UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Fast-Start Pricing in Markets Operated by Regional Transmission Organizations and Independent System Operators	Docket No. RM17-3-000

COMMENTS OF AMERICAN PUBLIC POWER ASSOCIATION AND NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION

I. INTRODUCTION AND SUMMARY

The American Public Power Association ("APPA") and the National Rural Electric Cooperative Association ("NRECA") submit these comments on the Notice of Proposed Rulemaking ("NOPR") issued in the above-referenced proceeding on December 15, 2016.[1]

APPA and NRECA urge the Commission to recognize that Regional Transmission Organizations ("RTOs") and Independent System Operators ("ISOs"), collectively referred to as "RTOs," have been developing and implementing revised rules to address the pricing of fast-start resources in the energy markets. In contrast to the findings of the NOPR, these RTO efforts do not indicate a need for a standardization of rules across all RTOs.

If the Commission does decide that such a standardization is warranted, APPA and NRECA make specific recommendations in these comments. The section below from

[1] *Fast-Start Pricing in Markets Operated by Regional Transmission Organizations and Independent System Operators*, Notice of Proposed Rulemaking, 81 Fed. Reg. 96391 (Dec. 30, 2016).

APPA and NRECA's Post-Technical Workshop Comments[2] ("Workshop Comments") submitted to FERC in March, 2015 illustrates our guiding perspective on these price formation efforts:

> The Commission should refrain at this time from pursuing a one-size-fits-all approach to reforming price formation rules in these markets. Existing rules governing price formation in the RTO/ISO energy, ancillary services and capacity markets are intricately intertwined with one another and with the rules governing market power mitigation. Any changes must include careful review of how the rules interact with the overall market design. These reforms should seek to achieve efficient dispatch in the short term, benefits in production-cost savings for consumers, incentives for investment in an appropriately diverse mix of resources in the long term, and continued strong protection against the exercise of market power.[3]

APPA and NRECA continue to hold this position, and as such, apply the following criteria to our review of this NOPR:

- First and foremost, does the NOPR allow individual RTO region-specific approaches? If not, has the Commission justified a standardized approach to all RTOs?
- Does the approach minimize costs for consumers while providing prices that accurately reflect the value of fast-start resources?
- Have the Commission and the RTOs adequately considered the cumulative impact of this NOPR and the final rules in the preceding price formation rulemakings?
- Is market power a potential concern, and if so, are updates needed to current mitigation rules to adequately address to such market power?

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[2] Post-Technical Workshop Comments of the American Public Power Association and National Rural Electric Cooperative Association, submitted in Docket AD14-14-000 on March 6, 2015.

[3] APPA and NRECA Workshop Comments at 5.

In the remaining comments, APPA and NRECA make recommendations based on these criteria as they apply to the NOPR broadly, without taking a position on each of the specific proposals contained in the NOPR.

II. DESCRIPTION OF APPA and NRECA

APPA is the national service organization representing the interests of the nation's 2,000 not-for-profit, community-owned electric utilities. Public power utilities are located in every state except Hawaii. They collectively serve over 49 million people and account for 15% of all sales of electric energy (kilowatt-hours) to ultimate customers. Public power utilities are load-serving entities, with the primary goal of providing the communities they serve with safe, reliable electric service at the lowest reasonable cost, consistent with good environmental stewardship. This orientation aligns the interests of the utilities with the long-term interests of the residents and businesses in their communities.

Public power utilities operate in all of the Commission-approved RTOs. Many participate directly in the organized wholesale electric markets, while others are served by a wholesale supplier—sometimes a joint action agency or another public power utility—that participates in these markets. Accordingly, APPA has a vital interest in maintaining just and reasonable rates for transmission, capacity, energy, and ancillary services in RTO regions. APPA has participated actively in many Commission proceedings concerning RTO rates, services, market rules, and related issues.

The nation's member-owned, not-for-profit electric co-ops constitute a unique sector of the electric utility industry – and face a unique set of challenges. NRECA represents the interests of the nation's more than 900 rural electric utilities responsible for keeping the lights on for more than 42 million people across 47 states. Electric cooperatives are driven by their purpose to power communities and empower their members to improve their quality of life. Affordable electricity is the lifeblood of the American economy, and for 75 years electric co-ops have been proud to keep the lights on. Because of their critical role in providing affordable, reliable, and universally accessible electric service, electric cooperatives are vital to the economic health of the communities they serve.

