



# REGULATORY & POLICY DRIVERS OF CROSS-BORDER INTEGRATION

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AUGUST 20, 2018

# DISCLAIMER

- Views are my own and are not to be associated with the Western Power Trading Forum (WPTF), the Federal Energy Regulatory Commission (FERC) or any other entity with whom I have been associated.
- MY VIEW: Capacity should be viewed as an electric proxy for storage as electricity is not (yet) easily stored economically in all circumstances.
  - Valuable for hedging price and power quality for customers like any other commodity
- MY VIEW: The current concept of capacity as a necessity of reliability is arguably an engineering hangover that is inconsistent with economic efficiency or markets.
- MY VIEW: ERCOT has it right. Procure capacity in excess of need - or not - but market participant bears the cost of being “short”

# ENERGY TRADING: NO BRAINER

- The regulatory and policy imperatives on trading energy across borders are self evident: 1) Enhanced efficiency; 2) Increased Reliability
  - August 2003 Blackout notwithstanding
  - Had MISO been running a “day 2” market (LMP pricing) cascade would not occur
- These benefits were recognized and accepted before Open Access
  - US synchronously connected with all but two Canadian provinces (Quebec, Nova Scotia)
  - US connections to Mexico limited only because of demographic/energy limits (Baja) and Texas requirement for independence

# HAVING SAID THAT... CAPACITY IS DIFFERENT

- This discussion of Capacity Cross-Border Integration will be based on the experiences in FERC regulated markets.
- The best representation of a regulator's view in this regard can be found in FERC Order concerning MISO and PJM seams issues, Docket No. AD14-3-000.
- FERC has agreed to allow capacity to be procured as reliability instrument even as they agree to different pricing regimes in adjacent markets...
- Partially driven by political and legal impediments on FERC's ability to "order" market design and composition
  - Political limits: See resistance to "Standard Market Design" in 2002-03
  - Legal limits: "Atlantic City" case limiting FERC ability to order market member composition

# BRIEFLY STATED: THE DRIVERS FOR CAPACITY SHARING

- Reliability to ensure system adequacy across broad areas while at the same time...
- Adequate liquidity to ensure a competitive price for customers and...
- Provide the structure necessary to incent investment and allow a competitive return on investment.
- FERC challenge: Achieve these outcomes despite the existence of different market structures with different rules on capacity procurement and energy dispatch

# GIVEN THE “RELIABILITY” DRIVER

- Capacity in adjacent and synchronously interconnected markets that have different pricing regimes may incent capacity to seek best value and “leave”
  - Effectively undermining the “reliability” goal
- FERC recognized (150 FERC ¶ 61,132) this and indicated steps to:
  - Prevent transmission cost shifts (upgrades) for capacity that will export
  - Develop real-time protocols to ensure capacity delivery during emergencies
  - Establish capacity import/export limits
  - Ensure sanctity of existing firm transmission rights if rights awarded in capacity auctions



# EMERGING CHALLENGE TO CROSS-BORDER CAPACITY INTEGRATION

- FERC has demonstrated a preference for capacity to be procured on a technology-neutral and an economic efficiency basis
- However, the states that regulate utility members of ISOs/RTOs have other policy drivers (carbon limitation, integration of renewables, preserving jobs or tax-base contribution of generation)
- How to ensure; 1) the reliability goal, 2) the economic efficiency goal and 3) the preservation of incentives to invest under such circumstances

# COMPETING GOALS MAY ARGUE FOR CENTRALIZED CAPACITY MARKET

- California is the vivid example of *Aspirational Exuberance* in Capacity Procurement
  - Recently denied backstop contract for local capacity because the generation was not a “preferred resource” (renewable or storage)
  - Difficult to ensure enough liquidity (for price protection) and provide incentives for basic *maintenance* of thermal resources necessary to balance the system through a bilateral contract basis with frequent regulatory intervention (state)
  - A centralized market given the additional state policies
- Even so, FERC is struggling to “split the baby” of state goals with traditional drivers of capacity integration
- To allow for Cross-Border Integration, might it be necessary to standardize procurement rules?