ORDER ON TECHNICAL CONFERENCES COMMENTS OF
THE ELECTRIC POWER SUPPLY ASSOCIATION

The Electric Power Supply Association ("EPSA")\(^1\) respectfully submits these comments in response to the Federal Energy Regulatory Commission's ("FERC" or "Commission") November 20, 2014 Order on Technical Conferences ("Fuel Assurance Order")\(^2\) issued pursuant to two Commission technical conferences in the above-captioned proceedings.\(^3\) The Fuel Assurance Order directed Regional Transmission Organizations ("RTOs") and Independent System Operators ("ISOs") to file reports on

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\(^{1}\) EPSA is the national trade association representing leading competitive power suppliers, including generators and marketers. Competitive suppliers, which collectively account for 40 percent of the installed generating capacity in the United States, provide reliable and competitively priced electricity from environmentally responsible facilities. EPSA seeks to bring the benefits of competition to all power customers. The comments contained in this filing represent the position of EPSA as an organization, but not necessarily the views of any particular member with respect to any issue.


the status of their efforts to better address fuel assurance issues. Because fuel assurance was a consistent theme at both technical conferences and has a direct and immediate impact on generator performance and system reliability, the Commission correctly concluded it necessary to initiate a review of how each RTO/ISO is addressing fuel assurance. FERC indicated that failure to address this issue now could lead to volatile and high fuel prices or costly RTO/ISO actions to ensure reliability. Specifically, the Commission directed each RTO/ISO to (1) describe the nature of fuel assurance concerns specific to the RTO/ISO, (2) describe the strategy or strategies the RTO/ISO has implemented or intends to implement to address market and system performance issues in light of its fuel assurance concerns, and (3) detail the programs and mechanisms that the RTO/ISO will employ to carry out its strategies.4

Importantly, the Commission included a discussion section in the Fuel Assurance Order that specifically informed RTOs and ISOs that the Commission took a broad view of “fuel assurance” issues to include prices during reserve shortage conditions, energy offer caps, and energy price formation generally.5 However, based on EPSA’s review of the required responses submitted by the ISOs/RTOs, while they are informative on certain fuel-related issues, unfortunately the RTOs and ISOs largely failed to adequately respond, if at all, to the broader price formation issues that impact fuel assurance which the Commission took the time to carefully identify in the discussion section of the Fuel Assurance Order. This is troubling yet informative as to the urgent need for continued Commission leadership and further action directed at the ISOs and RTOs on energy price formation for the reasons EPSA and others outlined in comments filed in the price

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4 Order at P 20.
5 Order at P 12, 17.
formation docket earlier this month as noted below. Simply stated, the RTOs’ and ISOs’
gen-eral failure to adequately address these broader energy price formation issues, even
though they were singled out in the Fuel Assurance Order, indicates that necessary
improvements across the RTOs and ISOs will not be forthcoming on a timely basis
simply by deferring to the RTOs and ISOs to do so on their own.

Similar to the Commission technical conferences that prompted the Fuel
Assurance Order, the RTO/ISO responses highlight regional differences, market design
elements, tariff rules and operator practices that create varying levels of compensation
for vital supply and services. Further, while these reports highlight that fuel assurance
is a piece of the overall energy market price formation issue, only the New York ISO’s
report (NYISO) addressed those critical, broader price formation issues to some extent.
Reforming energy and ancillary service market price formation will increase market
efficiency, thereby assisting in the provision of better fuel assurance. In order to assure
that RTO/ISO market rules and protocols result in accurate, adequate and transparent
price formation consistent with the fundamental economic principles on which the
organized markets were designed, and, in turn, fuel assurance, the Commission should
at a minimum clearly and specifically direct those RTOs and ISOs to undertake needed
price formation reforms by a date certain as requested in detail by stakeholders in
comments submitted to the Commission earlier this month in its proceeding “Price
Formation in Energy Services and Ancillary Services Markets Operated by Regional
Transmission Organizations and Independent System Operators,” Docket No. AD14-14-
000 (“Price Formation proceeding”). Based on the narrow reading the RTOs and ISOs

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AD14-14-000, (March 6, 2015) (“EPSA Price Formation Comments”).
gave to the Commission’s request in the Fuel Assurance Order, as evidenced by the inadequate responses to the broader price formation issues the Commission flagged as stated above, EPSA submits that it is essential for a subsequent order or orders on Energy and Ancillary Services Markets Price Formation to be as specific as possible in the Commission’s directions and expectations as to what matters need to be addressed by the RTOs and ISOs, based on what principles, and by when.

