Opening Statement of the Honorable Fred Upton
Subcommittee on Energy
Hearing on "Powering America: Examining the Role of Financial Trading in the Electricity Markets"
November 29, 2017

(As prepared for delivery)

Good morning. At our last *Powering America* hearing, we examined the important role that consumer advocates play in the organized electricity markets. Today, our examination of these markets continues as we turn our attention to the role of financial market participants – both why they trade financial products and the effects that their transactions have in the nation's seven RTO and ISO markets.

With us today are witnesses who have extensive experience in trading financial products on behalf of private institutions and a major utility. We also have a representative from PJM Interconnection - the world's largest wholesale electricity market; and the market monitor for the California Independent System Operator. Welcome.

Financial market participants are playing an increasingly visible role in the organized wholesale electricity markets. It's claimed that financial transactions can improve the efficiency of the physical electricity markets by providing increased liquidity, mitigating market power, and improving price formation. In this hearing, I hope the witnesses will explain their perspectives regarding why we have financial trading in the organized electricity markets and how this trading affects consumers who ultimately pay for electricity services.

Each of the RTOs and ISOs allow financial trading to occur in their markets, including PJM and the California ISO. The most commonly traded financial products are known as "Financial Transmission Rights" or "FTR's" and "Virtual Transactions." While these products can be used by traditional utilities to hedge themselves against volatile price fluctuations, these products are also bought and sold by financial traders such as banks, investors, and other speculators.

While financial market participants ultimately trade to make a profit, advocates for trading claim that financial transactions strengthen the markets by increasing trading volume and liquidity, which in turn reduces volatility and risk. Financial traders also claim to provide for the needs of the physica*l* market participants by

offering services such as customized hedges and various types of options to limit risk.

However, measuring the overall contribution and benefits of financial transactions in the electricity markets is difficult. Critics of financial trading argue that both FTRs and virtual transactions extract value from the markets without providing equivalent benefits in return. I also understand that FERC is currently reviewing several hotly debated proposals which would reduce the opportunities for virtual transactions to be used to profit from the market *without* adding commensurate value. Not surprisingly, many financial traders are opposed to these proposals.

As our *Powering America* series extends into next year, we'll continue to tackle some of the most complex and challenging issues concerning both the electricity markets and the energy industry. Along those lines, today, our job is to take a hard look at whether FTR and virtual trading makes sense and answer this question: Does financial trading make the electricity markets more efficient, and in turn, result in benefits to consumers?

I look forward to the testimony of our witnesses.