
Emergency DOE Action Unnecessary at PJM

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Data Sources Used in This Publication
Federal Energy Regulatory Commission
U.S. Energy Information Administration

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Hands-Off Approach About to Change

President Trump has never shied away from using executive action to intervene in the markets. While the President continues to promise to save the coal industry, he has by and large left the power market out of the spotlight other than the implementation of solar tariffs last year. The only other major action we have seen from the administration was the ill-fated NOPR from Secretary Perry last year regarding payments to fuel-secure generating plants. The hands-off approach may be about to change with the announcement late last week that President Trump is ordering a bailout of retiring coal and nuclear plants by the Department of Energy for the next two years.

Unnecessary Intervention

The previous NOPR was unanimously rejected by FERC, but since they and the ISO/RTO's responsible for reliability already had the issue on their radar, the Commission opened a review docket. The public commentary period saw a flood of input from multiple levels of the industry and has been discussed previously in [Update on Grid Resiliency Pricing](#). The new announcement comes just before the 30-day response period was up for FERC to review and respond to the commentary. The decision to move forward with any action or inaction may have been taken out of the commission's hands. FERC Commission Chairman McIntyre has already publicly stated that FERC could be kept out of the loop by the DOE order.

The order came out along with a leaked White House memo that invoked Section 202(c) of the Federal Power Act (FPA) to authorize the DOE to act in emergencies as well as section 101(a) of the Defense Production Act to secure fuel resources if deemed necessary to national defense. Both renewable and natural gas trade organizations have already joined together and [argued](#) against the use of the FPA to intervene in the market. The rebuttal of FPA authority in this case suggests the new DOE order will land in the courts before progressing very far, with sizable market forces now lining up to oppose what is seen as an unnecessary intervention.

Fuel Security

Much of the Administration's push is based on the argument that "unique attributes" are not adequately compensated for their services in the generation market. The definition of "unique attributes" can be gleaned from the previous NOPR, which would have required compensation for generating plants that have 90 days of fuel supply on site. However, a three-month long interruption is an extremely unlikely event and every fuel source, including nuclear and coal has supply disruption risk. As a hypothetical, a renewable generator could last considerably longer than 90 days. Over time, a diverse fuel mix resulting

from a market that signals entry and exit of capacity and a marginal dispatch curve has proven capable of providing the end consumer the least cost market focused path to resilience and reliability. PJM already requires capacity performance and compensates resources for the characteristics of generating during extreme events.

Capacity Market Auction

In a timely manner, the annual PJM capacity auction recently cleared at \$140/MW, which is up from last year's \$77/MW. Headlines showed coal and nuclear retirements were a key driver in the increase, but a key signal in the auction results was the lack of new Combined Cycle natural gas generation. While there was some uplift on existing CC generation this was the first auction year, in over eight, where the market has not seen new gas-fired additions. That detail may be a telling initial indicator of a slowdown in opportunity in the PJM market as nuclear subsidies take their toll on the forward expected returns of new generation projects. If this indication is true, then the PJM market is a long way from any emergency due to resilient plants leaving in the immediate future and has plenty of time to transition from a resilience or reliability perspective.

Over the next two years the PJM coal and nuclear landscape is seeing capacity around 56.3 GW and 34 GW, respectively. These numbers are likely to move to 54.8 and 34 GW. That is a movement of "resilient" generation capability from 90.3 GW to 88.8 GW or just a 1.6% move (Exhibit 1). That scale of retirement hardly warrants emergency action from the executive.

Exhibit 1 PJM Capacity Outlook



Source: U.S. Energy Information Administration, Morningstar

Conclusion

Energy market developments over the last decade have seen a massive shift of generation capacity away from coal in response to environmental concerns, an aging and inefficient fleet and cheap replacement costs for gas-fired generation using abundant, cleaner fuel. As a result, a large swath of the ancient and inefficient portion of the coal fleet is already out the door with more to come, amid little opposition at the state level. Few can argue that coal has a future growth path in power generation and any Federal action can only be expected to slow down the retirement trend at best.

At the same time there has been growing concern about nuclear generation retirements causing the demise of that industry. In response we have seen multiple states jump in and subsidize nuclear generation directly to keep non-fossil fuel capacity afloat. In the circumstances, the need for further action at the Federal level seems redundant.

