_Auction_Results.pdf (last viewed Apr. 16, 2020).

[138] *See, e.g.*, New Jersey Board Rehearing Request at n.260 ("New Jersey is not

start with, the District of Columbia Public Utility Commission and Pennsylvania Public Utility Commission sought clarification and rehearing of the December 2019 Order, understandably concerned that it could mean that *any* resource that serves load in those states would be subject to the Commission's administrative pricing regime.[139] In addition, Maryland runs a similar default service auction that procures service for over 50 percent of the state's retail load.[140] Delaware too has a default service auction, which cleared over 500 MW in the most recent auction.[141] Additionally in Ohio each utility has its own Standard Service Offer auction for retail load.[142] It quickly becomes clear that state default auctions are a commonplace in retail choice states and can often be used to meet the needs of upwards of 50% of retail load. The Commission's decision to label these auctions—which sometimes cover more than half a state's retail load—state subsidies could have sweeping consequences for the retail-choice states that make up the majority of PJM states.

50. And is if that were not bad enough, the Commission makes no effort to wrestle with the practical challenges of its edicts. As the New Jersey Board explained in its rehearing request, the "suppliers" in New Jersey's default service auction are generally power marketers that rely on either financial or physical hedging and are not necessarily

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alone; PJM's other restructured states follow models similar to the BGS construct.").

[139] DC Commission Rehearing and Clarification Request at 1-3; Pennsylvania Commission Rehearing and Clarification Request at 13. As noted, PJM also sought clarification, arguing that "it is not apparent how these auctions amount to a State Subsidy." PJM Rehearing and Clarification Request at 23.

[140] See Maryland Public Service Commission, Report to the Governor and the Maryland General Assembly on the Status of Standard Offer Service, the Development of Competition, and the Transition of Standard Offer Service to a Default Service at 5-6 (Dec. 31, 2018), *available at* https://www.psc.state.md.us/wp-content/uploads/Final-Competition-Report.pdf (discussing Maryland's default service auction).

[141] *See* James Letzelter, The Liberty Consulting Group, Inc., Delmarva Power & Light's 2020 Request for Proposals for Full Requirements Wholesale Electric Supply for Standard Offer Service (2020), *available at* https://depsc.delaware.gov/wp-content/uploads/sites/54/2020/02/Liberty-DE-PSC-Technical-Consultant-Final-Report-02-19-2020.pdf.

[142] *See How are electric generation rates set?* https://www.puco.ohio.gov/be-informed/consumer-topics/how-are-electric-generation-rates-set/ (last viewed Apr. 16, 2020).

backed by particular physical generators.[143] Do the Commission's statements in today's orders mean that PJM, the Market Monitor, or someone else will have to chase down every resource power marketers use to satisfy a default service auction contract? In addition, default service auctions generally do not align with PJM's annual single-delivery-year capacity auctions. For example, in New Jersey the auction runs annually and covers only one-third of load at time, but with three year contracts.[144] In the District of Columbia the auctions are held annually.[145] And in Pennsylvania they are run "quarterly, or every 6 months."[146] How will PJM, the Market Monitor, or the Commission sort out which resources are to be mitigated in PJM's Base Residual Auction based on those differing state calendars?

51. I find the failure to carefully consider these impacts on a fundamental aspect of state regulation particularly troubling. This Commission has rightly enjoyed a reputation for focusing on the technical and arcane elements of providing reliable electricity at just and reasonable rates rather than on making broad policy pronouncements. Today's orders will do much to damage that reputation. It makes clear that the Commission is uninterested in the effects its orders may have on how states carry out their basic responsibilities. Instead, it is comfortable pursuing its quixotic quest to rid the wholesale market of state subsidies and leave it to the states to pick up the pieces.

c. Excluding State Actions That May Equally "Suppress" Prices Is Arbitrary and Capricious

52. Although the definition of state subsidy is overbroad, it is also irrational. Today's order on rehearing affirms the December 2019 Order's unreasoned distinctions drawn among different state public policies. In particular, the Commission expressly excludes state industrial development policies and local siting subsidies from its definition of state subsidy.[147] The rationale, while murky, seems to be that those policies are "too attenuated" from the wholesale rate to constitute an impermissible state policy while

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[143] New Jersey Board Rehearing Request at 48; *see* Pennsylvania Commission Rehearing and Clarification Request at 13.

[144] *See Overview* http://www.bgs-auction.com/ bgs.auction.overview.asp (last visited Apr. 16, 2020) (describing New Jersey's default service auction).

[145] DC Commission Rehearing and Clarification Request at 2.

[146] Pennsylvania Commission Rehearing and Clarification Request at 13.

[147] December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 106.

other state policies, even ones with a lesser effect on the wholesale rate, are somehow more closely related.[148] That distinction is neither reasonable nor reasonably explained.

53. Let's begin with the fact that the distinction drawn is inconsistent with the Commission's rationale for the new MOPR. As discussed, throughout this proceeding the Commission has asserted that the problem with state policies is their ability to "suppress" the wholesale rate.[149] And, in the December 2019 Rehearing Order, the Commission again dismisses arguments that the MOPR should apply only to state policies that materially affect the capacity price.[150]

54. That is irrational. "General industrial development" policies, such as reduced tax rates, can have an enormous effects on resources' going forward costs, leading resources to "reduce their offers commensurately to ensure they clear the market," exactly the way the Commission described state policies that are subject to the new MOPR.[151] Moreover, the ubiquity and potential cumulative effect of these programs—which the Commission does not contest[152]—would seem to suggest that they represent exactly the sort of threat to "market integrity" about which the Commission's purports to be so concerned.[153] If

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[148] *Id.*

[149] *E.g. id.* PP 36, 55, 224.

[150] *Id.* P 130.

[151] *See id.* P 38; *see also id.* P 130 (rejecting PJM's proposed materiality threshold because "out-of-market support at any level is capable of distorting capacity prices").

[152] At no point in today's order or the December 2019 Order does the Commission suggest that state industrial development or siting support programs are likely to have less of an effect on wholesale rates than the other state policies targeted by the new MOPR. *See, e.g.*, *id.* PP 106-108 (discussing the justification for excluding these policies from the new MOPR).

