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Position: Favorable on HB 1561, Affordable Energy Act

Vince Duane Testimony to the Environment and Transportation Committee in Support of Maryland House Bill 1561 – Affordable Energy Act

Chair Korman and Members of the Environment and Transportation Committee:

Maryland is facing a capacity crisis, driven by accelerated demand for power from electrification and data centers and worsened by the power market in which it participates. In Maryland, except for smaller on-site backup or emergency generators at hospitals, businesses, or homes, all generation is procured through the mid-Atlantic's electricity market and grid operator, PJM.

PJM's energy and ancillary services markets provide a stream of revenue to compensate competitive generation for its operating costs, such as fuel procurement and payroll. About 20 years ago, PJM and its many stakeholders determined that these revenue streams were insufficient to support new investment and, in some cases, to retain needed existing generation. As a solution, PJM's capacity market was created to add a new revenue stream, intended to drive investment in new power plants when needed, whether due to growing demand or the retirement of aging infrastructure. The result, though, was a process that has proven much less direct and purposeful.

While PJM's capacity auctions have attributes designed to harness competitive forces, their single clearing price outcomes are problematic, in my opinion, because they persist in treating all megawatts of generation, from all technology types, as a fungible commodity, with each MW serving as an economic and operational substitute for the next. This foundational flaw means PJM's auctions work very differently from the competitive markets we are accustomed to in the broader economy. Price formation in the capacity market is hardly the work of Adam Smith's invisible hand. Instead, there are thousands of pages of byzantine rules, business manuals and FERC orders establishing administrative elements and inputs that bear on the so-called design of the capacity market.

The term "market design" is an oxymoron, like the old joke about "military intelligence." If a market must be so heavily designed and so removed from one that would organically arise simply where supply and demand preferences meet, is it really a market at all? For this reason, most of us in the PJM community describe it as a "capacity construct" rather than a market.

So why is the capacity construct not delivering capacity when it is so obviously needed? Because PJM's construct is like a 1970s Italian roadster – beautiful to look at (at least to economists) but always in the shop. The design is short-sighted (it provides price certainty for only one year) and subject to continual change; this uncertainty introduces risk, which ultimately drives up costs for all parties, including Maryland ratepayers. Importantly, it also means less capital investment – and in this specific context, less capital investment means less power generation. Any *theoretical* promise that prices would signal correct investment has proven, in practice, to be a false hope.

Enter HB1561, a modest response to PJM's extensive capacity market challenges. Allowing regulated utilities in Maryland to own and operate solar and storage resources is a step toward reducing Maryland's reliance on PJM's capacity construct to deliver generation.

While some may remark that such action will expose ratepayers in the state to the investment risks associated with generation, allowing utilities to develop resources under a cost-of-service model balances risk and cost: it may expose ratepayers to the investment risk, *but also* could bring potential benefits of such investment in the form of more reliability and lower costs. Including utility-owned generation as part of the utility's overall wholesale power supply portfolio will serve as a hedge to moderate the price volatility and uncertainty demonstrated by PJM's capacity market. It provides a fixed price for a small piece of a supply mix that is otherwise subject to floating prices, subject to yearly fluctuation, in PJM's capacity market. And as a hedge, utility-owned generation provides a prudent alternative to the illiquid and limited tenor limitations attendant to potential contracting bilaterally with generators or third-party risk management trading firms.

Unlike merchant investment, a utility is positioned to make siting decisions that purposefully optimize the location of these technologies in places where they are most beneficial to the operation of the transmission and distribution systems, and to the particular profile of the utility's customers.

Passing HB 1561 is a viable solution that will guarantee new solar and storage capacity comes to Maryland, without waiting and hoping that PJM establishes an environment that supports merchant companies' investment in such projects.

Thank you for your time today.

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