COMPETE **Policy Blueprint**

Electricity Competition **IS** the Public Interest

Electricity Policy Considerations for the Obama Administration and the 111th Congress

The new administration and the 111th Congress will confront major energy and environmental challenges, and electricity policy decisions will be critical to meeting a broad range of economic, environmental and national security objectives. An adequate and reliable supply of electricity is essential to the economic well-being and security of our country.

FOUR CHALLENGES MUST BE ADDRESSED BY THE NEXT ADMINISTRATION AND CONGRESS

- First, a projected $1.5 trillion investment is required to replace and modernize our nation's electricity production and distribution infrastructure if the industry is going to continue to reliably meet ever increasing demand. And that huge projected capital investment rises to over $2 trillion if the costs of limiting carbon emissions are taken into account.
- Second, a significant reduction in greenhouse gas emissions from electricity generating plants is proposed as part of Congressional efforts to enact climate change legislation.
- Third, we must recognize that these capital-intensive initiatives are challenges to maintaining our nation's competitiveness in the global economy. That makes innovation and cost containment an imperative for the electricity sector.
- Fourth, the industry must work with policymakers to reduce our nation's dependence on foreign sources of energy and continue to develop domestically produced low-carbon and renewable sources of energy.

The **COMPETE** Coalition, a diverse group of electricity stakeholders, strongly believes that competitive wholesale and retail electricity markets are the best means of addressing these concerns and meeting America's energy and environmental challenges. Well-functioning competitive electricity markets have a proven track record of helping to solve our energy challenges today by providing environmental benefits and innovative products and services at the lowest available cost, without saddling the risk of unwise investment decisions on the backs of captive consumers, as occurs under monopoly regulation.

Competitive wholesale and retail electricity markets, however, are not "deregulated." Far from it. Competitive electricity markets and the electricity industry in general remain the most heavily regulated in the United States. Regulatory oversight at the federal, state, and often local levels assures a reliable supply of electricity, compliance with rules, financial security and transparency, and reasonable prices.

COMPETITIVE ELECTRICITY MARKETS HELP MEET OUR NATION'S ENERGY CHALLENGES

ELECTRICITY INFRASTRUCTURE – *Transparent market prices attract needed investment*

- Transparent prices that vary by location help to signal when and where facilities are needed, and market incentives attract the right type of efficiency, transmission, generation or demand response investment.
- Competitive regional electricity markets have proven so attractive to generation developers, in particular wind power, that there is a backlog of facilities seeking interconnection with the regional power grids.
- During the last major electricity infrastructure build-out, traditional monopoly regulation performed poorly, requiring consumers to bear the costs of unwise investment decisions. Competitive electricity markets, where investors bear the risk, ensure that needed infrastructure is developed at the lowest available cost. The discipline of market forces provides the incentive for better investment decisions.

CARBON POLICY – *Competitive electricity markets drive efficiency and promote renewable and demand response resources*

- A market-based cap-and-trade program of emissions credits will be most effective when coupled with a market-based approach to electricity production. Consumers will respond to emission credit prices reflected in competitive electricity market prices, and market forces will drive innovation – and potential innovation synergies – for emissions as well as the underlying energy commodity.
- The incentives for improved performance created by good market structure and rules are more effective in achieving environmental policy objectives than regulating monopolists' behavior through traditional command-and-control regulation.
- Well-functioning markets provide clear and transparent price signals, enabling environmentally friendly demand response, conservation and efficiency efforts by consumers.
- Competitive regional electricity markets have a proven track record of improving operating efficiency and attracting cleaner, more efficient generation. This allows us to do more with less, with new investment more likely to involve environmentally friendly low-carbon technologies and outcomes.
- Market rules and regional scope facilitate renewable resources, such as emission-free wind. For example, more than 70% of installed wind capacity is now located in regions with organized competitive electricity markets, despite the fact that these areas represent only 44% of U.S. wind energy potential. And competitive wholesale electricity markets and investment by competitive electricity suppliers are responsible for over 85% of new wind capacity.
- Open competitive electricity markets allow demand response providers to compete on a level playing field with other resources. Demand response helps lower costs by driving greater efficiencies, and thrives in organized regional markets. Demand resources in the markets have displaced the need for more than 23,000 megawatts of generation.

GLOBAL COMPETITIVENESS – *Market incentives and regional scope keep costs down, spur innovation, foster efficiency, and enhance the competitiveness of our nation's economy*

- Competitive electricity markets offer the best tools for customers to manage electricity costs. For example, transparent price signals and demand response programs allow customers to shift usage times and aggregate their demand to lower costs and even get paid for providing demand-response resources to the market.
- Competitive electricity markets, where risk is borne by investors rather than consumers, have improved operating efficiency and availability of generators.
- Independent market monitors in organized competitive electricity markets ensure that the markets operate fairly and competitively.
- The large geographic scope of the organized regional markets increases the number of generation choices for least-cost dispatch of power sources to meet consumer demand.
- Market-based solutions deliver the least costly resources to supply consumers' needs.
- Competitive electricity markets spur innovative products and services, many of which provide ancillary environmental benefits.

ACHIEVING ENERGY SECURITY – *Improved efficiency, more renewable resources, advanced technologies and increased demand response all reduce dependence on foreign energy sources*

- The improved efficiency enabled by market forces allows our nation to use existing resources more wisely, thereby decreasing fossil fuel use and helping to limit emissions.
- Renewable energy, conservation, efficiency and demand response technologies are easier to implement in organized competitive electricity markets. These intrinsically domestic low-carbon resources reduce energy imports and create American jobs.
- Electrification of the transportation sector substitutes clean domestically produced electricity for oil, helping to reduce our dependence on foreign energy sources while reducing greenhouse gas emissions. Plug-in hybrid electric vehicles are facilitated by competitive electricity markets, which offer state-of-the-art communication and control tools and create the potential for these vehicles to serve as a resource to the grid.