[153] *Id.* PP 20, 301. In any case, the District of Columbia Attorney General's rehearing request details how these programs can provide enormous financial benefits to generators, significantly decreasing their capacity market offers in a way that affects the capacity market rate every bit as much as the state policies targeted by today's orders. DC Attorney General Rehearing Request at 22-24. In addition, that rehearing request explained how these supposed "generic" subsidies are, in fact, often deployed for the purpose of subsidizing particular resources. *Id.* at 23-24; *see* Clean Energy Associations Rehearing and Clarification Request at 40-41. The Commission's response that general industrial development policies are categorically "too attenuated" to constitute a state subsidy for the purposes of the MOPR fails to wrestle with the evidence and arguments showing the opposite to be true.

today's orders were actually concerned about the price suppressive effects of state policies, general industrial development and local siting policies would have to be front and center in any rational response. The fact that they are not shows the extent to which the new MOPR is a campaign to stamp out disfavored state efforts to shape the generation mix and not to address capacity prices themselves.

55. The Commission's effort to justify that arbitrary line drawing only underscores the point. The Commission again asserts that the new MOPR is aimed only at state policies that are "most nearly . . . directed at or tethered to the" wholesale rate.[154] But as discussed above, that awkward repurposing of a preemption term of art does not make things any clearer.[155] It certainly does not explain why it is rational for the Commission to apply the new MOPR only to those state policies that it believes are close-to-but-not-preempted[156] or why the degree of "attenuation" is relevant in a proceeding that is nominally about actual effects on wholesale rates. Indeed, at no point in this proceeding has the Commission explained why, if the "problem" at hand is the effect of state policies on wholesale rates, it is reasonable to target only certain state efforts and not others that may well have a greater wholesale market effect.[157] The failure to do so is arbitrary and capricious.

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[154] December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 106; December 2019 Order, 169 FERC ¶ 61,239 at P 68.

[155] *See supra* note 23.

[156] *See id*.

[157] Throughout the December 2019 Rehearing Order, the Commission responds to this point by quoting portions of the December 2019 Order that describe the Commission's action without responding to this argument. *See, e.g.*, December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 106 ("As we said in the December 2019 Order, the expanded MOPR is not intended to address all commercial externalities or opportunities that might affect the economics of a particular resource."). Although that quote accurately describes what the Commission said in its earlier order, it does not respond to the arguments that the line drawing described in that quote is arbitrary and capricious. That is a not a reasoned response; rehearing orders are an opportunity to further explain the Commission's analysis, not just regurgitate it.

d. Addressing Only State Actions that Reduce Cost Is Arbitrary and Capricious

56. The December 2019 Rehearing Order grants clarification that the Regional Greenhouse Gas Initiative (RGGI) is not an actionable subsidy.[158] I am glad to hear it. Although I maintain that the distinction drawn in today's order is inconsistent with the most natural reading of the Commission's subsidy definition,[159] just about anything that limits the extent of the Commission's interference with state resource decisionmaking is a step in the right direction.

57. But although that outcome may be a good one, it vividly illustrates the arbitrariness with which the Commission is going after state policies. The Commission's single-sentence clarification regarding RGGI is a little light on reasoning, but the upshot appears to be that RGGI does not cause problems for "market integrity,"[160] "investor confidence,"[161] "the first principles of capacity markets,"[162] or the "premise of a capacity markets"[163] because it addresses the externality of climate change by raising prices, rather than by lowering them. At no point, however, does the Commission explain why a state effort to tax the harm associated with a market failure is consistent with capacity markets, but a state effort to address the same harm by subsidizing resources that do not contribute to that externality is inconsistent with capacity markets. It may well be that a so-called "Pigouvian tax" is economically preferable to a "Pigouvian subsidy,"[164] but, even if true,

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[158] December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 390.

[159] December 2019 Order, 169 FERC ¶ 61,239 (Glick, Comm'r, dissenting at P 23).

[160] December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 301; June 2018 Rehearing Order, 171 FERC ¶ 61,034 at P 50; June 2018 Order, 163 FERC ¶ 61,236 at PP 1-2, 150, 156, 161.

[161] *ISO New England Inc.*, 162 FERC ¶ 61,205 at P 21; *see* December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 141.

[162] *ISO New England Inc.*, 162 FERC ¶ 61,205 at P 21.

[163] December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 320; December 2019 Order, 169 FERC ¶ 61,239 at P 17.

[164] Sylwia Bialek & Burcin Unel, Institute for Policy Integrity, Capacity Markets and Externalities: Avoiding Unnecessary and Problematic Reforms at 6-7 (2018).

that does explain why the former is consistent with the Commission's various capacity market buzzwords, but the latter is not.

58. In any case, the Commission's decision to find one approach inherently problematic and the other acceptable illustrates the extent to which it is meddling directly in state resource decisionmaking. Whatever you think about the economic merits of subsidies versus taxes as ways of addressing externalities, there should be no question that a state's choice between the two approaches is entirely the state's to make or that the Commission has no business in enacting regulations that give a preference to one approach over the other. In this example, the Commission's willingness to pick and choose which of the broadly equivalent state approaches to addressing climate change are allowed to affect the wholesale rate and which are not, is clear and unmistakable evidence of its meddling in decisions that the FPA expressly reserves to the states. The failure to recognize, much less explain, why it is appropriate to pick and choose which state policies are acceptable and which are not is arbitrary and capricious.

59. And that is particularly so given the structure and purpose of the capacity market, which exists to provide the "missing money.[165] Because the missing money is the *net* difference between a resource's revenue and its costs,[166] a resource should be indifferent, for the purposes of the capacity market, between a state policy that forces resources to internalize the cost of the externality or one that achieve the same thing by paying resources for not contributing to the externality. In other words, the Commission is relying on a distinction that is, for our purposes today, without a difference.

2. Ignoring the Cost Impacts of the New MOPR Is Arbitrary and Capricious

60. One of the most glaring omissions from the December 2019 order was its failure to make any effort to consider the costs of the new MOPR.[167] As the Commission acknowledges, "[s]etting a just and reasonable rate necessarily 'involves a balancing of the investor and consumer interests.'"[168] The Commission's various orders in this

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[165] *I.e.*, the capacity revenue a resource needs to be economic over and above what it earns in the energy and ancillary service markets. *N.Y. Indep. Sys. Operator, Inc.*, 170 FERC ¶ 61,121 (2020) (Glick, Comm'r, dissenting at P 4).

[166] Which is, after all, why the Commission's orders use net measures as the default offer floors for resources subject to the new MOPR. *See infra* PP 81-85.

[167] December 2019 Order, 169 FERC ¶ 61,239 at PP 54-57.

[168] December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 139 (citing *NextEra*, 898 F.2d at 21).

proceeding spend plenty of time asserting that investors need sweeping reforms in order to remain "confident" in the PJM capacity market. Unfortunately, the costs to consumers of making investors so confident went unmentioned in both the Commission's June 2018 and December 2019 orders.

