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FERC DECISION UNDERMINES STATE CLEAN ENERGY POLICIES AND WORSENS MARKET INEFFICIENCIES

Today, the Federal Energy Regulatory Commission (FERC) issued an order that threatens the efficiency of energy markets and is likely to have very harmful effects for climate change and air pollution. FERC directed the nation's largest electric grid operator, PJM Interconnection, to effectively penalize many clean electricity generators in its capacity markets, in order to counteract support that these resources receive from state-level policies, including renewable portfolio standards and zero-emission credit programs.

This expansion of PJM's Minimum Offer Price Rule (MOPR) purports to protect market competition, but in fact it vastly worsens the efficiency of energy markets, resulting in an oversupply of electric generation resources and undermining state policies meant to address major market failures caused by pollution externalities.

The Institute for Policy Integrity at New York University School of Law released an extensive report on these issues. We also submitted multiple comments to FERC in this proceeding.

Avi Zevin, senior attorney at the Institute for Policy Integrity, has released the following statement on this order:

FERC has required deeply problematic changes to the nation's largest electricity market, based on a fundamental mischaracterization of economic principles. This will have the perverse effect of undermining the very market efficiency FERC says it is concerned with, while slowing the deployment of clean energy during this critical window to address climate change.

FERC's decisionmaking is rife with problems:

Expanding the MOPR to all state-supported resources is based on a fundamental flaw. State payments for environmental benefits do not distort markets, they help correct markets.

There is no evidence that state subsidies are harming reliability or leading to unjust and unreasonable market outcomes. PJM continues to have substantial reserve margins and new capacity investment.

Capacity markets are self-correcting. If subsidies did ultimately result in reduced capacity investment, prices would automatically rise and spur more investment.

The MOPR is intended to "correct" the markets. But its design will not result in the outcomes that would have occurred without subsidies. Instead, it would further distort the market outcomes.

FERC's failure to draw rational lines between which payments are distorting markets and which payments are acceptable renders its decision arbitrary and demonstrates the serious flaws of its approach.

Please let me know if you'd like to speak with Avi Zevin or another one of our staff members about these issues.

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The Institute for Policy Integrity at New York University School of Law is a non-partisan think tank dedicated to improving the quality of government decisionmaking. The institute produces original scholarly research in the fields of economics, law, and regulatory policy; and advocates for reform before courts, legislatures, and executive agencies.