COMPETITIVE ELECTRICITY MARKETS ARE NOT 'DEREGULATED'

Regulators strictly monitor electricity markets to ensure reasonable prices, require compliance with extensive rules, and comprehensively oversee virtually every aspect of the reliability and financial security of the electricity industry

- The Federal Energy Regulatory Commission (FERC) and state public service commissions exercise comprehensive regulatory authority over generation and delivery services at the wholesale and retail levels and over financial and reliability matters.
- Where prices for generation services reflect competition among suppliers, regulators maintain strong oversight of markets. For example, the FERC screens out sellers that

can exercise market power and on a daily basis monitors prices, activity and conditions in wholesale markets.

- All entities that use the transmission grid must adhere to strict and detailed standards set by FERC for reliable operation and must meet generation adequacy standards. FERC can order interconnections and power sales if needed to maintain reliability.
- Regulatory approvals are needed for acquisitions and dispositions of public utility assets, security issuances, and liability assumptions. Utilities must regularly file detailed financial reports that are publicly available.
- The FERC has a vigorous monitoring and enforcement program and can levy fines of up to $1 million per day per violation for market manipulation or violations of any of its rules, and can refer serious cases to the Department of Justice for criminal prosecution. Regulatory monitoring and periodic audits as well as anonymous "hotline" calls are used to identify rules violations.
    - Regionally organized competitive wholesale electricity markets have additional safeguards to ensure competitive market operation, reliable supplies, and reasonable prices. Price caps are in place and creditworthiness requirements bar financially weak participants. Behavior is monitored in real-time by independent professional market monitors who periodically assess market rules and operations and issue publicly available reports.

POLICY CONSIDERATIONS

The existing regional competitive wholesale electricity markets should not be fundamentally modified

- Organized electricity markets are working well, are highly competitive, and are delivering real, tangible benefits for consumers and the environment.
- Organized electricity markets have improved efficiency and attracted needed infrastructure.
- Competitive wholesale electricity markets are beneficial to all providers of retail services and their customers. Recognizing that load serving utilities have a role to play in delivering energy efficiency, demand response and, in some cases, renewable energy, the wholesale market structure is vital to ensuring the most efficient and cost-effective utilization of these resources and the transmission grid.
- Critics have seized on recent price changes to advocate retreating from competitive reforms of electricity markets. Their simplistic arguments ignore significant rising costs in traditionally regulated regions without organized markets. In fact, due to rising prices of fuel and other commodities, electricity costs to consumers are rising proportionately in both competitive electricity markets and traditionally regulated areas.
- The Federal Energy Regulatory Commission's rulemaking promoting important incremental reforms preserves the fundamental characteristics of the markets that benefit consumers and the environment today.

Key features of organized regional competitive wholesale electricity markets must be preserved

- **SINGLE CLEARING PRICE SYSTEMS** exert downward pressure on prices and ensure that the lowest available cost resources are used.
- **DAY-AHEAD AND REAL-TIME SPOT MARKETS** provide valuable price signals that allow market participants to manage resources and lower costs.
- **INDEPENDENT ADMINISTRATION** of the market and grid operations ensures a level playing field and provides the confidence needed to attract investment and a diverse field of market participants.
- **INDEPENDENT MARKET MONITORING AND OVERSIGHT** help assure adherence to market rules and guard against improper activities by unscrupulous market participants.
- **LARGE REGIONAL GEOGRAPHIC SCOPE** assures the largest number of competitors and the widest array of resources, thus assuring the lowest available costs while aligning planning and operations with the physics of electricity flows on the grid.

Federal policy should ensure that needed transmission facilities in multi-state grids are built efficiently and expeditiously

- Substantial additional investment in new transmission facilities is necessary to ensure continued reliable electricity supplies and smoothly functioning electricity markets, and particularly to bring low-carbon, renewable resources from remote areas to consumers.
- Transparent regional market planning identifies regional transmission needs and the most efficient facility expansions to meet those needs.
- Decentralized siting authority often imposes costly delays and less-then-optimal routes and facility designs.
- Decentralized ratemaking authority fosters uncertainty regarding cost recovery.

The Federal Energy Regulatory Commission should continue to aggressively monitor the non-organized bilateral wholesale electricity markets for discriminatory transmission practices, the exercise of market power and inefficient operations

- Protecting consumers in a rising cost environment while enacting a national climate change program is best achieved with market transparency, fair and nondiscriminatory market access and the discipline of market forces.
- Because non-organized markets do not provide the additional level of close independent market oversight as found in the organized markets, continued robust and ongoing oversight by FERC is needed to ensure customers' interests are protected and advanced.
- Any metrics for determining the customer benefits of market structure should be applied to traditionally regulated electricity markets as well as restructured competitive electricity markets.

Federal policy should encourage states to open their markets to competitive procurement, demand response and customer choice

- Competitive electricity markets are nondiscriminatory and provide clear, transparent price signals that facilitate demand response, renewables and other innovations that will help meet our nation's needs moving forward such as ensuring reliability of supply and reducing greenhouse gases in the most cost-effective manner, among others.

The **COMPETE** Coalition represents 296 electricity stakeholders, employing more than 7 million American workers, which includes customers, suppliers, generators, transmission owners, trade associations, and economic development corporations – all of whom support well-structured competitive electricity markets for the benefit of consumers.
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