America's Electric Cooperatives bring power to 75 percent of the nation's landscape and 12 percent of the nation's electric customers, while accounting for approximately 11 percent of all electric energy sold in the United States. NRECA' s member cooperatives include 65 generation and transmission ("G&T") cooperatives and 840 distribution cooperatives. The G&Ts are owned by the distribution cooperatives they serve. The G&Ts generate and transmit power to nearly 80 percent of the distribution cooperatives, those cooperatives that provide power directly to the end-of-the-line consumer-owners. Remaining distribution cooperatives receive power directly from other generation sources within the electric utility sector. NRECA members generate approximately 50 percent of the electric energy they sell and purchase the remaining 50 percent from non-NRECA members. Both distribution and G&T cooperatives share an obligation to serve their members by providing safe, reliable, and affordable electric service.

NRECA' s members participate in all of the organized wholesale electricity markets as well as single Balancing Authority Areas (BAAs) throughout the country. And for this reason, NRECA participates in a variety of Commission proceedings, rulemakings and notices of inquiries on behalf of its members affecting the operation of markets as well as the reliability of the BPS.

III. COMMENTS

1. <u>The Commission Should Allow RTO-Specific Approaches to Continue.</u>

The Commission notes at the start of the NOPR that the "RTOs/ISOs have developed pricing specific to this class of resources. This pricing is designed generally to recognize that fast-start resources are, for all intents and purposes, the marginal resource used to meet the next increment of energy or operating reserves demand. Based on experience with the different fast-start pricing used by each RTO, we believe some practices have emerged over time that better represent the marginal cost of serving load."[4] Later in the NOPR, the Commission explains that "we believe that some existing fast-start pricing practices, or a lack of fast-start pricing practices, may result in market prices that fail to accurately reflect the marginal cost of serving load. These prices may fail to reflect the value of fast-start resources and create unnecessary uplift payments."[5] The Commission reaches the preliminary conclusion "that such market outcomes may produce rates that are unjust and unreasonable."[6]

But the Commission's finding that rates may not be just and reasonable does not recognize the complexity and tradeoffs in addressing fast-start pricing. Individual RTO price formation reports filed with the Commission in response to the November Order

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[4] NOPR at P 2

[5] *Id.* at P 36.

[6] *Id.* at P 37.

Directing Reports[7] show that there is not a simple path to allowing a fast-start resource to set the price, especially with regard to block-loaded resources. Individual RTOs have chosen to balance the ability of block-loaded resources to set price with other considerations that factor into the determination of a just and reasonable rate. For example, the PJM Interconnection, LLC ("PJM") concluded that "a trade-off exists between (1) allowing block-loaded resources to set price and (2) maintaining power balance."[8] In recognition of this trade-off, "PJM chose to relax the Economic Minimum by up to 10%, and not 100%, in order to minimize over-generation that can cause imbalances."[9] The Midcontinent Independent System Operator ("MISO") applies a fractional commitment variable to the economic minimum "that is dynamically determined based on market offers and system conditions rather than to an administrated level."[10] The New York Independent System Operator ("NYISO") uses a "hybrid approach" that models "select block loaded units as dispatchable when establishing prices" to "alleviate the lumpiness in the resource supply curve," while also tending to prevent "these resources from setting price when only a small portion of their output was necessary to meet load."[11]

These examples show that each RTO has carefully sought to balance price setting by a block-loaded resource with the potential for over-generation by other resources that need be dispatched down. APPA and NRECA are not taking a position on these

[7] *Order Directing Reports*, 153 FERC ¶ 61,221 (Nov. 20, 2015).

[8] Report on Price Formation Issues of PJM Interconnection LLC, submitted in Docket AD14-14 on February 17, 2016, at 6-7.

[9] *Id.*.

[10] Report of Midcontinent System Operator, submitted in Docket AD14-14 on March 4, 2016, at 5.

[11] Corrected Report of the New York Independent System Operator, submitted in Docket AD14-14 on March 23, 2016 at 5.

individual RTO methodologies. But the Commission in this NOPR has not demonstrated that these RTO-specific approaches to fast-start resource pricing are not achieving just and reasonable prices simply because they display variation in the degree to which such resources can set price. Nor is there any evidence that the RTO-operated energy markets are in need of such a standardization of policies among RTOs.

APPA and NRECA therefore urge the Commission to allow each RTO to continue to approach fast-start pricing according to their own determined methodology and their unique characteristics. If the Commission does pursue a Final Rule that applies common approaches to all RTOs, APPA and NRECA recommend that it apply the remaining criteria discussed herein.

