

Commissioner Cheryl A. LaFleur
Senate Committee on Energy and Natural Resources
United States Senate
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Thank you very much Chairman Murkowski, Ranking Member Cantwell and members of the Committee. My name is Cheryl LaFleur, I've been a Commissioner at FERC for eight years and I have been fortunate to appear before this Committee several times. I'm very happy to be here today with the full Commission.

During my tenure on the Commission much of our work has been driven by the ongoing transformation of the nation's power supply. We are of course experiencing a significant increase in natural gas, renewable, storage and demand-side resources driven by changes in technology, economics and policy. These transformative developments are not being driven by FERC, but are shaping much of our work on markets, infrastructure and reliability.

Today I'll discuss our regulation of markets and in my written testimony I expand on that, as well as a bit on our transmission work.

The organized wholesale electricity markets that currently serve more than two thirds of Americans were launched roughly 20 years ago to promote greater competition in the electric sector. While they continue to require vigilance as resources change, I believe markets have successfully achieved their objectives. They protected reliability and promoted efficiency and innovation while shifting investment risk from captive customers to investors. They've realized these benefits while incorporating different structures in different regions reflecting different state and regional priorities and prerogatives.

The markets have grown dramatically in the past several years with both the Midcontinent ISO and the Southwest Power Pool nearly doubling in size. In the western United States, the California ISO's Energy Imbalance Market now serve 55% of the load in the Western Interconnection, with further commitments from public and private power entities that would bring it to 65% by 2020. The California ISO has also announced plans to offer day-ahead market services to participants in the Energy Imbalance Market, and a group of electricity providers in the Rocky Mountain states are exploring joining the Southwest Power Pool. Notably, all of these market expansions are being driven by decisions at the regional, state and local level, not from Washington.

As the resource mix has evolved over the past decade, the Commission has worked to ensure that markets provide reliable service at fair and reasonable rates. We've taken a number of steps to make sure the markets are fair to all resources, including new technologies like wind, solar, demand response and storage. We work to ensure resilience by overseeing market changes to increase compensation to resources that are online at times of system stress and extreme weather, including baseload resources. In the energy market, we've worked on a number of steps since 2014 to improve price formation to make sure the markets send correct price signals.

Another issue we've focused on extensively in recent years is the interplay between FERC jurisdictional markets and state policies, particularly in the eastern markets that deregulated their generation and use mandatory capacity markets to ensure resource adequacy. There is a tension between state initiatives to select specific resources, and the operation of the market to select and pay other market-based resources needed for resource adequacy. I believe it's important that we allow for tailored regional solutions that seek to adapt market rules to preserve the benefits customers derive from markets while also respecting state policy as

much as practicable. I believe a proposal from ISO New England that the Commission recently approved is an example of how the Commission can constructively address this tension.

Finally, our work on electric markets also bears on our work on resilience. The Commission has taken a number of actions over the years to address grid resilience, both in our markets and tariff work and in our oversight of reliability standards. The current debate focuses on whether the continued retirement of certain uneconomic coal and nuclear generating facilities threatens grid resilience. To date, I believe we've successfully managed the transition in the resource mix without compromising reliability and resilience, and I'm confident we can continue to manage it going forward. Indeed, I believe the resource turnover we're experiencing is an expected consequence of markets and technological change, and the lower prices that result from well-functioning markets are a benefit to consumers, not a problem to be solved unless reliability is compromised.

The Commission is currently considering the record developed in our pending resilience docket, which I hope will help us determine whether any further Commission action is needed to adapt market rules, reliability standards, transmission planning or *pro forma* agreements in response to changes on the grid. Should we conclude action is needed, I hope we'll do it in a fuel-neutral way that's fair to all resources, as we have done in other instances.

Thank you and I look forward to your questions.