I. EXECUTIVE SUMMARY AND OVERVIEW

EPSA strongly supports the Commission’s examination of its policies and the RTO/ISO rules and practices that affect fuel assurance and its relationship to markets and reliability. EPSA fully supports competitive markets and the well-documented benefits they bring to electricity consumers. As power suppliers, EPSA members are making ongoing long-term investment decisions both whether to retain existing resources and as to potential new investments in uprates, re-powering projects and new power plants, in significant part based on projections of the long term total cumulative revenue adequacy from energy and capacity markets. These projections are in turn a function of many variables, including historical spot prices and the forward price curves that flow from several factors including historical spot prices. However, as explained in the technical conferences that preceded this Order and several individual organized

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7 See Letter on Joint Price Formation Principles from EPSA, EEI, NEI, NGSA and ANGA, Price Formation in Energy and Ancillary Services Markets Operated by Regional Transmission Organizations and Independent System Operators, Docket No. AD14-14-000, (filed March 9, 2015), outlining a set of fundamental principles for energy and ancillary service markets price formation as supported by the five energy trade associations.

8 Economically efficient market-based investment decisions in the power sector are based on sufficient revenues from three primary sources: energy markets, ancillary service markets and capacity markets (where they exist). Each of these markets serves separate functions and are governed by separate rules, including as to the types of allowable costs in supplier bids. Accurate price formation must be achieved and maintained in all three of them to support the investment necessary for system operation, reliability and adequacy on both a near-term and sustainable long-term basis.
market proceedings, including the comprehensive examination of energy and ancillary services markets price formation currently underway in the Price Formation proceeding,\(^9\) EPSA believes that current and forward wholesale power market price signals are not fully reflective of all grid operator actions actually taken in the name of reliability. The RTO and ISO markets were designed so that the marginal unit is supposed to set the single-clearing price for all power plants in a given location, yet as documented in the Price Formation proceeding, that is not always the case, particularly in market conditions where the failure to do so has the greatest negative impact on price formation. Instead, grid operators take actions that are compensated through opaque out-of-market payments known as “uplift” as opposed to being reflected in the Locational Marginal Price visible to all market participants. Therefore, market rule reforms are urgently required to better establish price formation (meaning in part greater transparency around both the price formation process and the resulting prices) to incent efficient investment decisions. This is always important, but especially as the resource mix and power plant bid stack continue to go through unprecedented changes. As detailed below, the RTOs/ISOs through their narrow fuel assurance reports have now provided a record here that further justifies EPSA’s request that soon this year the Commission at a minimum direct the ISOs and RTOs within its jurisdiction to promptly address the Commission’s defined set of energy market price formation and related fuel assurance issues which the 2013-2014 technical conferences and workshops have documented.

EPSA additionally supports the ongoing capacity market reforms and improvements recently proposed in those regions that utilize centrally organized forward capacity markets which will, as one of many benefits, improve fuel assurance.\textsuperscript{10} Notably, these reforms have occurred on a regional basis due to the varied approaches to capacity commitment and resource adequacy across RTOs/RTOs. Certain RTOs/ISOs have been more proactive in responding to fuel assurance issues. EPSA supports the Commission’s efforts within this proceeding to assess the RTO/ISO specific initiatives. This effort can help to identify best practices and guide the development of new initiatives in the RTOs/ISOs that have been less active. This regional approach to capacity markets is reasonable in light of approved or pending improvements filed by RTOs and ISOs in those regions with centralized capacity markets. By contrast, as evidenced by the generally inadequate RTO/ISO responses to the energy price formation matters the Commission identified in the Fuel Assurance Order, undue deference to regional RTO and ISO processes is not warranted here.

It is important to underscore that, as the Commission has made clear in numerous orders and reports, capacity and energy markets each serve different functions with separate tariff rules for each that limit costs allowed to be reflected in bids, with capacity markets generally based on fixed capital costs and energy markets generally based on variable operating costs. Thus, the action EPSA and many others request of the Commission on energy market price formation is complementary to, and not inconsistent with, the Commission’s ongoing proceedings on particular regional

\footnote{JMJ Interconnection, L.L.C., Docket No. ER15-623-000 (PJM Capacity Performance Proposal Filed December 12, 2014); and, ISO New England Inc., 142 FERC ¶ 61,027, Order on Proposed Tariff Revisions, (January 14, 2013).}
capacity market improvements in a given RTO/ISO. In sum, price formation must be accurate in both energy and capacity markets.

