
**Senate Environmental Resources and Energy Committee
and
Senate Consumer Protection and Professional Licensure Committee
Joint Hearing on Alternative Energy Portfolio Standards Act**

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**Testimony of:
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Chairman Yaw, Tomlinson, Boscola, and Yudichak and Committee members, I am Rachel Gleason, the Executive Director of the Pennsylvania Coal Alliance (PCA) and I appreciate the opportunity to provide testimony on Pennsylvania's Alternative Energy Portfolio Standards (AEPS) Act. The PCA is the principal trade organization representing underground and surface bituminous coal operators in Pennsylvania, as well as other associated companies whose businesses rely on coal mining and a strong coal economy. Nationally, Pennsylvania is the third largest coal producing state, and PCA member companies produce 90 percent of the bituminous coal mined annually in Pennsylvania, which totaled over 48 million tons in 2018.¹

Bituminous coal mining helps drive Pennsylvania's economy. A report compiled last month by the Allegheny Conference on Community Development highlights that our state's coal industry is responsible for supporting nearly 18,000 jobs. The same report points to the industry being a vital contributor to Pennsylvania's economy, providing \$4.1 billion annually to the state's economy, and \$7 billion in total output. The Pennsylvania coal industry creates this economic value in communities across Pennsylvania, with active mining operations in fifteen counties,² multiple company locations in more than half of Pennsylvania's counties, and contributes \$2.5 billion in property taxes. The industry accounts for 25 percent of the employment in some regions of the state, and for every direct coal job an additional 1.97 jobs are supported in the state. Moreover, the industry in some regions supports upwards of 40

¹ <https://www.eia.gov/coal/>

² <https://www.dep.pa.gov/Business/Land/Mining/BureauofMiningPrograms/Reports/Pages/2017-Coal-and-Industrial-Minerals-Mining-Activities.aspx>

percent of the local tax base, and often serves as a community's financial cornerstone for economic development.³

While the PCA does not represent coal-fired electric generating units in Pennsylvania, coal as a fuel source for electricity accounts for 58% of our total production, and coal's end use and a strong coal economy is vital to PCA's 200 members companies. As the Executive Director of the PCA, I have been charged by our Board of Directors with advocating for a state energy policy that promotes free and fair markets and provides for a level playing field for all generation sources.

Pennsylvania Electric Generation from Coal

Since Pennsylvania deregulated its electric generation market in 1996, 17 coal-fired electric generating units have deactivated or converted, and two more are scheduled to deactivate or end their coal use by 2029. As a result, 11.4 GW⁴ of coal nameplate capacity has or is scheduled to go offline since deregulation.

Following these announced forthcoming closures, Pennsylvania will have five coal-fired electric generating units remaining. In 2018, these five remaining coal-fired units consumed 8.4 million tons of coal extracted by coal mining operations in Pennsylvania.⁵ Overall, coal accounted for 20 percent of the net electricity generated in the Commonwealth in 2018, which is down significantly from 48 percent just a decade ago.⁶ The incessant regulatory pressures experienced by coal-fired generation, coupled with the advent of shale gas over this past decade proved to be a perfect storm that resulted in a transformation of the coal-fired power generation business, and had profound effects on Pennsylvania coal producers. Over the last decade, Pennsylvania has shuttered more than 50 percent of its bituminous coal mines.⁷

³ https://docs.wixstatic.com/ugd/203afb_fdd3aada0fd94deb80441c19d729196b.pdf

⁴ <https://www.eia.gov/electricity/data/eia860/>

⁵ <https://www.eia.gov/electricity/data/eia923/>

⁶ <https://www.eia.gov/electricity/data/eia923/>

⁷ <https://www.eia.gov/coal/data/browser/>

The economic hardships these plant and subsequent mine closures have had on local economies throughout Pennsylvania have been devastating. Nevertheless, not once during this period, nor today, has the coal industry come to the Pennsylvania General Assembly to request a ratepayer subsidy, like AEPS. PCA member companies fully realize the electric power generation market has significantly transformed this past decade and have been committed to working within this market to ensure that coal remains an affordable, reliable and resilient resource to the grid. That said, PCA has serious concerns about the continued growth of state alternative and renewable portfolio mandates, such as the AEPS, that provide preferential treatment to certain resources at the expense of the integrity of the wholesale market.

PJM

The PJM Interconnection, the regional transmission organization (RTO) of which Pennsylvania participates, operates a competitive wholesale electricity market and manages the electric grid for more than 65 million people in all or part of 13 states plus the District of Columbia. The operations include ensuring reliability and economic benefits, day-to-day management of the system, and annual capacity auctions. Coal continues to play a significant role in diversifying the generation portfolio within PJM and compromised 29% of the electricity generated in 2018.⁸ More importantly to Pennsylvania coal miners, in 2018, 15.6 million tons, nearly 1/3 of Pennsylvania's coal production in the same year, was sent to generation sources in PJM's territory.

Electric generators within PJM that clear the capacity auction are paid for their guaranteed availability at a future date. In 2018, the capacity auction produced a price of \$140 MW-day for power it procured for the period of June 1, 2021, to May 31, 2022.⁹ Generation sources that clear the auction are guaranteed that price and, in some cases, if they qualify for a ratepayer supported subsidy under Pennsylvania's AEPS, those generators receive both the revenue from the subsidy and the capacity payment. This, combined with recently enacted nuclear ratepayer bailouts in Illinois and New Jersey, has significantly undermined competition in the PJM market.