Regardless of the progress of the DOE order through the courts, the market is already responding appropriately in PJM, where the latest outlook suggests a slowing trend in coal retirements. This demonstrates that functioning capacity markets do adapt to changing circumstances without the need for Federal intervention. The next generation of power market development is looking to a growing contribution from renewables and storage supplanting today's fossil fuel plants. That combination looks a lot more enticing than Federal intervention from both reliability and resilience characteristics. ■■

Natural Gas Important Points

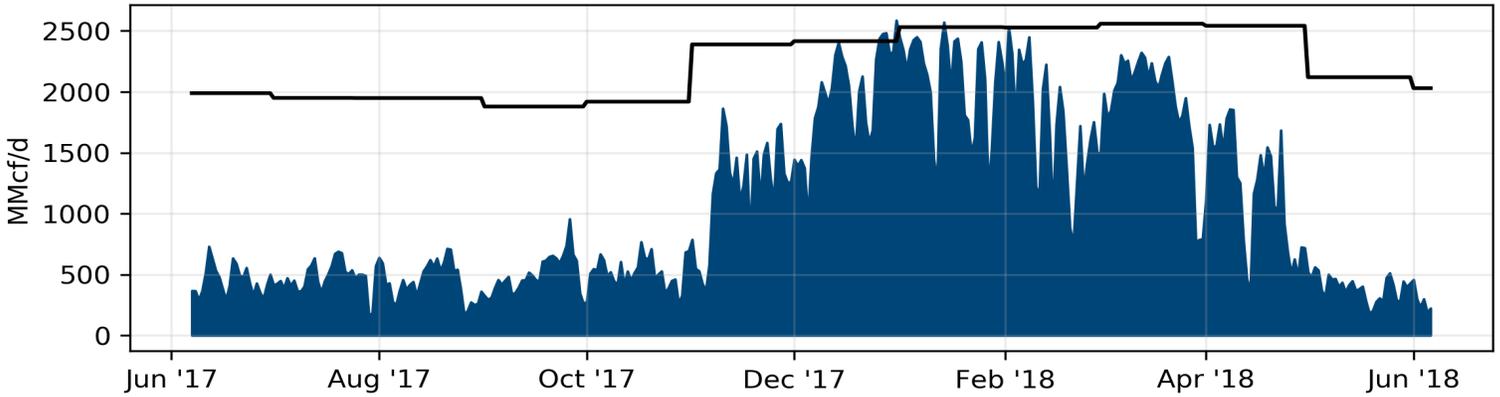
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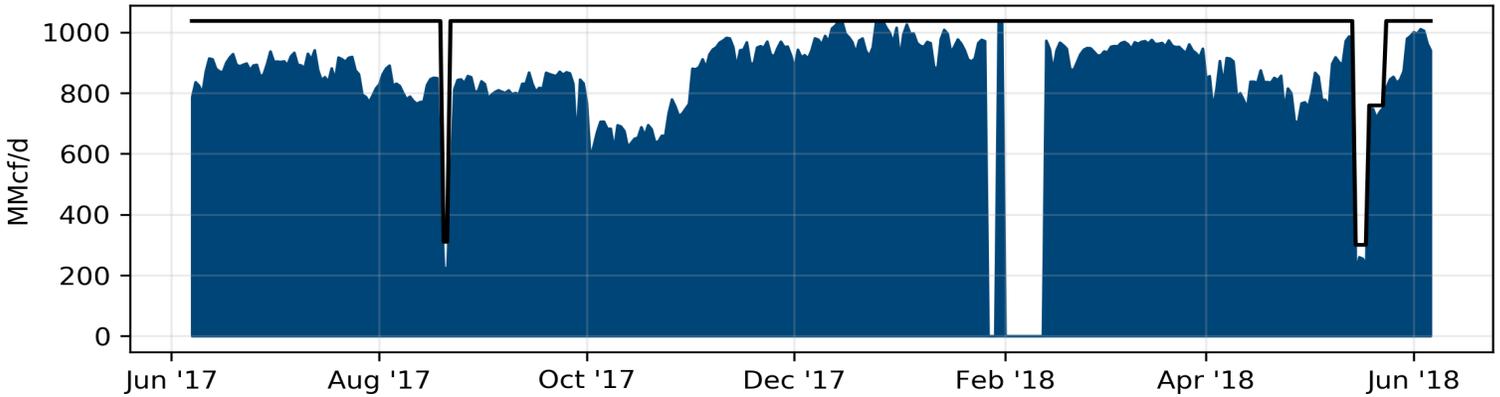
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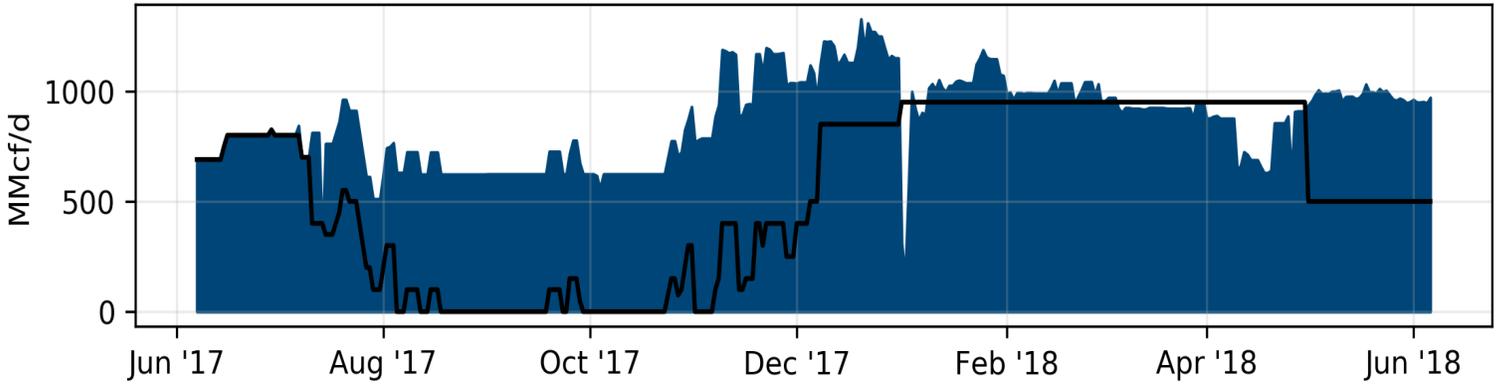


