

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

Grid Reliability and Resilience Pricing)

Docket No. RM18-1-000

REPLY COMMENTS OF SOUTHWEST POWER POOL, INC.

Southwest Power Pool, Inc. (“SPP”) submits these supplemental and reply comments in response to the Federal Energy Regulatory Commission’s (“Commission”) October 2, 2017 Notice Inviting Comments,¹ the September 28, 2017 Notice of Proposed Rulemaking by the United States Department of Energy,² and the comments submitted by other parties pursuant thereto.

SPP reaffirms its position that the NOPR’s stated goal of ensuring a resilient electric grid is worthy. SPP respectfully submits, however, that the proposed rule under consideration in this docket would likely not have the desired result. Because of the expected harm the proposed rule poses to the competitive Regional Transmission Organization (“RTO”) and Independent System Operator (“ISO”) markets, the Commission should reject the proposed rule entirely and consider other means of approaching the issue of resilience – including the Commission’s existing efforts. The issue of resilience should be addressed over a longer period of time and in a more deliberate manner so as not to negatively impact the Commission’s prior work on the development of competitive markets.

¹ *Grid Reliability and Resilience Pricing*, Notice Inviting Comments, Docket No. RM18-1-000 (Oct. 2, 2017).

² *Grid Resiliency Pricing Rule*, 82 Fed. Reg. 46,940 (published Oct. 10, 2017) (the “NOPR”).

I. COMMENTS

SPP is concerned about the proposed rule's impact to its Integrated Marketplace, a centralized day-ahead and real-time energy and operating reserve market with locational marginal pricing and market-based congestion management. Comments submitted in this proceeding to date by others, some of which estimate increased costs to consumers in the billions,³ have confirmed that SPP is not alone in its concerns over the proposed rule's potential adverse impact to competitive markets.

SPP's Integrated Marketplace went live at the relatively recent date of March 1, 2014. In its first year of operation, it delivered \$380 million in estimated net savings to SPP's members and their customers. In less than three years (by September 2016), SPP's 14-state region had realized over \$1 billion in estimated electricity cost savings, all while enjoying cost-effective reliability. SPP and its members are proud of these figures and do not wish to see these substantial and ongoing economic benefits as well as countless hours of design and development work by SPP and its stakeholders undone by the uncertainties and potential anticompetitive harm of a vague and inadequately conceived proposed rule. Despite the Secretary of Energy's statement that "[t]he DOE proposes this rule to improve competitive wholesale electric markets in the RTO and ISO regions,"⁴ SPP fears the exact opposite effect may result, with electricity customers forced to pay higher prices.

³ See, e.g., Comments of Rockland Capital LLC et al., Docket No. RM18-1-000, at 12 (October 23, 2017); Joint Industry Comments Opposing the DOE Proposal, Docket No. RM18-1-000, at 22 (October 23, 2017) (citing The Brattle Group, *Evaluation of the DOE's Proposed "Grid Resiliency Pricing Rule"* at 32 (October 2017)).

⁴ See NOPR at 46947.

The proposed rule appears to be anticompetitive by nature and would undermine existing markets. It proposes to single out certain generators with particular traits for guaranteed cost recovery plus a “fair” rate of return through an undefined or determined mechanism, while other generators would not be so entitled. This recovery would appear to be guaranteed regardless of the actual reliability benefits the generator brings to individual markets or regions of our nation.

If a generator has a non-market means of recovering its full costs as well as a rate of return, it has no incentive to restrain its market offer behavior. Additionally, if the guaranteed recovery of full costs plus a return on equity is contingent upon energy dispatch, these generators would not face risk and would appear to be incented to offer zero-cost bids to compete with other generation. This undermines the continued development of competitive wholesale electricity markets and is contrary to the Commission’s policies in recent years—i.e., that competitive markets can meet reliability needs while maintaining cost effectiveness for the consumer.

As SPP commented previously, the current timeline for commenting on the proposed rule does not permit an in-depth analysis of potential impacts. Despite this short timeline, SPP has conducted some re-clearing of its Day-Ahead Market for illustrative purposes only. Specifically, SPP has re-cleared its Day-Ahead Market using scenarios in which SPP’s coal and nuclear resources submitted offers based on zero costs. In those scenarios, the average Locational Marginal Price (LMP) dropped 50% from an average of \$18 to an average of \$9. This potential LMP decrease represents the very type of “distortions in price formation”⁵ the NOPR is purportedly intended, at least in part, to address. In such a scenario, amounts that are to be subsidized under the proposed rule,

⁵ See, e.g., NOPR at 46943.

such as the guaranteed return on equity, would be uplifted to other market participants and thus passed on to electricity customers. Additionally, the devaluation of energy could impact unsubsidized generation, leading to calls for additional subsidies.

II. CONCLUSION

Through the years of policy implementation by the Commission, wholesale power markets have brought great value while continuing to evolve. This progress has benefitted consumers and has come too far to be undermined by subsidies and price distortion as well as the increased costs to customers that will result under the proposed rule. SPP respectfully requests that the Commission reject the NOPR and the rule proposed therein.

Respectfully submitted,

/s/ Paul Suskie

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Dated: November 7, 2017

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Little Rock, Arkansas, this 7th day of November, 2017.

/s/ Michelle Harris
Michelle Harris