61. Many parties raised the Commission's failure to consider consumer interests on rehearing.[169] In response, the Commission recites general propositions about the importance of customer interests only to undercut itself almost immediately thereafter. For example, the Commission begins one paragraph by stating that it "disagree[s] that the Commission failed to consider the costs of the replacement rate."[170] But it then spends the rest of that paragraph explaining why it did not consider any estimate of the customer impacts before concluding that the resulting costs, whatever they may be, are necessarily just and reasonable because they "protect the integrity of the capacity market, which, in turn, ensures that investors will continue to be willing to develop resources to meet current and future reliability needs."[171] That sort of conclusory statement is hardly convincing evidence that the Commission actually took a hard look at the costs its orders will impose on customers.

62. The Commission dismisses as "speculative" any estimates of those costs. It would appear that a fair degree of work went into many of those estimates and I do not see the wisdom in dismissing them out-of-hand just because the details of the new MOPR have yet to be fully worked out.[172] After all, if the record provides enough evidence for the

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[169] *Id.* at n.330 (non-exhaustive list of fifteen different rehearing requests raising this point).

[170] *Id.* P 139.

[171] *Id.*

[172] *Id.* In so doing, the Commission goes out of its way to criticize what I described as a "conservative," "back-of-the-envelope" calculation meant to help fill the void left by the Commission's failure to seriously consider the December 2019 Order's financial impact on customers. *Id.* n.352. In particular, it points to doubts raised by the Market Monitor about whether that calculation considered the right quantity of to-be-MOPR megawatts of capacity from nuclear generators. *Id.* I assumed it would be 6,000 MW. The Market Monitor suggested that number would be closer to 4,000 MW. *Id.* He may be right; it is hard to say how an unprecedented mitigation regime will work in practice.

In any case today's order makes clear that my cost estimate was, if anything, too conservative. For one thing, my estimate did not consider the cost of paying twice for capacity as a result of MOPR'ing the tens of the thousands of megawatts of renewable

Commission to confidently assess that the costs of its new MOPR are worth it,[173] you would think it would provide enough evidence to at least gauge the likely impact on consumers.

63. In addition, there is every reason to believe that the actual costs of today's orders will increase with time. Although these orders aim to hamper state efforts to shape the generation mix, they likely will not snuff them out entirely. In other words, there simply is no reason to believe that the Commission will succeed in realizing its "idealized vision of markets free from the influence of public policies."[174] As former Chairman Norman Bay aptly put it, "such a world does not exist, and it is impossible to mitigate our way to its creation."[175]

64. But that means that, as a resource adequacy construct, the PJM capacity market will increasingly operate in an alternate reality, ignoring more and more resources just because they receive some form of state support. That also means that customers will increasingly be forced to pay twice for capacity or, to put it differently, to buy more unneeded capacity with each passing year. I cannot fathom how the costs imposed by a resource adequacy regime that is premised on ignoring actual capacity can ever be just and reasonable.

65. The Commission responds to this point by asserting that the costs of double-procuring capacity are irrelevant because *NJBPU* held that states may "appropriately bear the costs" of their resource decisionmaking, including the costs associated with resources

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resources slated to be developed in the region to meet state renewable energy targets over the coming years. Clean Energy Associations estimated that that cost will be between $14 and $24 billion over the next decade. Clean Energy Associations Rehearing and Clarification Request at 22-23. My estimate also did not attempt to assess the effects of the bizarre conclusion, affirmed today, that the default service auctions in PJM retail choice states are somehow "subsidies," which will subject the resources that serve significant fractions of load in those states to the MOPR. *See supra* PP 49-51. Those are just two examples, but they illustrate why I remain confident that, when the dust settles, that back-of-the-envelope calculation will prove to have been a conservative one.

[173] December 2019 Rehearing Order, 171 FERC ¶ 61,035 at PP 139-140 (asserting that while the "actual cost impacts of the replacement rate are speculative at this point," they will result in a rate increase the Commission deems just and reasonable).

[174] *N.Y. State Pub. Serv. Comm'n*, 158 FERC ¶ 61,137 (2017) (Bay, Chairman, concurring).

[175] *Id.*

whose capacity does not clear in the capacity auction.[176] As noted above, there are good reasons to pause before applying *NJBPU* whole hog to this proceeding.[177] In any case, the Commission's citation to that decision's jurisdictional analysis does not insulate today's orders from the charge that it is arbitrary and capricious to altogether disregard the costs imposed by forcing the capacity market to ignore resources that actually exist or will developed and procuring additional resources as if those ignored resources did not exist.[178] Those are real costs that are directly traceable to the Commission's orders and cannot logically be ignored by an agency claiming to balance "consumer interests."[179]

66. The record before us provides every reason to believe that this approach will lead to other significant cost increases. For example, the new MOPR will exacerbate the potential for the exercise of seller-side market power in what the Market Monitor has described as a structurally uncompetitive market.[180] As the Institute for Policy Integrity explained, expanding the MOPR will decrease the competitiveness of the market, both by reducing the number of resources offering below the MOPR price floor and by changing the opportunity cost of withholding capacity.[181] With more suppliers subject to administratively determined price floors, resources that escape the MOPR—or resources with a relatively low offer floor—can more confidentially increase their bids up to that level, secure in the knowledge that they will still under-bid the mitigated offers. That problem is compounded by PJM's weak seller-side market power mitigation rules, which

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[176] December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 141.

[177] *See supra* PP 22-23.

[178] At various points, the Commission makes assertions, such as even the new MOPR forces customers to "pay twice" for capacity, "preserving the integrity of the capacity market will benefit customers over time by ensuring capacity is available when needed." December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 223. Conclusory assertions are the same thing as considering customers' interests.

[179] *Id.* P 139.

[180] *See* Market Monitor 2021/2022 BRA Analysis 2 ("The capacity market is unlikely ever to approach a competitive market structure in the absence of a substantial and unlikely structural change that results in much greater diversity of ownership. Market power is and will remain endemic to the structure of the PJM Capacity Market . . . . Reliance on the RPM design for competitive outcomes means reliance on the market power mitigation rules.")

[181] Institute for Policy Integrity Initial Brief at 14-16.

include a safe harbor for mitigation up to a market-seller offer cap that has generally been well above the market-clearing price.[182]

3. Disregarding the Effects of the New MOPR on Well-Established Business and Regulatory Models Is Arbitrary and Capricious

i. Demand Response

67. The PJM region has long benefitted from a robust participation of demand response resources. That is in part because PJM has had in place rules that accommodate short-lead-time resources. Specifically, the Commission has long recognized that demand response resources may not be identified years in advance of the delivery year.[183] Accordingly, PJM has permitted Curtailment Service Providers (CSP), *i.e.*, a demand response provider, to participate in the Base Residual Auction without identifying all end-use demand response resources at the time of the auction.[184] That has been fundamental to the demand response business model, since, without it, the short-lead time resources on which demand response depends might never be able to participate in the Base Residual Auction.[185]

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[182] For example, the RTO-wide market seller offer cap for the 2018 Base Residual Auction $237.56 per MW/day while the clearing price for the RTO-wide zone was $140.00 per MW/day. *See* PJM Interconnection, *2021/2022 RPM Base Residual Auction Results*, https://www.pjm.com/-/media/markets-ops/rpm/rpm-auction-info/2021-2022/2021-2022-base-residual-auction-report.ashx (last visited Dec. 19, 2019).

