



May 12, 2023

The Honorable Cathy McMorris Rodgers
Chair, Committee on Energy and Commerce

The Honorable Jeff Duncan
Chair, Committee on Energy and Commerce
Subcommittee on Energy, Climate, and Grid Security

U.S. House of Representatives
2125 Rayburn House Office Building
Washington, D.C. 20515

Dear Chair Rodgers and Chair Duncan:

We write to provide an industry perspective and additional context to your April 26, 2023, letter to the Federal Energy Regulatory Commission (FERC) on electric grid reliability and the state of wholesale energy markets in regions overseen by FERC. The members of the Electric Power Supply Association (EPSA) appreciate your continued commitment to reliability and are intently focused on the importance of electricity being reliable, cost-effective, and sustainable.

EPSA is the national trade association representing America's independent power producers that compete every day – without a guaranteed rate of return – in regions operating competitive wholesale markets. EPSA members account for roughly 20% of the nation's generating capacity – our members don't talk about an "all of the above" energy strategy merely as an abstract concept. EPSA members are investing billions of dollars to build (or acquire) assets across the generation spectrum, including natural gas, nuclear, wind, solar, and battery storage. EPSA members own and operate a diverse array of assets and have a deep commitment to electric grid reliability.

The Proven Benefits of Competitive Wholesale Markets are Being Adversely Affected by Public Policies Executed Outside of the Market

For years, EPSA has advocated for competitive wholesale markets as the most efficient way for the electric grid to meet reliability (and other policy) needs. Well-designed markets drive innovation, competition, and efficiency, and do so without shackling ratepayers with the cost of unnecessary, inefficient, or misguided investments. In competitive markets, EPSA members bear the responsibility for their investments without the safety net of a guaranteed rate of return borne by electricity customers. Competitive markets are designed to send signals that incent technological innovation and efficiency, as shown by EPSA member companies' developments

since the advent of competitive markets. EPSA's commitment to markets is underscored by years of performance data on improved reliability, cost savings, emissions reductions, and innovation.¹ You note that markets have existed for over two decades, and we are proud of the transformative benefits to reliability, cost-effectiveness, and sustainability that have been achieved in regions with competitive markets during that time. However, the priorities of policymakers in many restructured regions have expanded and profoundly changed since the early 2000s, and the zeal demonstrated to those new policy priorities needs to be equaled by a renewed commitment to reliability.

Unquestionably, wholesale markets are being severely affected by public policies implemented outside of the market. In your letter you highlight the reliability concerns being raised in the PJM Interconnection, California, and Southwest Power Pool regions. Reliability issues exist in almost every region, regardless of the type of operational model (i.e., vertically integrated or restructured markets) – one particular model doesn't provide immunity from reliability concerns. For example, the Midcontinent Independent System Operator (MISO) region is nearly completely powered by vertically integrated utilities, yet MISO is one of the regions identified as most at risk by the North American Electric Reliability Corporation (NERC).

These reliability challenges were vividly exposed in the most recent load shedding experiences in late December in a pair of vertically integrated regions. And yet, there has been a lot of discussion around the potential for generation shortfall in PJM during that time. EPSA and its members acknowledge the confluence of events that created a difficult operating environment in PJM, including the grid operator underestimating demand and thus not making sufficient forward commitments that prepares generation to run in real time, and some generation not being available to supply energy when needed. However, during that emergency period, PJM *exported* electricity to neighboring regions (vertically integrated, non-market regions) to help support their operational shortfalls. Importantly, while the system got very tight, reliability was maintained in PJM and other restructured markets. The load shedding experienced in late December occurred in vertically integrated regions in the Southeast.

When not properly accounted for in wholesale markets, public policy statutes have the potential to significantly degrade the reliability of the bulk power system as is happening today. EPSA has warned about the negative impact of public policy priorities being implemented outside of wholesale markets which hinder the ability of those markets to meet their reliability needs. As your letter notes, perhaps the most tangible consequence of these policies is the premature retirement of "dispatchable generation resources" that may be energy secure and operate independent of the wind or the sun. EPSA has and continues to highlight the impact of local, state, and federal policies on markets in an effort to illustrate that such actions have consequences, particularly regarding the reliability and resilience of the power grid. Unfortunately, very often the policymakers who most vocally criticize the success of competitive markets are the same officials enacting out-of-market public policies that hamper the ability to achieve their policy goals.

In regions with competitive, durable, and sustainable market structures, markets should identify the characteristics or attributes of resources needed for system reliability. In your letter, you

¹ <https://epsa.org/a-quarter-century-of-competitive-power-solutions/>

highlight the importance of “dispatchable, on-demand generation resources.” Desired resource characteristics should prioritize reliability (particularly dispatchability, flexibility, and system balancing characteristics) and can include environmental attributes as well. However, markets need to be structured to address and drive investment to achieve those stated goals. Criticizing wholesale markets for not incentivizing and rewarding attributes that haven’t been identified or integrated into the market misses the point at best or seems disingenuous at worst. At the very least, critical reliability attributes shouldn’t be discouraged or disadvantaged by policymaker preferences.

We believe it is imperative that *all* regions, and those authorities responsible for them, return to putting reliability first and commit to allowing competitive markets to account for present and future reliability needs with the same commitment at which they are incentivizing newer priorities.

EPSA Strongly Believes in the Benefits of Competitive Markets; However, Reliability Concerns are Not Unique to Markets and Should be Assessed in a Larger Context

Electric grid reliability issues exist now, and concern is growing across the country. Near misses saved by emergency calls to conserve power and hoping for warm winters is not a long-term strategy to ensure reliability. These concerns have been highlighted by NERC but have been developing and seemingly ignored for years. The energy expansion required to meet the goals and ambitions of the *Inflation Reduction Act* is going to require a broad commitment to both reliability *and* investment in a variety of energy infrastructure from coast to coast. This includes regions that maintain vertically integrated systems as well as markets around the country.

While EPSA appreciates that FERC has jurisdiction over wholesale markets (in contrast to state jurisdiction over a traditional vertically integrated system), any assessment of wholesale markets should not occur in a vacuum; assessments should be undertaken holistically to assess how *all* regions, market and monopoly alike, are navigating reliability, affordability (particularly for unfulfilled investments), the pace at which they are transitioning to a clean energy future, and the implementation of a patchwork of policy mandates that needs to be met in various regions of the country.

We appreciate that you ask the Commission (in Question 3) to compare ISO/RTO regions to “traditionally regulated regions” with specificity. EPSA believes this comprehensive analysis is especially critical at a time when policy priorities are shifting frequently. Stakeholders with a guaranteed rate of return on investments have little to lose if they invest in assets that become politically obsolete in a few years and, in fact, are financially advantaged by constantly cycling investments to meet politically driven generation mix targets. Analyzing the successes of wholesale markets without a similar effort to understand non-market regions doesn’t provide a true assessment of the merits of either operating environment and could lead to decisions based on insufficient information, the outcome of which may not be constructive.

Thank you again for your ongoing commitment to electric grid reliability. EPSA’s members share that commitment and stand ready to help the nation meet its reliability and growing energy

needs. Please let me know if you would like additional information and EPSA and our members would be happy to provide it to you.

Sincerely,



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Attachment: *Electric Power Supply Association Policy Position on Permitting Reform*

The Electric Power Supply Association (EPSA) is the national trade association representing America's competitive power suppliers. EPSA members provide about 150,000 MW of reliable and competitively priced electricity from environmentally responsible facilities using a diverse mix of fuels and technologies including natural gas, wind, solar, hydropower, geothermal, storage, biomass, and coal.
EPSA seeks to bring the benefits of competition to all power customers.