

SUMMARY STATEMENT OF THE ELECTRIC POWER SUPPLY ASSOCIATION
(Remarks as Prepared For Use in Opening Statement at Roundtable)

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Introduction

Thank you for inviting the Electric Power Supply Association to the opening stakeholder panel on the second installment of the Quadrennial Energy Review. The Administration is to be commended for the high level of public engagement in the QER as well as for the robust analytical approach taken in the QER process.

EPSA is the national trade association for leading competitive wholesale suppliers. EPSA members represent well over 200,000 fuel-diverse megawatts essential to reliability. Our members are among the largest operators of each fuel type: over half of member assets are natural gas; one-fifth nuclear; over one-sixth coal; and the balance renewables. These assets are almost entirely in the “organized markets” with independent operation of the grid by Regional Transmission Organizations and Independent System Operators. EPSA members are also suppliers of innovative customer-facing solutions through their competitive retail affiliates.

QER 1.2 wisely focuses on electricity to make sure the changing and growing number of pieces in our electric systems continue to fit together at a time of rapid changes – including for the 40 percent of U.S. generating capacity that operates in the competitive space, where it is dependent on market revenues and price signals to plan, build and operate the appropriate amount and type of generation for future needs.

While QER 1.2's timeline is out to 2040, it is *critical* for action to occur *now* on issues that require immediate attention. Getting policy decisions right in 2016 will make it far more likely that between now and 2040 the many exciting transformations underway in electricity reach their greatest potential with a minimum of peril.

Innovative and potentially disruptive technologies are poised to deliver substantial benefits, but this will not happen overnight. The power sector is in the early stages of a multi-decade series of profound changes. Regulatory and business models should welcome new entrants, while recognizing that for years to come the bulk power system will need to accommodate both central station power plants and greater distributed resources. There is no denying that the bulk power system is physically and financially interconnected in deeply entwined ways not present in other sectors of our economy. No Supreme Court decision, act of Congress, or Executive Order can repeal the laws of physics and fundamental economic principles. For example, as intermittent resources increase their generation, other plants are required to ramp up and down rapidly to maintain reliability, but with greater wear and tear and thus should be compensated accordingly. Another challenge is to ensure that newer, distributed resources are allowed to compete on a fair basis at the regulated distribution level.

From our perspective, competitive markets remain the best model to manage challenges and consumer costs because markets are inherently more flexible, adaptable and place more risks on investors than consumers. By contrast, traditional "integrated resource planning" falls short when change is accelerating so rapidly and unpredictably with greater risks. However, markets depend on accurate price signals and revenues to earn recovery of costs and a fair risk-adjusted return on investments.

With that as a back drop, here are our near term, medium term, and longer term recommendations.

Near Term: (1) Implementing Electric Energy Pricing Improvements Soon and (2) Resisting Selective, Discriminatory Re-regulation in Restructured States

First, EPSA joined the Edison Electric Institute, Nuclear Energy Institute, Natural Gas Supply Association and America's Natural Gas Alliance in supporting FERC's electric energy price formation reforms to better determine Day Ahead and Real Time prices, which are tightly bounded by FERC-approved tariffs and grid operator actions. Under FERC Chairman Bay's leadership and that of his colleagues much work has been done in recent years. Absent more accurate prices, market participants will receive distorted and insufficient information about when, where and how to invest to meet future needs. This year FERC should take final action on proposals made to date and pursue additional ones in reform areas not already covered by pending proposals.

Second, States have an important role in regulating power generation. Each State makes a fundamental, foundational choice: rely on markets or cost-based regulation. When a State chooses cost-based generation, it can obtain consumer savings through competitive procurement. Once a State chooses markets, inviting competitive suppliers to put their capital at work and at risk, they have to let markets work. States cannot toggle between markets and cost-based regulation, nor shield some generation from market forces buffeting everyone else. Doing so means that future needs cannot be made on a market basis. Given the interstate nature of the wholesale markets in which States choose to participate, it is critical to resolutely act to prevent wholesale market distortions emanating from discriminatory State actions.

Medium Term: (1) Obtaining Essential Reliability Services and (2) Making Clean Power Plan Implementation Compatible with Organized Wholesale Markets

First, NERC's recent reports underscore the importance of Essential Reliability Services such as voltage support and frequency response. If less of these services will be available as traditional generation declines, then they must be procured and compensated separately through new and expanded market-based products. QER 1.2 can bring the electrical engineers and energy economists together to make it happen.

Second: Clean Power Plan implementation. Competitive supplier entrepreneurs provided the basis for the CPP's major building blocks by pioneering *both* combined-cycle natural gas and renewables technologies when others did not; and by increasing *both* the capacity factors at zero-carbon nuclear plants and the efficiency of coal plants, thus reducing power generation carbon emissions even before the Clean Power Plan.

The tools chosen to pursue worthy environmental goals matter. Previous environmental regulations were compatible with market pricing because compliance tools imposed direct costs that could be factored into supply bids. By contrast, increasingly today, worthy goals are instead pursued through subsidies and mandates that may or may not achieve the intended results on a least cost basis. Since electricity resources compete within a given wholesale market, dispatch of any one impacts the dispatch and compensation of others. Mandates or subsidies for *some* resources that suppress market prices for *other* resources competing on a purely market basis does not necessarily result in lower emissions overall. QER 1.2 should help shed light on the potential effects of various tools state and federal policymakers can elect to implement the Clean Power Plan consistent with continued efficient economic dispatch of the grid.

Longer Term: Consideration of Alternatives to Existing Dispatch Models

QER 1.2 could help assess the potential need for more fundamental changes to the economic regulation of bulk power. This is not a reason to resist changes, but rather to anticipate areas which can be addressed in time to smooth the transition.

First, *if*, notwithstanding our best efforts, mandates and subsidies so distort and undermine markets as to impede how markets need to function to work properly, competitive supplier assets now governed by market forces would have to be compensated in some other way because they would still be needed for reliability.

Second, *and separately*, the existing dispatch model is driven by marginal production costs. The question arises what happens as the proportion of zero to low marginal cost resources, such as renewables, increases, while conventional plants with significant marginal costs continue to be needed. QER 1.2 should examine whether the existing models based on marginal costs should be modified, adapted, or replaced.

Conclusion

EPSA appreciates the opportunity to participate on this panel and commends Secretary Moniz and Dr. Holdren along with their talented staffs. The country is entering exciting, yet uncharted waters, full of vast potential to harness the ingenuity of our economic system, including competition in power markets, to deploy still newer technologies, further reduce emissions substantially, and improve our standard of living. If allowed the opportunity, the competitive power sector will continue to be a dynamic part of maintaining reliability while pursuing important public policy goals for a stronger economy and better environment, including as a result of the many transformational technological changes now under way in the generation and end use of electricity.