[183] For example, recognizing that demand response is a "short-lead-time" resource, the Commission previously directed PJM to revise the allocation of the short-term resource procurement target so that short-lead-time resources have a reasonable opportunity to be procured in the final incremental auction. *PJM Interconnection L.L.C.*, 126 FERC ¶ 61,275 (2009). The Commission subsequently removed the short-term resource procurement target only after concluding that doing so would not "unduly impede the ability of Demand Resources to participate in PJM's capacity market." *PJM Interconnection, L.L.C.*, 151 FERC ¶ 61,208, at PP 394, 397 (2015).

[184] Under PJM's current market rules, CSPs must submit a Demand Resource Sell Offer Plan (DR Sell Offer Plan) to PJM no later than 15 business days prior to the relevant RPM Auction. This DR Sell Offer Plan provides information that supports the CSP's intended DR Sell Offers and demonstrates that the DR being offered is reasonably expected to be physically delivered through Demand Resource Registrations for the relevant delivery year. *See* PJM Manual 18: PJM Capacity Market – Attachment C: Demand Resource Sell Offer Plan.

[185] As CPower and LSPower explain, such customers typically make participation

68. So much for that. The December 2019 Rehearing Order states that the new MOPR "may require aggregators and CSPs to know all of their demand response resource end-users prior to the capacity auction."[186] In addition, it appears to require that, for each resource with behind-the-meter generation, the CSP must identify the relative share of its capacity that results from demand reduction versus behind-the-meter generation.[187] And the CSP will have to know all of that three years before the delivery year. That is a stunning level of paperwork to impose on CSPs, which may well require many, if not most, of them to fundamentally change or altogether abandon their business model. I fail to see anything in this record that suggests that the Commission's concerns about state policies justifies that result.

69. While the grandfathered treatment provided to existing demand response resources could help blunt the impact of the new MOPR, the confusing language in the Commission's order raises more questions than it answers, leaving CSPs, PJM, and the Market Monitor with little guidance on how to mitigate demand response resources. Rather than explaining that the grandfathered treatment attaches to the resource itself, which would seem the only logical conclusion, the Commission adds that "Aggregators and CSPs will be considered to have previously cleared a capacity auction only if *all the individual resources within the offer* have cleared a capacity auction."[188] Why an entire a CSP's portfolio must receive all-or-nothing treatment is unclear, unexplained and raises fundamental questions about how this will work when resources switch CSPs, as they often do.[189]

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decisions in a shorter time frame than the three-year forward auction designed to reflect the time needed to develop a new generation facility. CPower/LSPower Rehearing Request at 11.

[186] December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 266.

[187] In response to requests to clarify offer floors for demand response resources backed by a combination of behind-the-meter generation and reduced consumption, the Commission simply reiterates that the December 2019 Order found that different default offer price floors should apply to demand response backed by behind-the-meter generation and demand response backed by reduced consumption (*i.e.*, curtailment-based demand response programs). December 2019 Rehearing Order, 171 FERC ¶ 61,035 at PP 187-188.

[188] December 2019 Rehearing Order, 171 FERC ¶ 61,035 at 265 (emphasis added).

[189] In addition, the December 2019 Rehearing Order concludes that if a demand response resource earns any revenue through a state-sponsored *retail* demand response program, it is impermissibly subsidized and subject to the new MOPR. *Id.* P 264. But

70. The bottom line here is that the Commission's attempt to root out certain state "subsidies" manifests itself as an out-and-out attack on the demand response business model in PJM.[190] That attack is particularly unfortunate as PJM indicated that the default offer floor for at least certain demand response resources should be at or near zero,[191] suggesting that even if demand response resources receive a subsidy, that subsidy would not reduce their offer below what this Commission calls a "competitive offer." Demand response has provided tremendous benefits to PJM, both terms of improved market efficiency and increased reliability. I see no reason to give up those benefits based on an unsubstantiated concern about state policies.

ii. Public Power

71. Today's order also continues the Commission's attack on public power, dismissing the entire business model as a state subsidy and jeopardizing the viability of a construct that has long benefited customers. As ill-advised as that attack is, it is equally

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just a few months ago, the Commission approved rules in NYISO that treat a state retail demand response program as a subsidy for the purposes of the capacity *only* if the purpose of that state program is to procure demand response for its capacity value. *N.Y. Pub. Serv. Comm'n v. N.Y. Indep. Sys. Operator, Inc.*, 170 FERC ¶ 61,120 (2020) ("[W]e will evaluate retail-level demand response programs on a program-specific basis to determine whether payments from those programs should be excluded from the calculation of SCRs' offer floors."). Those are radically different approaches to the permissible effects of state retail demand response programs, which cannot be papered over simply by observing that one set of rules apply in PJM and another in NYISO.

[190] Indeed, buried in footnotes in the December 2019 Rehearing Order, the Commission appears to insinuate that demand response resources, among other resources, should perhaps be kicked out of the capacity market entirely. *See* December 2019 Rehearing Order, 171 FERC ¶ 61,035 at n.598. ("We pause to note that, as the capacity market has developed, an ever-growing number of resource types have come to participate in the market that were not contemplated. This proceeding . . . does not necessarily resolve issues regarding whether, to what extent, and under what terms resources that are not able to produce energy on demand should participate in the capacity market consistent with the Commission's mandate to ensure the reliability of the electric system"); *id.* n.451 ("The Commission is concerned that there may be a point where energy efficiency is unable to supply capacity when needed to maintain system reliability. However, that issue can be pursued in a separate proceeding.").