II. COMMENTS

The Commission notes in the Fuel Assurance Order that discussion at each of the two technical conferences that gave rise to the Order highlighted that RTO/ISO resource adequacy constructs and capacity markets do not fully address a range of needs including sufficient fuel assurance. Further, current market designs and practices do not always account for generator type, fuel supply or operational characteristics.11 Additionally, the Fuel Assurance Order notes that “In addition, commenters in the Capacity Markets Technical Conference proceeding raised concerns regarding the performance of energy and ancillary services markets, including the effectiveness of the markets in setting prices during reserve shortage conditions… [and] the impact of offer caps and other RTO/ISO practices on the ability of generators to recover their fuel costs.” In light of these concerns, the Order further notes, “To the extent that energy and ancillary services markets, centralized capacity markets, or resource adequacy constructs fail to address fuel assurance concerns, reforms may be necessary to ensure that these markets or resource adequacy constructs meet their reliability objectives and result in just and reasonable wholesale rates.”12 In the subsequent Price Formation proceeding, the Commission explained that, “Ideally, the locational energy market prices in the energy and ancillary services markets would reflect the true marginal cost of production, taking into account all physical system constraints, and these prices

11 Order at P 6.
12 Order at P 8
would fully compensate all resources for the variable cost of providing service.” Fuel is recognized as the largest and most significant variable cost that generators incur. Consequently, energy, capacity and ancillary market prices help signal fuel choices. The market prices also signal other investment decisions that support performance; for instance in winterization, or operations and maintenance investments. MISO states that approximately one-quarter of the generator outages during the Polar Vortex were a result of fuel issues; the remaining resulted from mechanical and operating problems.14 Supporting market-based solutions will result in incentives that support efficient investments in resource performance; through fuel assurance, or otherwise. Therefore, RTO/ISO strategies to promptly address price formation play a significant role with respect to performance and fuel assurance in those markets.

EPSA submitted comments and responses on the critical issues regarding price formation in Energy and Ancillary Services Markets Operated by Regional Transmission Organizations and Independent System Operators. Those comments detail specific price formation principles that the Commission should use to direct responses from each ISO/RTO as to whether its market fully adheres to those principles or requires reforms over the course of 2015. EPSA cannot overstate the importance of this and related proceedings that seek to ensure that energy, capacity and ancillary services markets continue to produce just and reasonable results consistent with the economically sound investment and fuel procurement decisions that underpin reliability.

14 MISO February 18, 2014 Fuel Assurance Report, Docket Nos. AD13-7-000, AD14-14-000 at p. 4.
In the Fuel Assurance Order the Commission states that there are tradeoffs among different approaches that can be considered regarding market rule changes to address fuel assurance. The Commission notes, “The options can range from those focused on providing incentives to encourage greater fuel assurance to approaches that are more administrative in nature.”\textsuperscript{15} EPSA members, as competitive suppliers, ardently support market-based solutions as superior to administrative approaches. Importantly, in the context of fuel assurance EPSA believes that the price formation solutions advocated in its Price Formation Post Technical Workshop Comments would obviate the need for consideration of such a trade-off. Accurate price formation that reflects all costs will incent proper market response, and these market-based incentives will result in superior performance from suppliers through efficient resource investments (in fuel supply or otherwise).

In particular, as certain energy market issues are more squarely focused on providing greater certainty that generators will be able to recover their fuel costs and be better incented to make timely fuel procurement decisions, the Commission should address two energy market issues expeditiously. First, the outdated $1000/MWh energy market offer cap must be reformed on a broad basis across ISO/RTO markets as explained in detail in EPSA’s Price Formation Post Technical Workshop Comments.\textsuperscript{16} Second, every market should offer the ability of suppliers to refresh their energy offers on an intra-day basis, as has been approved in certain markets.\textsuperscript{17}

\textsuperscript{15} Order, P 14.
\textsuperscript{16} See EPSA Price Formation Comments, response to Question 1 (Attachment A) and “The Polar Vortex: Implications for Improving the Efficiency of Wholesale Electricity Spot Market Pricing” by A. Joseph Cavicchi (Attachment C); see also Fuel Assurance Order, P 12.
\textsuperscript{17} Order, P 12 citing ISO New England and New England Power Pool, 147 FERC 61,073 (2014).
day offer flexibility is necessary to enable sellers to adjust real time offers to account for fuel price volatility between the Day Ahead and Real Time markets. This ensures that generators are able to reflect actual fuel prices in their offers, which assists with price formation and supports fuel assurance for generation.

Highlighting the importance of utilization of market-based approaches for fuel assurance, the New York Independent System Operator (“NYISO”) and Independent System Operator of New England (“ISONE”) responses submitted pursuant to the above-captioned proceedings highlight the contrast between market and administrative approaches. The NYISO reports that market reforms which enhance transparent pricing are working to improve market incentives and increase fuel assurance, detailing numerous such approaches employed in the NYISO market. Moreover, the NYISO sees overall improvement from employing market incentives versus out of market administrative actions. From the NYISO Report:

The proposed changes will increase resource availability, incentivize increased resource flexibility and promote fuel assurance by bringing actions that previously occurred outside the economic commitment process into the economic commitment.¹⁸

