

1 FEDERAL ENERGY REGULATORY COMMISSION

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5 STATE POLICIES AND WHOLESALE MARKETS

6 OPERATED BY ISO NEW ENGLAND INC.,

7 NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.,

8 AND

9 PJM INTERCONNECTION, L.L.C.

10

11 TECHNICAL CONFERENCE

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17 FEDERAL ENERGY REGULATORY COMMISSION

18 888 FIRST STREET, NE

19 WASHINGTON, DC 20426

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21 MONDAY, MAY 1, 2017

22 9:00 A.M.

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1 APPEARANCES

2 FERC COMMISSIONERS

3 CHERYL A. LAFLEUR, ACTING CHAIRMAN

4 COLETTE D. HONORABLE, COMMISSIONER

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6 FERC STAFF

7 ARNIE QUINN

8 DAVID MORENOFF

9 JAMIE SIMLER

10 AMR IBRAHIM

11 SARAH CRAWFORD

12 HELEN DYSON

13 DAVID MEAD

14 KENT CARTER

15 KRIS FITZPATRICK

16 SCOTIANA COLLINS

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21 GRETCHEN KERSHAW

22 MICHAEL CACKOSKI

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24 MARIA FARINELLA

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1 APPEARANCES -- (CONTINUED)

2 CHRISTY WALSH

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9 GABRIEL AGUILERA

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12 PARTICIPANTS

13 SESSION 1

14 PANEL 1

15 JEFFREY BENTZ, Director of Analysis, New England States

16 Committee on Electricity

17 SARAH HOFMANN, Board Member, Vermont Public Service Board,

18 speaking on behalf of the National Council on Electricity

19 Policy

20 ROBERT KLEE, Commissioner, Connecticut Department of Energy

21 and Environmental Protection

22 ANGELA M. O'CONNOR, CHAIRMAN, Department of Public Utilities

23 of Massachusetts.