[191] PJM explains that, beyond the initial costs associated with developing a customer contract and installing any required hardware or software, it could not identify any avoidable costs that would be incurred by an existing Demand Resource that would result in a MOPR Floor Offer Price of greater than zero. PJM Initial Brief at 47.

unsupported. The Commission neither marshals evidence that the existence of public power has actually suppressed prices[192] nor addresses arguments that the type of balanced portfolio typically developed by public power entities will not have that effect.[193] The Commission's unsupported treatment of public power is, as PJM points out in its rehearing request, "overbroad and unwarranted."[194]

72. Today's order leaves public power with few options. Unlike most public utilities,[195] PJM's existing FRR option is not much good for many public power entities since "participating in the FRR option is an all-or-nothing proposition, and appeals as a practical matter only to large utilities that still follow the traditional, vertically integrated model."[196] In addition, the Commission concludes that third-party contracts signed by

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[192] The Commission offers no data, such as sell-offer data of utilities or public power entities or provides any evidence in support of this finding. *See* SMECO Rehearing Request at 6; Allegheny Rehearing Request at 12.

[193] After all, public power entities typically procure roughly the amount of supply needed to meet their demand. In response to arguments raising this point and contending that an approach based on net long, net short thresholds (which would formally require a rough equivalence between supply and demand to avoid mitigation) would be just and reasonable and more consistent with Commission precedent, *see* Public Power Entities Request for Rehearing and Clarification at 30-32; PJM Request for Rehearing and Clarification at 13-14; ODEC Request for Rehearing and Clarification at 7-9, today's order asserts that "the expanded MOPR is premised on a resource's ability to suppress price due to the benefit it receives from out-of-market support, not based on the likelihood and ability to exercise of buyer-side market power." December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 228. But the ability to "exercise" buyer-side market power is the ability to reduce prices. If public power entities' load equals their supply, their choice of how to serve that load will not cause price suppression plain and simple. The Commission has previously found such thresholds can protect against price suppression. *See N.Y. Indep. Sys. Operator, Inc.*, 170 FERC ¶ 61,121, at P 90 (2020) (discussing buyer-side market power concerns associated with self-supply). It fails to provide a reasoned basis for rejecting the same approach today.

[194] PJM Rehearing and Clarification Request at 13.

[195] These terms get confusing quickly. Under the FPA, a "public utility" will typically be privately owned while an entity that is not a "public utility" will often be publically owned. *See* 16 U.S.C. §§ 824(e) & (f). Accordingly, "public power" is generally made up of non-public utilities.

[196] *NJBPU*, 744 F.3d at 84 (footnote omitted).

public power entities are also state subsidies.[197] That effectively forces public power to procure capacity based only on the narrow considerations evaluated in the PJM capacity market—a result inimical to the purpose of the public power model.

73. The public power model predates the capacity market by several decades and is premised on securing a reliable supply of power for each utility's citizen-owners at a reasonable and stable cost, which often includes an element of long-term supply.[198] The policy affirmed in today's order is a direct threat to the long-term viability of the public power model in PJM. Although the Commission exempts existing public power resources from the MOPR, it provides that all new public power development will be subject to mitigation. That means that public power's selection and development of new capacity resources will now be dependent on the capacity market outcomes, not the self-supply model on which it has traditionally relied. That fundamentally upends the public power model because it limits the ability of public power entities to choose how to develop and procure resources over a long time horizon.

iii. Energy Efficiency

74. The Commission is also arbitrary and capricious in its treatment of energy efficiency resources—*e.g.*, efficient light bulbs, air conditioning units, and water heaters whose installation reduces electricity use. Although energy efficiency resources reduce demand for electricity, they participate in the PJM capacity auction as "supply" for four years so that they can receive compensation for reducing the total amount of capacity needed in the region.[199] To make that work in practice, PJM "adds back" to the demand curve the capacity equivalent of any energy efficiency resources that participate in the auction.[200] Doing so ensures that the capacity provided by energy efficiency resources is not double counted.

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[197] December 2019 Rehearing Order, 171 FERC ¶ 61,035 at PP 243, 325.

[198] American Municipal Power and Public Power Association of New Jersey Initial Brief at 14-15; American Public Power Association Initial Brief at 15.

[199] PJM Manual 18B, Energy Efficiency Measurement & Verification 10-13, *available at* pjm.com/~/media/documents/manuals/ m18b.ashx. After those four years, energy efficiency resources no longer participate in the capacity auction and instead are recognized only as reductions in demand. *Id.*

[200] *Id. Participate*, not clear. That means that if an energy efficiency resource bids into, but does not clear the capacity market, its capacity is *still* added back to the demand curve. This is because as PJM explains, the auction parameters are adjusted by adding the MWs in approved energy efficiency plans that are proposed for that auction back into the reliability requirements. PJM Rehearing and Clarification Request at 15,

75. Today's order concludes that any energy efficiency resources that participate in the PJM capacity auction and receive a state subsidy suppress prices and, therefore, must be subjected to the new MOPR.[201] The record does not support that determination. As PJM's Market Monitor explained, including energy efficiency in the PJM capacity auction—by treating it as supply and then adding it back to the demand curve—actually *increases* the prices in that auction by roughly 10 percent, all else equal.[202] In other words, the record does not indicate that the energy efficiency resources participating in the capacity market (subsidized or otherwise) are having any price suppressive effect whatsoever. Instead, the record indicates that the only time energy efficiency resources can decrease capacity market prices is when, after four years, those resources no longer participate in the capacity market and are no longer subject to the new MOPR.[203]

76. Today's order completely fails to address these points even though PJM itself, not to mention several other parties, argued on rehearing that the Commission's approach to energy efficiency was inconsistent with its own theory of the case and would make a hash of the markets.[204] Instead, the Commission asserts that energy efficiency resources can cause price suppression because, according to the Commission, that is the inevitable result of subsidizing any resource.[205] To support that proposition, the Commission relies on a single piece of irrelevant arithmetic. It multiples the total MWs of energy efficiency

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n.41. For approved plans, that add back occurs whether or not resources will know if they cleared the auction.

[201] December 2019 Order, 169 FERC ¶ 61,239 at P 255.

[202] The Independent Market Monitor for PJM, *Analysis of the 2021/2022 RPM Base Residual Auction* 20 (2018), *available at* http://www.monitoringanalytics.com/reports/Reports/2018/IMM_Analysis_of_the_20212022_RPM_BRA_Revised_20180824.pdf (2018 PJM State of the Market Report).

[203] At that point, the energy savings from energy efficiency resources are "baked into" PJM's demand forecast and, thus, the resources are no longer eligible for a capacity payment for reducing demand relative to that projection.

[204] *E.g.*, PJM Rehearing and Clarification Request at 15 & n.41; Advanced Energy Entities at 12-15; CPower/LSPower Rehearing and Clarification Request at 6-8.