⁸ <https://www.eia.gov/electricity/data/eia923/>

⁹ <http://insidelines.pjm.com/capacity-auction-attracts-diverse-competitive-resources/>

Pennsylvania’s coal electric generating units, and the coal-fired units within the PJM territory, are necessary for reliability, resilience, and fuel security. A reliable grid means having an adequate supply of electricity 24/7 under all weather and demand conditions. Resiliency means the grid can withstand and recover quickly from disturbances and interruptions. Security is addressed by those resources that are fuel-secure, like coal, which generally has upwards of 30 days of fuel stockpiled on site, negating any issues with fuel delivery, and can ramp up and ramp down relatively quickly in response to demand.

On a mild spring day like today, coal is not the leader in PJM’s generation fuel mix. However, when demand is high during periods of cold and hot weather, when natural gas gets diverted to home heating, and when nuclear can’t produce any more generation, coal is left to pick up the slack and provide essential power to the grid. This past January, coal electric generation was 40 percent of PJM’s fuel mix when demand was high, outpacing all other fuel sources. In fact, in 2018, Andrew Ott, the President and CEO of PJM testified before the United States Energy and Natural Resources Committee and commented that during a deep freeze in late 2017 and early 2018, commonly referred to as the “bomb cyclone” that “we (PJM) could not have served customers without coal.”¹⁰

AEPS in its title is alternative energy. The qualifying sources in AEPS cannot provide power to the 65 million people in PJM’s grid without back-up capacity. In mandating any increase in AEPS purchase requirements or adding new tiers, baseload coal-fired generation will likely be prematurely displaced, which will increase the cost to ratepayers when reliability and market competition is compromised.

When joining an RTO, states agreed to delegate the role of assuring reliable electric supply at least cost in return for the benefits of full participation in the organized market. Given the current construct of the PJM capacity market, any increase to AEPS requirements has the

¹⁰ <https://www.washingtonexaminer.com/energy-department-deep-freeze-shows-risks-to-grid-from-coal-retirements>

potential to further distort that market. This will only serve to further marginalize Pennsylvania's coal-fired generation units and coal-fired units throughout PJM and put at risk the 15.6 million annual tons of Pennsylvania-mined coal that goes to those generation sources.

PJM and FERC

As a result of the growing concern of the unfairness of the PJM capacity market the Federal Energy Regulatory Commission (FERC), which is charged with ensuring reliable, efficient and sustainable energy for customers, ordered PJM to rewrite their market rules to address state-subsidized resources like renewables and nuclear plants that are artificially suppressing market prices.

On June 29, 2018, FERC, issued an unprecedented order in which it found that the PJM tariff is “unjust, unreasonable and unduly discriminatory” because it “fails to protect the integrity of competition in the wholesale capacity market against unreasonable price distortions and cost shifts caused by out-of-market support”.¹¹ Out-of-market payments, like state subsidies, allow a resource to reduce the price of their offer into the PJM capacity auctions below the price at which they otherwise would offer, causing lower auction clearing prices and price distortion.

FERC noted in the order that “the resulting price distortion (from out-of-market payments like ratepayer subsidies) compromise the capacity markets integrity,” and opened a new docket (Docket No. EL18-178-000) to address a proposed alternative approach in which PJM would modify current aspects of its tariffs to address out-of-market payments.

PCA supported comments submitted on the new FERC docket that agreed with an expanded minimum offering price rule (MOPR) to prevent state directed subsidies from disrupting the PJM capacity market and, should that MOPR apply to resources that provide fuel security or enhance national security, FERC should require PJM to adopt a Fixed Resource Requirement Alternative or similar mechanism.

¹¹ <https://www.ferc.gov/CalendarFiles/20180629212349-EL16-49-000.pdf>

An order from FERC remains pending on this open docket, but many expect a decision at some point in 2019. Given the significant uncertainty that exists with the future construct of the PJM capacity market, PCA believes it would be highly prudent to table any legislative conversation on AEPS until FERC issues a decision on this open docket.

AEPS Subsidizes Out-of-State Generation

Currently, the AEPS program dictates that, by 2021, 18% of electricity sold to retail customers in Pennsylvania come from qualifying alternative energy resources. In 2017, slightly over 14% of electricity sold to retail customers was generated by those qualifying alternative energy resources in all tiers. More importantly, of the AEPS credits retired for compliance, 48.4 percent were generated in Pennsylvania while the remaining 51.6 percent were generated from other states in the PJM territory. This clearly demonstrates that the current structure of the AEPS is forcing Pennsylvania ratepayers to pay for generation produced in other states.

In 2017, exclusive of solar, only 26 percent of the credits purchased to comply with Tier I of our state's AEPS came from Pennsylvania, while 27 percent came from Illinois and 24 percent came from Virginia. To meet the Tier II AEPS requirement, 66 percent of the credits came from Pennsylvania, while 22 percent came from Virginia and 10 percent came from West Virginia.¹²

From a competitive, wholesale market perspective, arguably there should be no state subsidies for any resource competing in that market. That isn't the case with AEPS, which picks winners and losers, upends the wholesale electricity market, and jeopardizes Pennsylvania's coal industry, the 18,000 jobs it supports, and the over \$4 billion it adds to the Pennsylvania's economy.

¹² http://www.puc.pa.gov/Electric/pdf/AEPS/AEPS_Ann_Rpt_2017.pdf