Millennium: Wagner West Compressor

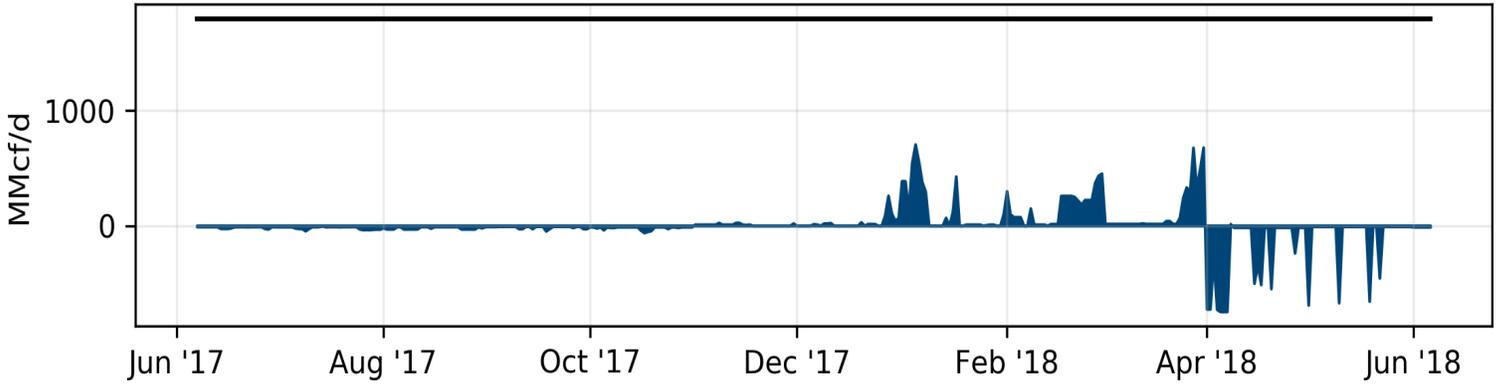


■ Volume — Capacity

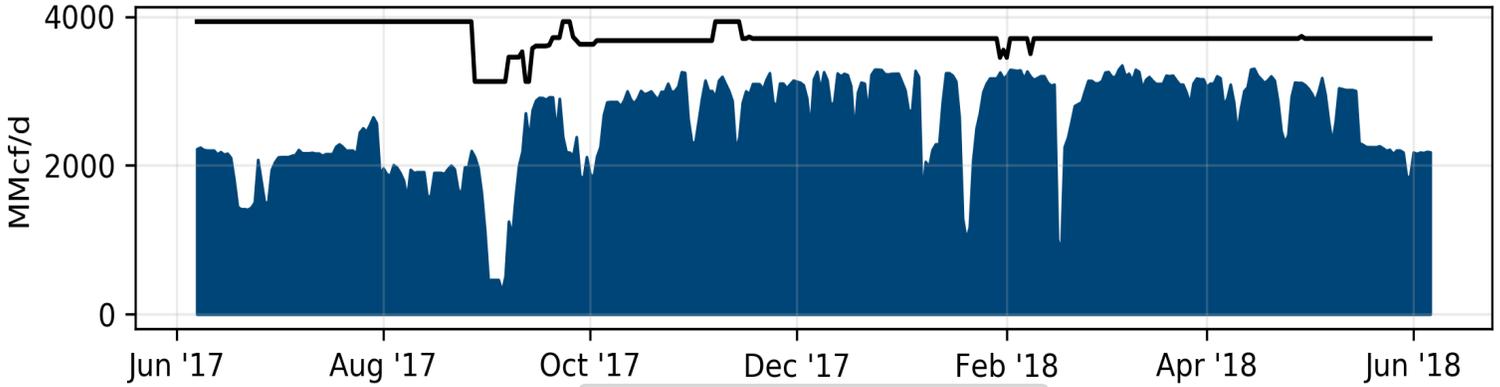
Columbia Gas Trans: Braxton-Stonewall



LNG: Cove Point



LNG: Sabine



■ Volume — Capacity

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