

February 26, 2007

The Honorable Joseph T. Kelliher  
Chairman  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, D.C. 20426

Dear Chairman Kelliher,

We are writing to highlight the benefits regional wholesale electricity market structures can provide in bringing more renewable energy and demand response into the nation's resource portfolio. Because renewable energy and demand response resources benefit America's economy, environment, and security, it is vital that we have the institutions and rules necessary for them to thrive. In particular, independent regional transmission operators such as Regional Transmission Organizations (RTOs) and Independent System Operators (ISOs) not only can promote electric system reliability and wholesale competition, they can also facilitate renewable energy and demand response development. We understand that some groups question whether the benefits of such regional organizations exceed their costs to customers. The groups joining this letter, however, are convinced that properly structured regional wholesale electricity markets with independent regional transmission operators can provide net benefits to customers and promote critical national goals related to fuel diversity, energy security, and environmental protection.

Well-structured regional wholesale electricity markets operated independently allow far greater amounts of renewable energy and demand response resources to be integrated into the nation's electric grid. In fact, approximately 73 percent of installed wind capacity is now located in regions with such markets, while only 44 percent of wind energy potential is found in these areas. Large, regional energy markets provide for cost-effective balancing of generation and load with significant penetrations of variable, non-dispatchable power sources, and they facilitate delivery of resources remote from load centers. A summary of utility industry research by the Utility Wind Integration Group ([www.uwig.org](http://www.uwig.org)) states that "well-functioning hour-ahead and day-ahead markets provide the best means of addressing the variability in wind plant output." Further, "consolidation of balancing areas or the use of dynamic scheduling can improve system reliability and reduce the cost of integrating additional wind generation into electric system operation."

A recent study required by the Minnesota legislature to assess the reliability and cost of providing 20 percent of the state's electricity from wind stated:

"The MISO [Midwest Independent System Operator] energy market also played a large role in reducing wind generation integration costs. Since all generating resources over the market footprint are committed and dispatched in an optimal fashion, the size of the effective system into which the wind generation for the study is integrated grows to

almost 1200 individual generating units. The aggregate flexibility of the units on line during any hour is adequate for compensating most of the changes in wind generation.” (See [www.puc.state.mn.us/docs/windrpt\\_vol%201.pdf](http://www.puc.state.mn.us/docs/windrpt_vol%201.pdf).)

Independently run regional grid operations can foster renewable energy and demand response development by:

- Eliminating “pancaked” transmission rates that are assessed across every utility area;
- Providing energy markets where variable or intermittent resources can sell excess energy or purchase shortages at a transparent and fair price;
- Minimizing operational impacts of variable resources by netting out aggregate load and generation over a wide region;
- Facilitating regional transmission planning to access generating resources as well as address reliability, congestion, and load growth in the most efficient overall manner;
- Providing a mechanism to pursue regional cost allocation policies; and
- Providing for flexible transmission tariffs that allow rates to be paid on an as-used basis as opposed to a capacity reservation basis.

It is important for policy makers to understand the values of properly designed regional wholesale electricity market structures, as well as regional coordination of control area functions, in supporting national policy objectives including energy security, environmental protection, and economic development. The ability of such structures to integrate renewable energy and demand response and facilitate their use is critical to these policy goals.

Sincerely,



Robert Gramlich  
American Wind Energy Association

On behalf of:

Ralph Cavanagh  
Natural Resources Defense Council

Seth Kaplan  
Conservation Law Foundation

Don Furman  
PPM Energy

David Brewster  
EnerNOC

Michael Skelly  
Horizon Wind Energy

John N. Moore  
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Wind on the Wires

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Iberdrola Renewable Energies USA

John Calaway  
Babcock and Brown

cc:

The Honorable Suedeen Kelly, Federal Energy Regulatory Commission  
The Honorable Philip Moeller, Federal Energy Regulatory Commission  
The Honorable Marc Spitzer, Federal Energy Regulatory Commission  
The Honorable Jon Wellinghoff, Federal Energy Regulatory Commission  
The Honorable Harry Reid, Majority Leader, U.S. Senate  
The Honorable Mitch McConnell, Minority Leader, U.S. Senate  
The Honorable Nancy Pelosi, Speaker, U.S. House of Representatives  
The Honorable John Boehner, Minority Leader, U.S. House of Representatives  
The Honorable Jeff Bingaman, Chairman, Senate Committee on Energy and Natural Resources  
The Honorable Pete Domenici, Ranking Member, Senate Committee on Energy and Natural  
Resources  
The Honorable John Dingell, Chairman, House Committee on Energy and Commerce  
The Honorable Joe Barton, Ranking Member, House Committee on Energy and Commerce