



FERC Podcast Transcript

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Acting Chairman LaFleur and Commissioner Honorable: The Path Forward on Wholesale Power Markets

Craig Cano: Welcome to Open Access, the podcast series of the Federal Energy Regulatory Commission, or FERC. I'm Craig Cano your host.

Our goal here is to have a conversation about FERC; what it does and how that can affect you. FERC can get very legal and very technical, so we will strive to keep it simple. FERC is an independent regulatory agency that oversees the interstate transmission of electricity, natural gas and oil. FERC's authority also includes review of proposals to build interstate natural gas pipelines and liquefied natural gas terminals and licensing of nonfederal hydropower projects.

FERC protects the reliability of the high-voltage interstate transmission system through mandatory reliability standards, and it monitors interstate energy markets to ensure that everyone in those markets is playing by the rules.

Today, Acting FERC Chairman Cheryl LaFleur and Commissioner Colette Honorable are joining us to discuss the May 1 and 2 technical conference on state policies and the wholesale markets run by the eastern regional grid operators, what they learned from it, and where we go from here.

Let's set the stage: Competitive market rules that FERC has established over the years have evolved to address myriad issues while ensuring the reliable delivery and sale of electricity at just and reasonable rates. Meanwhile, state policy makers have started working to prioritize certain resources or resource attributes. But wholesale markets select resources based on principles of operational and economic efficiency, and not resource type. So, the issue is, how competitive wholesale markets can select resources of interest to state policy makers while preserving the benefits of regional markets and economic resource selection.

Mary O'Driscoll: Chairman LaFleur and Commissioner Honorable, thank you so much for stopping by today.

This two-day competitive markets conference was quite an event. Over the course of two days you heard from 60 speakers. The conference itself attracted more than 500 people who came to FERC headquarters and wanted to sit in on the conference. Another 1,500 people each day watched the online streaming video feed of the conference.

So, Chairman LaFleur, what were your main takeaways from the technical conference?

Acting Chairman LaFleur: Thank you very much, Mary. The first thing that we learned is there's a lot of agreement on the importance of the issue, as demonstrated by the level of interest in the conference. There is wide support for the benefits of the competitive wholesale markets, the benefits they brought customers. But at the same time, states and restructured regions are making choices as to both new and existing resources that are inconsistent with market outcomes. Everyone is focused on that issue.

The second thing we learned is that nobody thinks the status quo is acceptable. There was very little appetite for these issues to be resolved through case-by-case litigation and far more desire for a planned or negotiated solution. All three of the regions we met with at the technical conference – ISO New England, New York ISO, and PJM – are focused on ongoing stakeholder processes to try to develop planned solutions, which will likely be different in the different regions. The challenge is finding solutions that work not just from the standpoint of economic theory and market structure, but work politically in the different regions, and that's the biggest challenge we have right now.

Mary O'Driscoll: Commissioner Honorable, during the conference you expressed hope that we would see the light at the end of the tunnel. So, after a few weeks to reflect, is the light any closer?

Commissioner Honorable: Thank you for circling back on that Mary. First, I want to acknowledge and thank our staff who organized and ran this conference so well. And to answer your question, yes, I do think that the light is closer. I was particularly encouraged that many participants in the conference gravitated toward two particular options or paths, as Arnie Quinn called them. Path 2 would allow state actions to be accommodated by or harmonized with wholesale markets, while Path 4 would modify markets to directly price state policies. We still have a lot of work to do to find the right solutions that work for each region. But I do believe that we can get there and I'm optimistic with these paths.

We also heard in the course of the conference what paths did not work for stakeholders. I think conference participants expressed concerns regarding Paths 1, 3 and 5. As you recall, Path 1 involved getting rid of the MOPR, or the minimum offer price rule, which is a form of buyer-side mitigation. This path would accommodate any state action. The status quo, as Chairman LaFleur referenced, would remain in Path 3, but we also heard that the status quo is unacceptable. And Path 5 would entail an expansive MOPR to keep state actions separate from wholesale electricity markets. Again, there was a lot of consensus around Paths 2 and 4, and I believe that with 1, 3, and 5 we heard a message that we shouldn't pursue those.

I was also intrigued by several specific proposals in NEPOOL's integrated markets and public policy process, or IMAPP. I think proposals by Bob Stoddard and the Brattle Group, and one that National Grid proposed regarding forward markets to develop clean energy pathways, show promise and I'm anxious to see how the IMAPP process

concludes.

Mary O’Driscoll: Chairman LaFleur, what are the next steps? Where do we go from here?

Chairman LaFleur: I think one of the most important things we accomplished at the conference, in addition to getting all the perspectives and discussing the implications of the different paths as Commissioner Honorable mentioned, was to really build a sense of momentum around these issues. And the most important thing going forward is that we keep up that momentum toward solving the issues that we identified at the conference even in a period where we haven’t had a quorum. So, first of all, we are going to be very shortly issuing a post technical conference notice with a request for comments. As we’ve been doing most recently on our technical conferences, those will be comments on targeted issues on the identified Paths that were discussed at the technical conference not just generic comments on anything. Because we want to make sure that we get comments we can synthesize and understand, and we are particularly interested in hearing from people who did not speak at the technical conference as well as those who did.

