

March 5, 2018

The Honorable Kevin McIntyre, Chairman
The Honorable Neil Chatterjee, Commissioner
The Honorable Richard Glick, Commissioner
The Honorable Cheryl LaFleur, Commissioner
The Honorable Robert Powelson, Commissioner

U.S. Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: Electricity Market Principles

Dear Chairman and Commissioners:

The undersigned entities comprise a broad and diverse group of publicly and cooperatively owned electric utility, industrial customer, state consumer advocate, renewable energy, and environmental organizations. We support competitive wholesale electricity markets, and we also recognize that this is a time of significant change and re-examination of the role of these markets in a transforming power system. In view of the ongoing changes, we are writing to communicate the principles necessary to maximize the benefits of organized wholesale electricity markets.

Within just the last year, the Commission has opened dockets on the intersection of markets and state policies (AD17-11) and on grid resilience (AD18-7). Wholesale market operators are developing proposals to “accommodate” state actions in the capacity constructs, and they and the Commission and other stakeholders may propose actions within the new grid resilience docket. Also, the Supreme Court and other federal courts recently have addressed some of the boundaries of federal and state jurisdiction in electricity markets. It is therefore an opportune time to review the design of organized wholesale electricity markets, particularly capacity constructs, and for the Commission to provide a clear vision for how it can best support, rather than interfere with, market-based mechanisms and healthy competition.

We encourage the Commission to support wholesale electricity market designs consistent with the following principles. These design principles work together; individual signatories do not necessarily support every principle if other principles are not also honored.

1. Wholesale tariffs and market rules should be technology-neutral. All resource and technology types should have the opportunity to offer the services that they can provide and are needed to ensure grid reliability and (if appropriately defined and measured) resilience, and should be compensated for the value of such services. The wholesale market rules should not establish discriminatory criteria that provide an advantage to certain types of resources or technologies relative to other types of resources or technologies that are providing the same services.
2. Wholesale market rules should respect state and locally governed utility policies and resource choices without making customers pay twice for the same service. “Accommodating” state and local utility policies by forcing customers to pay once for the capacity obtained pursuant to state and

local policies and again for resources allowed to clear in wholesale markets does not result in just and reasonable rates.

3. For true market competition to occur, wholesale customers and suppliers should be able to come together and transact as they choose through bilateral contracts. It is not the RTO/ISO's job to second-guess the resource and contracting decisions of eligible wholesale electric customers to buy or self-supply the types of resources and services they select, and for their chosen length of time. Long-term bilateral contracts can be beneficial for both wholesale customers and energy suppliers and should be fully accommodated inside and outside regions with organized markets. Bilateral contracts are a key part of competitive wholesale electricity markets, as they are in every other competitive sector of the economy.
4. Prices in the organized wholesale energy markets should be driven by market forces and provide appropriate compensation to dispatched resources for the value of the services they provide, including the support of grid reliability and (if appropriately defined and measured) resilience. Energy markets should not necessarily guarantee recovery of investment costs for particular resources or technologies. Investment cost risk should remain on investors and bilateral purchasers that commit to purchasing the output and benefit from the services being provided. Wholesale energy markets were designed to and are reasonably achieving their primary goal of efficiently dispatching existing resources.
5. Wholesale markets should benefit customers and reduce barriers to entry and exit. Markets should be allowed to function and stabilize before new solutions are deemed necessary to be implemented. Continual modifications of market structure and foundational rules should be avoided, as every market change could create new uncertainty and risk (which can result in increased costs for consumers).

We recognize that properly addressing resource adequacy is a key challenge in footprints within organized markets. The need for a mechanism to ensure resource adequacy led to the creation of capacity constructs in RTO/ISOs comprised primarily of restructured states. However, the capacity constructs include design features that may limit choice, create conflicts with state and local policy objectives, over-procure or unnecessarily retain capacity, and raise costs for customers. We believe it would be fruitful for the Commission to work with stakeholders and the states to make sure that there is clear responsibility for resource adequacy, while also preventing costly over-procurement. We as a group are committed to contributing to solutions. We emphasize that solving this challenge directly and holistically, rather than layering costly band-aids on top of organized wholesale markets, will benefit customers most in the long run.

The undersigned entities look forward to working with the Commission and other stakeholders on implementation of the principles established in this letter. We have an opportunity to put in place real wholesale markets with both a vibrant supply and demand side, where the market operators can focus on their core mission of reliable and efficient grid and market operation.

Respectfully submitted,

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