[205] December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 257 ("We reject the contention that energy efficiency's market participation cannot suppress prices. State Subsidies, if effective, will by their very nature increase the quantity of whatever is subsidized. State subsidies to energy efficiency should result in additional energy efficiency resource participation.").

that cleared in the capacity market in a given year by the clearing price that year and asserts that the resulting figure shows that energy efficiency "has affected revenues in the PJM capacity market."[206] That may be true, but it does not shed any light whatsoever on whether energy efficiency, subsidized or not, suppresses the capacity market clearing price. Indeed, the Commission fails to wrestle with the fact that, as a result of the add-back provision, energy efficiency resources will not suppress the capacity clearing price. Calculating their total revenue does not change that fact.

77. In addition, the Commission blithely asserts that energy efficiency must be subject to the new MOPR because "[d]ecreased demand resulting from a State Subsidy will suppress prices just as a State Subsidy to supply will suppress prices."[207] That general statement proves too little. It simply cannot be the case that any action a state takes to conserve electricity is a "problem" for the Commission to fix. Instead, the state action can implicate the Commission's interests through resources' participation in the capacity market, if at all. As explained above, however, the record is clear that energy efficiency resources' participation in the capacity market does not have a price suppressive effect; quite the opposite, in fact. The Commission's failure to wrestle with the actual effects of energy efficiency participating as a capacity resource renders its justification for applying the MOPR to such resources arbitrary and capricious.

iv. Voluntary RECs

78. Today's order grants clarification that "purely voluntary transactions for RECs are not considered State Subsidies." Again, I am glad to hear it. As I explained in my earlier dissent, transactions involving voluntary REC sales would not meet any reasonable definition of subsidy and would instead amount to "mitigating the impact of *consumer preferences* on wholesale electricity markets just because they may potentially overlap with state policies."[208] In addition, I noted that there were eminently reasonable ways to address the Commission's practical concerns about ensuring that voluntary RECs are not eventually used to comply with state mandates. I am glad to see that that view seems to have prevailed.

79. Nevertheless, today's order makes clear that voluntary RECs are not out of the woods yet. In a pair of ominous (and redundant) footnotes, the Commission's goes out of its way to assert that all today's order concludes is that voluntary RECs are not state subsidies and that, pardon the double negative, that conclusion is not a finding that

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[206] *Id.* P 256.

[207] December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 257.

[208] December 2019 Order, 169 FERC ¶ 61,239 (Glick, Comm'r, dissenting at P 41) (footnotes and internal quotation marks omitted).

voluntary RECs do not distort capacity market outcomes.[209] If the question is whether consumers' voluntary decision to purchase clean energy could "distort" efficient market outcomes, the answer is a straightforward no. The fact that the Commission feels the need to go out of its way to preserve that question for a future proceeding is as ominous as it is unnecessary. It is both notable and concerning that the Commission did not feel the need to preserve the same question when addressing other voluntary out-of-market for capacity resources, such as sales of coal ash, which it describes as "similarly situated" to voluntary REC sales.[210]

4. Applying Different Offer Floors to New and Existing Resources Is Arbitrary and Capricious

80. As I explained in my dissent from the December 2019 Order, the Commission's imposition of disparate offer floors for new and existing resources is unjust and unreasonable, unduly discriminatory as well as arbitrary and capricious. Today's order affirms the decision to require new resources receiving a State Subsidy to be mitigated to Net Cost of New Entry (Net CONE) while existing resources receiving a State Subsidy are mitigated to their Net Avoidable Cost Rate (Net ACR). The Commission suggested that this distinction is appropriate because new and existing resources do not face the same costs.[211] In particular, the Commission suggested that setting the offer floor for new resources at Net ACR would be inappropriate because that figure "does not account for the cost of constructing a new resource."[212] Today's order uses more words to make the same points.[213]

81. Regardless, the Commission's distinction does not hold water. As the Market Monitor explained in his comments, it is illogical to distinguish between new and existing

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[209] *See* December 2019 Rehearing Order, 171 FERC ¶ 61,035 at n.808 ("The treatment of voluntary RECs in this order is not a determination regarding whether the revenue from voluntary REC transactions results or could result in capacity market distortions."); *id.* n.807 (exact same point).

[210] December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 326 (finding "to the extent coal ash sales are purely voluntary, such that they do not fall under the definition of State Subsidy, they are similarly situated to voluntary RECs, which are not mitigated under the replacement rate.").

[211] December 2019 Order, 169 FERC ¶ 61,239 at P 140.

[212] *Id.*

[213] December 2019 Rehearing Order, 171 FERC ¶ 61,035 at PP 157-159.

resources when defining what is (or is not) a competitive offer.[214] That is because, as a result of how most resources are financed, a resource's costs will not materially differ based on whether it is new or existing (*i.e.*, one that has cleared a capacity auction). That means that there is no basis to apply a different formula for establishing a competitive offer floor based solely on whether a resource has cleared a capacity auction. To the extent it is appropriate to consider the cost of construction for a new resource it is just as appropriate to consider the cost of construction for one that has already cleared a capacity auction. That is consistent with Net CONE, which calculates the nominal 20-year levelized cost of a resource minus its expected revenue from energy and ancillary services. Because that number is *levelized*, it does not change between a resource's first year of operation and its second.

82. In addition, as the Market Monitor explains, Net CONE does not reflect how resources actually participate in the market.[215] Instead of bidding their levelized cost, both new and existing competitive resources bid their marginal capacity—*i.e.*, their net out-of-pocket costs, which Net ACR is supposed to reflect. Perhaps reasonable minds can differ on the question of which offer floor formula is the best choice to apply. But there is nothing in this record suggesting that it is appropriate to use different formulae based on whether the resource has already cleared a capacity auction.

83. It may be true that setting the offer floor at Net ACR for new resources will make it more likely that a subsidized resource will clear the capacity market, MOPR notwithstanding. Holding all else equal, the higher the offer floor, the less likely that a subsidized resources will clear, so a higher offer floor will more effectively block state policies. But that does not justify applying Net ACR to existing resources and Net CONE to new ones.

84. The purpose of a capacity market, the whole reason the market exists, is to ensure resource adequacy at just and reasonable rates.[216] It is a means, not an end. And for that purpose, a megawatt of capacity provided by a new resource is every bit as effective as a megawatt provided by an existing one. Applying entirely different bid floor formulae

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[214] Independent Market Monitor Brief at 16 ("A competitive offer is a competitive offer, regardless of whether the resource is new or existing."); *id*. at 15-16 ("It is not an acceptable or reasonable market design to have two different definitions of a competitive offer in the same market. It is critical that the definitions be the same, regardless of the reason for application, in order to keep price signals accurate and incentives consistent.").

[215] *Id*.