2. Any RTO Fast-Start Pricing Requirements Must Balance the Interests of Public Utilities and Consumers

The goal of any price formation reform effort should be to ensure just and reasonable rates. A means to this end is to improve the efficiency of the energy markets in a manner that both benefits consumers and provides proper price signals to market participants. Reforms to price formation should not simply focus on increasing energy prices in the name of reducing uplift. In this NOPR, however, the Commission requires a number of actions by the RTOs that could increase prices, including the incorporation of commitment costs in pricing, relaxation of the economic minimum of fast-start resources for pricing purposes, and incorporation of fast-start pricing both the day-ahead and real-time markets. But the Commission does not propose to require RTOs to allow off-line fast-start resources to set the price. Including off-line resources in the price setting shifts the supply curve to the right and can reduce LMPs, as well as provide a more accurate reflection of the true cost of supplying load, especially during periods of constrained supply. MISO, for example, allows off-line resources fast-start resources "to participate in pricing when they are available and economic to address shortages or transmission violations under ELMP [Enhanced Locational Marginal Pricing]."[12]

In the NOPR however, the Commission only requires that "*if* the RTO/ISO allows offline fast-start resources to set prices for addressing certain system needs, the resource must be feasible and economic."[13] (Emphasis added.) Were the Commission to require common fast-start pricing methodologies among the RTOs, it must balance cost increases with decreases by requiring the RTOs allow offline fast-start resources to set prices. The Commission could stipulate certain standards for when offline resources can set the price, such as requiring such resources to be economic and feasible.

3. <u>The Commission and the RTOs Need to Address Potential Market Power Concerns, Accounting for the Cumulative Effect of Price Formation Rulemakings</u>

APPA and NRECA commend the Commission for seeking comment "on whether allowing fast-start resources to set prices could result in the exercise of market power. For example, the concentrated ownership of fast-start resources could raise market power concerns that are not addressed in existing RTO/ISO market power mitigation procedures."[14]

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[12] Report of Midcontinent System Operator at 11.

[13] NOPR at P 44.

[14] NOPR at P 64.

APPA and NRECA agree that increased opportunities for the exercise of market power are a concern and reminds the Commission of the following statement from our Workshop Comments:

> Because each region's market design reflects a careful balance of inter-related energy, capacity and ancillary services market rules, changing even one limited component of a region's energy market rules to address a specific constraint can have unanticipated and unintended effects on the region's ancillary services or capacity market prices, or could create new incentives and opportunities for, or impede existing rules designed to mitigate, the exercise of market power.[15]

The RTO energy market rules are being revamped not only by this NOPR but by two prior rulemakings; *Settlement Intervals and Shortage Pricing in Markets Operated by Regional Transmission Organizations and Independent System Operators*[16] and *Offer Caps in Markets Operated by Regional Transmission Organizations and Independent System Operators.*[17] These two rules will together increase the frequency of shortage pricing and allow for offers to exceed the $1,000 offer cap (subject to any changes upon rehearing). The Commission and the RTOs must consider the cumulative impact of these price formation rules along with the proposed fast-start pricing changes. A fast-start block-loaded resource may now be setting price during more frequently triggered shortage periods and may also be able to submit an offer greater than $1,000, potentially providing additional opportunities for exercises of market power. And excluding offline fast-start resources from setting market prices may exacerbate this problem.

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[15] APPA and NRECA Workshop Comments at 8.

[16] 155 FERC ¶ 61,276, Docket No. RM15-24-000; Order No. 825 (June 16, 2016)

[17] 157 FERC ¶ 61,115, Docket No. RM16–5–000; Order No. 831 (November 17, 2016); Order Granting Rehearings for Further Consideration, Docket No. RM16-5-001 (January 17, 2017)

APPA and NRECA request that any final rule that imposes standardized fast-start pricing requirements on all RTOs also require that the RTOs submit to the Commission an analysis of how this NOPR, along with the prior price formation rulemakings, will create opportunities for the exercise of market power, whether current market power mitigation rules are sufficient to address such market power concerns, and if so, what changes are needed to the market power mitigation.

Conclusion

In sum, APPA and NRECA assert that the Commission has not demonstrated a need for any standardization of fast-start pricing rules among the RTOs. Were the Commission to determine however that such a standardization is needed, it must do so in a manner that balances price decreases with increases, and that requires the RTOS to conduct a careful analysis of the impact of this and other price formation rulemaking on market power and whether market power mitigation rules need to be revised.

Respectfully submitted,

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February 28, 2017

CERTIFICATE OF SERVICE

I hereby certify that on this 28th day of February, 2017, I have caused a copy of the foregoing to be served upon each party designated on the Official Service list in this proceeding

/s/ Jillian Allen