Vistra Corp. Investor Relations

Vistra Energy Finds Federal Energy Regulatory Commission's Order on the PJM Capacity Auction to Be Just, Reasonable, and Protective of Competitive Markets

Company supports the order, which ensures fair and equitable treatment of all market participants

IRVING, Texas, Dec. 30, 2019 /PRNewswire/ -- After thorough review of the Federal Energy Regulatory Commission's order on the PJM capacity auction rules, Vistra Energy (NYSE: VST) supports the reasoned action that directs PJM to reform its capacity auction to address the anti-competitive effects state-subsidized resources have on the ability of the capacity market to function properly. While the order allows certain exemptions, it strikes the right balance by specifically directing PJM to establish a minimum capacity offer price for all state-subsidized resources equal to the net cost of entry for new resources and the net avoidable cost rate for existing resources. FERC initiated the proceeding to reform PJM's capacity market in a June 2018 order that rejected two PJM proposals for capacity market reform, finding PJM's existing capacity auction rules unjust and unreasonable as a result of the price-suppressive impact of state subsidies.

"We are pleased FERC has resolved the regulatory uncertainty hanging over the PJM markets. We applaud the Commission for directing reforms that preserve the integrity of competitive markets and will provide the confidence in the PJM capacity auction process necessary to support investment in a balanced set of resources to maintain electric reliability," said Curt Morgan, president and chief executive officer of Vistra. "We recognize that some will initially react negatively to the FERC order; however, as they evaluate options, we hope they take into account the tremendous savings their constituents have realized over the years from the competitive PJM markets and recognize that FERC must ensure fair and equitable treatment for all market participants. Vistra supports states developing energy policies, but the company does not support exercising those policy decisions in a way that distorts competitive pricing."

Morgan continued, "It seems most of the energy policy objectives relate to climate change and we believe there is a better path forward to achieve these objectives – one that is market-based, does not disrupt competitive market dynamics, and provides a level playing field. As we recently announced, Vistra supports an economy-wide, national or regional carbon abatement program with a dividend as the most effective and equitable mechanism to promote the reduction of greenhouse gas emissions. This kind of approach would allow companies to make strategic choices about their assets based on a uniform set of rules and transparent pricing and would eliminate the need for subsidies that are the focus of FERC's reforms. We encourage states to work expeditiously to adopt and enhance market-based carbon abatement programs, and we look forward to participating in that process."

Vistra believes the FERC order is appropriate for the following reasons:

- The order is technology agnostic and is not directed to bolster fossil fuels. The order is about fair and equitable competitive outcomes and a capacity market free of price distortions prompted by state subsidies. In the first instance, FERC's statutory mandate is to ensure that its markets are producing prices that are just and reasonable, and not unduly discriminatory. The order acknowledges that states and companies have already made certain investment decisions under previous Commission guidance by grandfathering the treatment of those resources, while putting new rules in place to ensure that state subsidies will not undermine competitive market outcomes. Notably, new natural-gas fired resources, even if not subsidized, continue to be subject to the minimum offer price rule.
- The order preserves states' rights to direct energy policies. Existing state-subsidized resources can continue to participate in power markets, but must offer into the capacity markets at their "go-forward" costs without the effect of subsidies – just like any other competitive market. It is also notable that the order does not have any impact on how state-subsidized resources may participate in PJM's energy and ancillary services markets. Approximately half of the states in the PJM market have competitive, not regulated, power generation sectors and the governance, oversight, and enforcement of the market should be directed accordingly.

