State Policies and Wholesale Electricity Markets

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FERC Senior Advisor Travis Fisher examined interactions between wholesale markets and state energy policies in Monday's energy policy seminar, observing that the need to balance the demands of wholesale market operation with state policy interests leads to some "inevitable tenstion between FERC and the states."

FERC (the Federal Energy Regulatory Commission) is an "independent" and "resource neutral" regulatory body, Fisher noted, with authority over the interstate transmission of electricity, natural gas, and oil. Its authority is granted by statue, and it is required by statute to ensure that "rates, terms, and conditions must be 'just and reasonable,'" Fisher said, explaining that in recent years, FERC has operated on the premise that prices established through competitive power markets can be assumed to meet the "just and reasonable" requirement.

Consistent with the emphasis on markets, Fisher said, several of the independent entities which operate regional electricity systems in the US (referred to as "Independent System Operators" (ISOs) or "Regional Transmission Organizations" (RTOs)) established, in addition to energy markets, markets for the capacity needed to meet system reliability requirements. To ensure reliability, system operators are required to ensure the availability of enough generating resources on the system that "running out" of resources would happen no more than once every ten years.

The idea of capacity markets, Fisher explained, is that generators can be paid, not only for generating electricity (some generators needed at peak may have few opportunities every year to actually generate electricity and be paid for it), but also for existing as potential capacity on the grid—a payment that may help to keep needed generating resources in business, as well as ensuring the construction of enough new generation to meet future demand. Although implementation details differ in different regions, in general, capacity markets use some form of auction to "purchase" enough capacity to fill their minimum capacity requirement. These markets have developed with the approval of FERC (although Fisher recognized that some electricity market experts—inclucing seminar host Professor William Hogan--believe they are not really necessary in order to provide for adequate reliability, under the right energy market conditions).

The problem that has emerged for states and for FERC in relation to capacity markets in recent years, Fisher explained, is that recent state policy actions to provide extra support to specific generating resources (often, renewable or zero-carbon resources) are changing capacity market dynamics. Out-of-market support for targeted resources tends to increase the supply of capacity of those resources, lowering capacity market prices overall and, therefore, the revenues available to non-subsidized resources. The resulting loss of revenue, some generation owners claim, threatens their ability to continue to provide capacity, with potential exits from the market threatening the reliability of the system of a whole. In some cases, market participants appeal to FERC to intervene to protect capacity markets.

At FERC, Fisher said, efforts to address these issues have included a two-day technical conference and ongoing comments from stakeholders. One approach being considered is using some version of a Minimum Offer Price Rule (MOPR), requiring subsidized resources to bid into capacity auctions at a price above some minimum threshhold, might address some concerns about downward pressure on capacity prices; however, it might also impose increased costs on loads. The debate, Fisher said, continues, with ongoing proposals and hearings related to programs in the New England ISO, the New York ISO, and PJM.

Fisher spoke as part of the Kennedy School's Energy Policy Seminar Series, which is sponsored by the Consortium for Energy Policy Research of the Mossavar-Rahmani Center on Business and Government. His talk, he noted "expressed [his] own views, and not necessarily the views of the Commission or of individual commissioners or other staff members."