

The Honorable Fred Upton

Q: In your testimony, you call attention to markets that disadvantage certain resources or fuel types. As nuclear resources struggle to compete in wholesale markets, do you feel there's room to monetize resource attributes, through the price formation process?

Linde Response:

Mr. Chairman, yes, there is room to monetize resource attributes in wholesale markets and FERC has the capability to do so. As my earlier testimony stated, fuel diversity is an important aspect of a reliable electric system yet our wholesale markets were not designed to ensure fuel diversity. Our electricity system is now faced with the premature loss of resources such as nuclear power plants that are relied on day in and day out to provide reliable, low-cost and air emission free electricity. These resources are at risk because our wholesale markets were not designed to value these assets or fuel diversity. The solution is a simple one - wholesale markets need to value these resources by monetizing their attributes and recognizing the importance of fuel diversity, fuel security and resilience. I outline below the procedural steps that FERC can and should take to ensure that our wholesale electricity markets properly value these important attributes. I note however that the necessary changes to wholesale market designs will take time that many baseload generators do not have. As a result, it is crucial to recognize that state solutions may be necessary to bridge the time until wholesale market designs can be modified so that valuable attributes of these resources are adequately recognized.

Actions FERC should take to ensure fuel diversity and resilience:

First, FERC should issue an "Order to Show Cause" under Federal Power Act section 206. FERC should find that the current RTO/ISO tariffs may be unjust and unreasonable because they fail to ensure diversity, fuel security and resilience. In response, the RTO/ISO would either (1) submit to FERC proposed changes to their tariffs to address this gap or (2) provide an explanation as to how their current tariffs ensure fuel diversity, security and resilience. FERC would then review the submittals and determine if they were indeed adequate to ensure fuel diversity, fuel security and resilience.

Alternatively, FERC has a pending docket (AD17-11) regarding the integration of public policy objectives into the wholesale markets in the Northeast. The FERC could utilize this docket to direct the RTOs/ISOs in the Northeast to submit reports within 60-days that explain what steps their regions are taking and could take to ensure that fuel diversity, security and resiliency are maintained over the long-term. After the RTOs/ISOs submit the reports, FERC could then use the same section 206 procedure to direct the RTOs/ISOs to make market design changes.

Additionally, over the past several years, you and this committee have done much to encourage FERC to maintain its focus on ensuring that the true price of electricity is accurately reflected in the market, otherwise known as price formation. Now that FERC has a quorum I encourage you to continue pressing this issue front and center with the new FERC commissioners and consider using these price formation efforts as a vehicle for monetizing important generation attributes.

FERC has been working to implement these reforms to wholesale energy market design for the purpose of ensuring that wholesale energy prices more accurately reflect the cost and value of serving customers' electricity needs. To date, FERC has directed reforms that seek to improve transparency in the manner in which RTOs/ISOs commit generation resources to serve customers, allow generation resources to update their offers on an hourly basis so that they reflect updated system conditions, and expand the class of resources that are eligible to set energy clearing prices. PSEG has been a strong advocate of these price formation reforms. FERC's energy pricing reforms are a work in progress and much work still needs to be done. FERC's ongoing efforts in this area are also capable of serving as a vehicle to properly monetize resource attributes and support fuel diversity. For example, PJM recently developed several white papers including one titled *Pricing Reform: Refining Locational Marginal Price (LMP) Formation* to recognize the contribution of all resources, including large, inflexible units (often referred to as "baseload" resources) in serving load in a given interval. This paper dated June 15, 2017 offers a proposal that is intended to recognize the contribution that generation resources provide to the system, including baseload resources, by correcting how baseload units are able to set energy prices in the market. While this proposal is not a complete solution to the challenges facing baseload resources, it is a step in the right direction and should be part of a FERC directive to PJM in the form of an Order to Show Cause.

There are also potential legislative solutions to build off of the work from your leadership and of this Committee. Congress could take action to amend the Federal Power Act to require fuel diversity, security and resiliency. This amendment would provide clarity that these attributes are of value to Congress and the policy of the United States.