[216] *Cf.* December 2019 Rehearing Order, 171 FERC ¶ 61,035 at 230 ("The objective of the capacity market is to select the least cost resources to meet resource adequacy goals.").

based only on whether the resource is new or existing does not further that basic purpose. Instead, as the Commission all but admits,[217] the purpose those disparate bid floors serve is to make it easier to block the entry of state-subsidized resources. A capacity market designed first and foremost for the purpose of blocking state policies is one in which the tail truly wags the dog.[218]

III. Today's Orders Are Not about Promoting Competition

85. By this point, the irony of today's orders should be clear. The Commission spends hundreds of pages decrying government efforts to shape the generation mix because they interfere with "competitive" forces.[219] In order to stamp out those efforts and promote its vision of "competition," the Commission creates a byzantine administrative pricing scheme that bears all the hallmarks of cost-of-service regulation, without any of the benefits. That is a truly bizarre way of fostering the market-based competition that these orders claim to so highly value.

86. It starts with the Commission's definition of subsidy, which encompasses vast swathes of the PJM capacity market, including new investments by vertically integrated utilities and public power, merchant resources that receive any one of the litany of subsidies available to particular resources or generation types, and any resource that benefits even indirectly from one of the many state default service auctions in PJM.[220] Moreover, the Commission's inaptly named Unit-Specific *Exemption*[221]—its principal

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[217] *Id.* P 158 ("Using Net ACR as the MOPR value for new resources would not serve the purpose of the MOPR, because it does not reflect new resources' actual costs of entering the market and therefore would not prevent uneconomic State-Subsidized Resources from entering the market."); December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 159 ("Using Net CONE as the default offer price floor for new resources will ensure that the expanded MOPR achieves its goal and prevents uneconomic new entry from clearing the capacity market as a result of State Subsidies").

[218] To appreciate this, one need only look at the Commission's apparent willingness to set certain resources offer floor—*i.e.*, their Net CONE—above the demand curve's intercept. That means that the Commission is willing to set price floors that ensure that ensure that those resource *can never* clear the capacity market, no matter how serious the reliability need and even if that resource is the only that can meet it. *See* Illinois Commission Rehearing Request at 18. In a choice between ensuring reliability and blocking state policies, the Commission will choose the latter.

[219] June 2018 Order, 163 FERC ¶ 61,236 at P 1.

[220] *See Supra* Section II.B.1.b.

response to concerns about over mitigation—is simply another form of administrative pricing.[222] All the Unit-Specific Exemption provides is an escape from the relevant default offer floor. Resources are still required to bid above an administratively determined price floor, not at the level that they believe would best would best serve their competitive interests.[223] Nor is it clear that this so-called exemption will even be resource-specific.[224] And even resources that might appear eligible for the Competitive Entry Exemption may hesitant to take that option given the Commission's proposal to permanently ban from the capacity market any resource that invokes that exception and later finds itself subsidized.[225] Are those resources really going to wager their ability to participate in the capacity market on the proposition that their state will never institute a non-bypassable policy that the Commission might deem an illicit financial benefit?

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[221] In the December 2019 Order, the Commission renamed what is currently the "Unit Specific *Exception*" in PJM's tariff to be a Unit Specific *Exemption*. But, regardless of name, it does not free resources from mitigation because they are still subject to an administrative floor, just a lower one. An administrative offer floor, even if based on the resource's actual costs does not protect against over-mitigation and certainly is not market competition.

[222] It bears repeating that the Commission has expressly abandoned market-power—the justification for cost-of-service regulation—as the basis for its new MOPR. December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 45 ("[T]he expanded MOPR does not focus on buyer-side market power mitigation.").

[223] *See* Public Power Entities Rehearing Request at 4 ("Ironically, by its latest action, the Commission has removed any remaining genuine market component . . .by requiring all 'competitive' offers to be determined administratively in Valley Forge, Pennsylvania.").

[224] The Commission is requiring that all new resources, regardless of type, must use a standard asset life. That flouts the entire premise of a Unit-Specific Exemption, which, the Commission reminds us throughout today's order, is supposed to reflect the *specific* unit's costs and expected market revenues. It is particularly, "arbitrary and illogical" to mandate that resources assume a 20-year asset life when most renewable units typical have a useful commercial life of 35 years. *See* Clean Energy Advocates Rehearing Request at 83. The Commission dismisses such concerns by stating that standardized inputs are a simplifying tool December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 290.

[225] December 2019 Order, 169 FERC ¶ 61,239 at P 162.

87. To implement this scheme, PJM and the Market Monitor will need to become the new subsidy police, regularly reviewing the laws and regulations of 13 different states and the District of Columbia—not to mention hundreds of localities and municipalities—in search of any provision or program that could conceivably fall within the Commission's definition of State Subsidy. "But that way lies madness."[226] It will also require PJM and the Market Monitor to identify any and all contracts power marketers have with resources that may be used to serve commitments incurred in a state default service auction. Rooting through retail auctions results and hundreds of different sets of laws and regulations looking for anything that might be "nearly tethered" to wholesale rates is hardly a productive use of anyone's time.

88. And identifying the potential subsidies is just the start. Given the consequences of being subsidized, today's orders will likely unleash a torrent of litigation over what constitutes a subsidy and which resources are or are not subsidized. Next, PJM will have to develop default offer floors for all relevant resource types, including many that have never been subject to mitigation in PJM or anywhere else—*e.g.*, demand response resources, energy efficiency resources, or resources whose primary function is not generating electricity. Moreover, given the emphasis that the Commission puts on the Unit-Specific Exemption as the solution to concerns about over-mitigation, we can expect that resources will attempt to show that their costs fall below the default offer floor, with many resorting to litigation should they fail to do so. The result of all this may be full employment for energy lawyers, but it is hardly the most obvious way to harness the forces of competition.

89. Finally, although this administrative pricing regime is likely to be as complex and cumbersome as cost-of-service regulation, it provides none of the benefits that a cost-of-service regime can provide. Most notably, the administrative pricing regime is a one-way ratchet that will only increase the capacity market clearing price. Unlike cost-of-service regulation, there is no mechanism for ensuring that bids reflect true costs. Nor does this pricing regime provide any of the market-power protections provided by the cost-of-service model. Once mitigated, resources are required to offer no *lower* than their administratively determined offer floor, but there is no similar prohibition on offering above that floor.[227]

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[226] David Roberts, *Trump's crude bailout of dirty power plants failed, but a subtler bailout is underway* (Mar. 23, 2018), https://www.vox.com/energy-and-environment/2018/3/23/17146028/ferc-coal-natural-gas-bailout-mopr.

[227] Moreover, as discussed above, *see supra* P 67, PJM's capacity market is structurally uncompetitive and lacks any meaningful market mitigation. There is every reason to believe that today's orders will exacerbate the potential for the exercise of market power.