Conversely, the ISONE wants to prolong administrative interim solutions, in particular its Winter Reliability Program, and therefore seems reluctant to embrace the Commission’s suggestion to utilize “an appropriate market-based solution,”¹⁹ as expressed in the January Winter Reliability Order.²⁰ There is no question that the New York approach is far superior to short-term, Band-Aid

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¹⁸ NYISO Fuel Assurance Report, p 11.
²⁰ Order on Clarification, 150 FERC ¶ 61,029 at P 10 (January 20, 2015). (“January Winter Reliability Order”)
administrative approaches, particularly in order to address fuel assurance issues for the coming years. Approaches that only address underlying pricing inefficiencies on an administrative, short term basis should be temporary in nature while longer-term market-based solutions are developed and implemented in a timely manner. Rather, EPSA urges the Commission to act in accordance with the schedule outlined in its Price Formation Post Technical Conference Comments in order to address and implement price reform action prior to the 2016 winter season.

Because EPSA believes that energy and ancillary services markets price reform will assist in achieving the desired level of fuel assurance, and such reforms are already under consideration by the Commission and addressed in comments by stakeholders in the Price formation proceeding, EPSA urges that the Commission move forward on an expeditious timetable. The technical conferences and related proceedings serve as evidence that much work has been done, analysis completed and now action is required. Having developed an extensive record from FERC staff, ISO/RTO staff and a wide array of market participants and stakeholders, the Commission must clearly define fundamental principles necessary to ensure that each organized wholesale electricity market has rules and mechanisms in place that result in price signals which support and promote efficient operations, reliability, resource adequacy and fuel assurance. To do so, by no later than July 1, 2015, the Commission should at a minimum direct each ISO/RTO to report to the Commission on or before October 1, 2015, detailing how its market rules, regulations and operations fully support each of
the fundamental principles, a procedural approach based on recent Commission precedent. In many cases, ISOs/RTOs will need to make improvements to rigorously adhere to these foundational economic principles for well-functioning competitive wholesale markets. In all cases, the ISOs/RTOs should develop and submit a work plan to the Commission by a date certain which does the following: details how current market rules and practices fully support the price reform principles; identifies concrete steps to change market rules and practices as necessary to fully support the principles; and, establishes a specific timeframe for implementation. Progress reports should be submitted on a regular basis to allow the Commission and stakeholders to monitor timely implementation of the work plan. EPSA believes that adhering to such a plan for price formation and market reform will support efficient fuel procurement and help instill fuel assurance in the market.

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21 Directing reports from the ISOs/RTOs is an effective approach for Commission oversight of compliance, as utilized for the recent fuel assurance reports submitted by each ISO/RTO pursuant to Order on Technical Conferences, Centralized Capacity Markets in Regional Transmission Organizations and Independent System Operators (Docket No. AD13-7-000) and Winter 2013-2014 Operations and Market Performance in Regional Transmission Organizations and Independent System Operators (Docket No. AD14-8-000), issued November 20, 2014.

22 FERC recently directed PJM, MISO and their Independent Market Monitors (IMMs) to provide further information on specific issues related to the efficiency of operations at the PJM/MISO seams, as several issues have been outstanding and unresolved for a period of years. The Commission states, “We request that the RTOs and their independent market monitors, either jointly or separately, provide information for each of the six issues below, regarding (1) any delays or impediments to progress; (2) any proposed solutions to the issue; (3) any objections to or unintended consequences associated with the proposed solutions; (4) how the RTOs plan to resolve the issue; and (5) a proposed timeline describing next steps and when the RTOs expect to resolve the issue and/or make filings at the Commission. We also request that the RTOs and their independent market monitors submit additional information specific to certain issues, as described below. The Commission will use this information to understand what, if any, additional steps the Commission should take to improve the efficiency of operations at the PJM/MISO seam. The RTOs and their independent market monitors should file the information in this docket by April 10, 2015. Comments on these filings will be due April 27, 2015, Order Requesting Additional Information, Coordination Across the Midcontinent Independent System Operator, Inc./PJM Interconnection, L.L.C. Seam, Docket No. AD14-3-000, issued February 24, 2015.
III. CONCLUSION

WHEREFORE, EPSA respectfully requests swift adoption of the energy market price formation reforms and clarifications discussed in these comments and more extensively in related EPSA Price Formation Post Technical Workshop Comments. Doing so will better ensure fuel assurance through market prices that efficiently signal the appropriate investment necessary to ensure continued reliability of the electric system.

Respectfully submitted,

Nancy E. Bagot, Vice President, Regulatory Affairs
Jack Cashin, Director, Regulatory Affairs
Electric Power Supply Association
1401 New York Avenue, NW, Suite 1230
Washington, DC 20005
(202) 628-8200
NancyB@epsa.org

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