- There is an alternative mechanism to participate in the PJM market, but market participants will still need to show that load will be reliably served. There has been considerable discussion about states exiting PJM or electing to implement some form of an alternative participation in PJM through the existing Fixed Resource Requirement (FRR) rules. Vistra's understanding of the FRR rules is that PJM will require entities exercising the FRR option to show that their FRR plan will ensure load can continue to be served reliably, that competitive retail suppliers will retain the right to provide capacity for their own customers within an FRR area, and that competitive generators cannot be compelled to participate in an FRR plan. Further, FERC's affiliate abuse rules will continue to govern sales by generators to affiliated load-serving entities serving captive customers. States should carefully consider the full implications of any decision to exit from the PJM market, since such a response, including through FRR, will result in considerable costs, the potential loss of a state's proportional share of an estimated $3–$4 billion per year of cost savings for consumers created by the PJM wholesale markets, and require a five-year election period. Vistra believes that clarifications of the existing FRR rules by PJM, and possibly FERC, are likely warranted.
- The order preserves the ability for cost-competitive generation resources to participate in the capacity market. Another important facet of the FERC order concerns the directive to set the price floor for existing generation resources with state subsidies using the net avoidable cost rate, which effectively represents the "go-forward" costs of those resources. If a resource is economic without a subsidy, it will be able to bid into and clear the capacity market auction. The unit-specific review process and having PJM and the Independent Market Monitor's opinion on a subsidized resource's costs, will provide discipline for resource owners who represent to the state that they are uneconomic in order to secure a subsidy.
- The order is fair and restores a level playing field for all resources. Allowing a subsidized resource to participate in the capacity market at prices lower than its actual costs creates an unfair preference over resources that compete without subsidies. Given current technology, dispatchable resources are critical to maintaining reliability in PJM and they will be needed even more as the proportion of intermittent renewables increases as evidenced recently in the renewable-heavy markets of California Independent System Operator (CAISO) and Electric Reliability Council of Texas (ERCOT). By addressing price suppression in the capacity market, the order allows the market to compensate these dispatchable resources appropriately and ensures that the market, rather than specific state policies, provides the incentives for meeting system needs.
- The order will drive appropriate capacity prices, not drastic cost increases. The analyses claiming that the order will result in billions of dollars of increased costs is based on the assumption that subsidized market outcomes are appropriate even though FERC has found those market outcomes unjust and unreasonable. These analyses support the very market abuse that the FERC order is trying to alleviate and to use their results as support against the order is flawed and misleading.
- The order leaves open the door for a market-based carbon abatement solution. While many states have enacted policies directed toward climate change and the power sector, FERC is under no such directive. However, FERC must attempt to balance state energy policies with the charge to ensure just and reasonable wholesale electric markets. Vistra continues to believe that the most effective and equitable manner to create that balance is an economy-wide, market-based pricing system that places an adequate cost on carbon, coupled with a dividend. Such a system can work in tandem with the PJM wholesale markets and ease the cost to certain consumers while preserving the strengths of the U.S. economy. Vistra is prepared to engage with federal and state policymakers and regulators on this approach.

The PJM capacity market order is a balanced approach to a very complex and hyper-politicized matter that will preserve the competitive markets, which have protected electric consumers and provided billions of dollars of savings, and ensure that rates are just and reasonable for all market participants, regardless of their fuel source. The order and an effective carbon abatement program can be a powerful combination bridging power markets to a new future. We look forward to working with PJM and stakeholders as this order is implemented.

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About Vistra Energy

Vistra Energy (NYSE: VST) is a premier, integrated, Fortune 350 energy company based in Irving, Texas, providing essential resources for customers, commerce, and communities. Vistra combines an innovative, customer-centric approach to retail with safe, reliable, diverse, and efficient power generation. The company brings its products and services to market in 20 states and the District of Columbia, including six of the seven competitive power markets in the U.S. and markets in Canada and Japan, as well. Serving nearly 5 million residential, commercial, and industrial retail customers with electricity and gas, Vistra is the largest competitive residential electricity provider in the country and offers over 40 renewable energy plans. The company is also the largest competitive power generator in the U.S. with a capacity of approximately 39,000 megawatts powered by a diverse portfolio of natural gas, nuclear, coal, solar, and battery energy storage facilities. In addition, the company is a large purchaser of wind power. The company is currently developing the largest battery storage system of its kind in the world – a 300-MW/1,200-MWh system in Moss Landing, California. Vistra is guided by four core principles: we do business the right way, we work as a team, we compete to win, and we care about our people, our neighbors, and our stakeholders. Learn more about Vistra's environmental, social, and governance efforts and read the company's sustainability report at https://www.vistraenergy.com/sustainability/.

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