IV. Today's Orders Are Instead All about Slowing the Clean Energy Transition

90. If they do not promote competition, today's orders certainly serve an alternative, overarching purpose: Slowing the region's transition to a clean energy future. Customers throughout PJM, not to mention several of the PJM states, are increasingly demanding that their electricity come from clean resources. Today's orders represent a major obstacle to those goals. Although even this Commission won't come out and say that, the cumulative effect of the various determinations in today's orders is unmistakable. It helps to rehash in one place what the mitigation regime affirmed in the December 201 Rehearing Order will do.

91. First, after establishing a broad definition of subsidy, the Commission creates several categorical exemptions that overwhelmingly benefit existing resources. Indeed, the exemptions for (1) renewable resources, (2) self-supply, and (3) demand response, energy efficiency, and capacity storage resources are all limited to existing resources.[228] That means that all those resources will never be subjected to the MOPR and can continue to bid into the market at whatever level they choose, while every comparable new resource must run the administrative pricing gauntlet. In addition, new natural gas resources remain subject to the MOPR.[229] All told, those exemptions provide a major benefit to existing resources.

92. Second, as noted above, the Commission creates different offer floors for existing and new resources.[230] Using Net CONE for new resources and Net ACR for existing resources will systematically make it more likely that existing resources of all types can remain in the market, even if they have higher costs than new resources that might otherwise replace them. As the Market Monitor put it, this disparate treatment of new and existing resources "constitute[s] a noncompetitive barrier to entry and . . . create[s] a noncompetitive bias in favor of existing resources and against new resources of all types, including new renewables and new gas fired combined cycles."[231]

93. Third, the mitigation scheme imposed by today's orders will likely cause a large and systematic increase in the cost of capacity. Although that will appear as a rate increase for consumers, it will be a windfall to existing resources that clear the capacity market. That windfall will make it more likely that any particular resource will stay in

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[228] December 2019 Order, 169 FERC ¶ 61,239 at PP 173, 202, 208.

[229] *Id.* PP 2, 42.

[230] *See supra* Section II.B.4.

[231] Internal Market Monitor Reply Brief at 4.

the market, even if there is another resource that could supply the same capacity at less cost to consumers.

94. Finally, the December 2019 Order again dismisses the June 2018 Order's fig leaf to state authority: The resources-specific FRR Alternative.[232] That potential path for accommodation was what allowed the Commission to profess that it was not attempting to ""disregard" or "nullify" state public policies. Although implementing that option would no doubt have been a daunting task, doing so at least had the potential to establish a sustainable market design by allowing state policies to have their intended effect on the resource mix. And that is why it is no longer on the table. It could have provided a path for states to continue shaping the energy transition—exactly what this new construct is designed to stop.

95. The Commission proposes various justifications for each of these changes, some of which are more satisfying than others. But don't lose the forest for the trees. At every meaningful decision point in today's orders, the Commission has elected the path that will make it more difficult for states to shape the future resource mix. Nor should that be any great surprise. Throughout this proceeding, the Commission has focused narrowly on states' exercise of their authority over generation facilities, treating state authority as a problem that must be remedied by a heavy federal hand. The only thing that was new in the December 2019 order was the extent to which the Commission was willing to go. Whereas the June 2018 Order at least paid lip service to the importance of accommodating state policies,[233] the December 2019 Order—and today's orders—are devoid of any comparable sentiment.

96. In addition, in a now-familiar pattern, today's orders put almost no flesh on the bones of the Commission's edicts and provide precious little guidance how the new MOPR will work in practice. Most of the actual work will come in the compliance proceedings, not to mention the coming litany of section 205 filings, section 206 complaints, and petitions for declaratory orders seeking guidance on fact patterns that the Commission, by its own admission, has not yet bothered to contemplate. In each of those proceedings, the smart money should be on the Commission adopting what it will claim to be facially neutral positions that, collectively, entrench the current resource mix. Although the proceedings to come will inevitably garner less attention than today's orders, they will be the path by which the "quiet undoing" of state policies progresses.[234]

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[232] December 2019 Rehearing Order, 171 FERC ¶ 61,035 at P 348; June 2018 Order, 163 FERC ¶ 61,236 at P 157.

[233] June 2018 Order, 163 FERC ¶ 61,236 at P 161.

[234] Danny Cullenward & Shelley Welton, *The Quiet Undoing: How Regional Electricity Market Reforms Threaten State Clean Energy Goals*, 36 Yale J. on Reg. Bull.

97. The December 2019 Rehearing Order is a concerning preview of that process. In the two thousand-plus pages of rehearing requests filed in response to December 2019 Order, parties raised a wide range of concerns. Today's orders duck almost every single one, falling back on generalizations and a single-minded focus on extirpating the effects of state policies. Although the order is long in pages, it is short on any serious effort to grapple with or explain the implications of the Commission's actions. Moreover, in the few instances in which the Commission gave ground, such as voluntary RECs, it did so only with an ominous warning that is likely to cause more confusion than it clears up.[235] Everything about today's orders should concern those with a stake in a durable resource adequacy construct in PJM.

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98. At this point, the die has been cast. Today's orders make unambiguously clear that the Commission intends to array PJM's capacity market rules against the interests of consumers and of states seeking to exercise their authority over generation facilities. For all the reasons discussed above, these orders are illegal, illogical, and truly bad public policy.

99. But, even beyond that, today's orders are deeply disappointing because they will fracture PJM, the largest RTO in the country. As I predicted in my dissent from the December 2019 Order, states throughout the region are already looking for ways to pull their utilities out of the capacity market rather than remain under rules designed to damage their interests. Today's orders snuff out what little hope may have remained that the Commission would again change course and adopt a more sensible market design. As a result, states committed to exercising their rights under FPA section 201(b) will have little choice but to exit the capacity market. I strongly urge PJM to work with the states and provide them the time needed to make the transition as smooth as possible.

100. Fostering large regional markets for energy, ancillary services, and capacity, has been one of the Commission's principal successes over the last quarter century. I hate to see that success undone based on an obsession with blocking the effects of state public policies. But, unfortunately, the Commission chose the path that it did. In so doing, we have abdicated the leadership role that we ought to have taken in developing a resource adequacy paradigm that accommodates the fundamental changes currently under way in the electricity sector.

106, 108 (2019), *available at* https://www.yalejreg.com/bulletin/the-quiet-undoing-how-regional-electricity-market-reforms-threaten-state-clean-energy-goals/.

[235] *See supra* p 79; *see also supra* note 190.

101. The irony in all this is that the Commission asserts that it is acting to "save" the capacity market even as it sets the market on a course toward its eventual demise.

For these reasons, I respectfully dissent.

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Richard Glick
Commissioner

Document Content(s)