We will then synthesize those comments and synthesize what we learned at the technical conference to frame policy options for the new FERC – FERC 2.0 – both in terms of the cases currently pending before us, of which there are several, and actions that we as a Commission might initiate on these issues. And I think the most important next step, while we we’re doing all that, is that in the regions, the stakeholders and the ISOs are continuing to work toward regional solutions and I’m spending time in each of the regions over the next couple weeks to try to encourage those processes.

Mary O’Driscoll: Commissioner Honorable you have a unique perspective having served both here at FERC and as a state regulator. What do you think is the best way forward?

Commissioner Honorable: Thank you for the question Mary. I thought about that even as we sat in the technical conference. Having sat in both seats as a state regulator and now here at FERC, I firmly believe we must find middle ground in order for a solution to work. To do so, cooperation and collaboration will indeed be the key.

First, something that was well-established during our time together: States have a right to pursue policy goals. We clearly heard this. That states will continue to do so. However, FERC has a role to play as well, and FERC must act to ensure that markets function as intended and send appropriate investment signals. Consumers are best served when we all keep both of these goals in mind, we must reflect state policies and markets, but it is also important that we do not allow the benefits of competitive markets to erode. Ultimately states, FERC, the ISOs and market participants will need to work well and openly with each other. This isn’t a one-way street. I strongly encourage all parties to work collaboratively and cooperatively because there is so much at stake.

Mary O'Driscoll: Commissioner Honorable, what would you like to hear from stakeholders as FERC continues to explore these issues?

Commissioner Honorable: Well, first, there is a lot of interest in this discussion, which I think is a great thing. We know that we couldn't accommodate everyone at this technical conference, and we regret that, so I'm sure we've missed some potential solutions and perspectives. This is an ongoing conversation so I encourage everyone with an interest in this to file post-conference comments about what you heard and perhaps what you didn't hear as it relates to the subject of the technical conference.

I would like to take a few minutes to discuss how FERC may use the record we are developing now. As those following the Commission are aware we don't currently have a quorum. If and when the Commission does take action either to weigh a proposal or on its own initiative, the majority of Commissioners here will be new. They will not have attended the conference. So this record we are developing now is for a new iteration of the Commission and therefore I want to stress that all options are on the table. I know that staff's Five Pathway framework did not encapsulate all potential solutions, so please don't feel limited by this framework.

I also think it's important that we keep our eye on workable, long-term solutions. During the conference a number of participants stated that we could go down Paths 2 and 4; Path 2 in the short term, and maybe Path 4 in the long term. I would like to hear your thoughts about whether the urgency of the problem necessitates a temporary or stopgap solution.

I believe we also need to hear more on what the Commission should do to aid the development of solutions. A number of panelists expressed the need for guidance and deadlines from the Commission. Several panelists also expressed confidence in the NEPOOL IMAPP process and consequently the lack of need for Commission involvement. I've been through stakeholder processes before, and I am still here to tell about it. So please let us know how we can be most helpful to your region.

Finally, on a personal note, I would like to thank Cheryl, our acting chair, who is been a true leader on these issues. This particular set of issues is challenging indeed with regard to the intersection of wholesale markets and the development of state policy, and I am confident in Cheryl's leadership to see us through.

Mary O'Driscoll: Chairman LaFleur, as we get ready for a restored quorum how do you think addressing these next steps will be affected by the new Commission?

Chairman LaFleur: Well as with all the other issues pending before the Commission, our job is to build the best record we can, with broad input, and outline policy options as clearly and transparently as we can for the new Commissioners. And I'd like to echo Commissioner Honorable's thank you to staff not just for the tremendous amount of work that went into running this technical conference, but all they have been doing

during the period where we lack quorum to work on progressing all of the issues before us and moving them forward. When we get the new Commissioners on board. I'll certainly be spending time with them on the specific issues that were talking about and I know that staff will as well.

Obviously, I can't predict how any new Commissioner will see these issues, but my job now that I'm Chairman is to take the issues as far as we can in preparation, so they'll be teed up for action. As I've said several times, I do plan to stay on the Commission when I'm not Acting Chairman anymore, and these issues will remain my top priority. I'm very personally committed to the benefits that the competitive markets have brought to customers. I lived through the transition through the old system in a restructured state and I believe these markets have really functioned as planned for customers.

On the other hand, I know the markets only exist through the buy-in of the states that decided to restructure their industries and created them. So I believe it's critically important that we try to chart a path forward that both sustains those customer benefits of the markets and allows states to further their important policy objectives. I don't think it'll be easy and it won't necessarily be smooth, but I think it is well worth the effort.

Mary O'Driscoll: Acting Chairman LaFleur and Commissioner Honorable thank you so much for joining us today to share your perspectives on the Commission's work on wholesale markets and state policies.

Chairman LaFleur: Thank you Mary.

Commissioner Honorable: Thank you.

Mary O'Driscoll: This is going to be an interesting discussion and process as the year goes on.

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