24 ROBERT SCOTT, Commissioner, New Hampshire Public Utilities

25 Commission.

1 PANEL 2

2 MATTHEW WHITE, Chief Economist, ISO New England, Inc.

3 DAVID B. PATTON, President, Potomac Economics

4 BRIAN FORSHAW, Principal, Energy Market Advisors LLC,

5 speaking on behalf of Connecticut Municipal Electric Energy

6 Cooperative, New Hampshire Electric Cooperative and Vermont

7 Public Power Supply Authority

8 PETER FULLER, Vice President of Market and Regulatory

9 Affairs, NRG Energy, Inc.

10 SETH KAPLAN, Senior Manager of Regional Government

11 Affairs, EDP Renewables, also speaking on behalf of RENEW

12 Northeast

13 THOMAS W. KASLOW, Chairman, New England Power Pool

14 ALEKSANDAR MITRESKI, Senior Director, Regulatory Affairs,

15 Brookfield Renewable

16 BILL MURRAY, Senior Policy Director, Dominion Resources

17 SESSION 11

18 PANEL 1

19 SUSANNE DESROCHES, Deputy Director of Policy,

20 Infrastructure, City of New York

21 JANET JOSEPH, Vice President for Innovation and Strategy,

22 New York State Energy Research and Development Authority

23 SCOTT WEINER, Deputy of Markets and Innovations, New York

24 State Department of Public Services

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1 PANEL 2

2 BRADLEY C. JONES, President and Chief Executive Officer, New
3 York Independent System Operator, Inc.

4 DAVID B. PATTON, President, Potomac Economics

5 KATHLEEN BARRON, Senior Vice President of Competitive Market
6 Policy, Exelon Corporation

7 JAMES HOLODAK, Vice President of Regulatory Strategy and
8 Integrated Analytics, National Grid

9 MARK KRESOWIK, Regional
10 Director of Beyond Coal Campaign, Sierra Club

11 JOHN REESE, Senior Vice President, Eastern Generation

12 JOHN E. SHELK, President and Chief Executive Officer,
13 Electric Power Supply Association

14 SESSION III

15 PANEL 1

16 H. ROBERT ERWIN, JR., General Counsel, Maryland Public
17 Service Commission

18 RICHARD MROZ, President, New Jersey Board of Public
19 Utilities

20 ANDREW PLACE, Vice Chairman, Pennsylvania Public Utility
21 Commission

22 BRIEN SHEAHAN, Chairman and Chief Executive Officer,
23 Illinois Commerce Commission

24

25

1 PANEL 2

2 ANDREW OTT, President and Chief Executive Officer, PJM
3 Interconnection, L.L.C.

4 JOSEPH BOWRING, President, Monitoring Analytics, LLC

5 PAUL BAILEY, President and Chief Executive Officer, American
6 Coalition for Clean Coal Electricity

7 JENNIFER CHEN, Attorney, Sustainable FERC Project, Natural
8 Resources Defense Council

9 MICHAEL COCCO, Senior Director of RTO and Regulatory
10 Affairs, Old Dominion Electric Cooperative, also speaking on
11 behalf of National Rural Electric Cooperative Association

12 LATHROP CRAIG, Vice President of ISO Operations, PSEG Energy
13 Resources & Trade LLC.

14 ROBERT FLEXON, President and Chief Executive Officer,
15 Dynegy, Inc.

16 GREGORY POULOS, Executive Director, Consumer Advocates of
17 the PMJ States, speaking on behalf of PJM Joint Consumer
18 Advocates

19 RAJA SUNDARARAJAN, Vice President of Regulatory Services,
20 American Electric Power Company

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1 P R O C E E D I N G S

2 (9:00 a.m.)

3 MR. QUINN: I would like to welcome everyone to
4 this two day technical conference. We are gratified by the
5 interest -- the level of interest that all of you have
6 shown. Today is an opportunity for us to hear from
7 panelists that have been pre-selected.

8 Actions that purposely interfere or attempt to
9 interfere with the commencement or conducting of the
10 Conference or inhibit the audience's ability to observe or
11 listen to the Conference, including attempts by audience
12 members to address the Commission while the Conference is in
13 progress are not permitted.

14 Any person engaging in such behavior will be
15 asked to leave the building. Anyone who refuses to leave
16 voluntarily will be escorted from the building. Alright so
17 to start off I'll go through a couple logistical
18 housekeeping items.

19 Please no food or drinks other than bottled water
20 in the Commission meeting room. There are bathrooms and
21 water fountains behind the elevator banks on each end of the
22 building. Please turn off your mobile devices or put them
23 in the airplane mode while in the Commission meeting room to
24 avoid interference with the audio visual and the sound
25 equipment.

1 If needed we have arranged for spillover space in
2 Hearing Rooms 1, 2 and 4 as well as Room 3M2AB on the third
3 floor. The Hearing Rooms are past the elevators to the
4 right as you exit this room. I imagine you all don't need
5 to hear that but bags are to be put in Hearing Rooms 1 and
6 2.

7 We will break for lunch on the first day today at
8 approximately 12:20 until 1:30, on the second day from
9 approximately 12 P.M. until 1 P.M.

10 For panelists -- if you would like to be
11 recognized to speak please put up your name card. Be sure
12 to turn on your microphone and speak directly into it so
13 that the audience and those listening to the webcast can
14 hear you.

15 This Technical Conference is being transcribed so
16 please say your name when you start to speak. When you are
17 not speaking please turn your microphone off to minimize
18 background noise. Panel discussions will not include
19 opening remarks, but will consist of a discussion based on
20 the questions posed by Commission staff in the Notice.

21 And finally depending on which direction the
22 conversation progresses, we will not necessarily cover every
23 single question in the Notice however we have members of
24 staff who will help us monitor the time so we make sure that
25 we can cover as much as possible in each one of the panel

1 sessions.

2 With that out of the way I'll turn over to acting
3 Chairman LaFleur.

4 CHAIRMAN LA FLEUR: Good morning everyone and
5 welcome. I very much appreciate folks traveling here early
6 on a Monday morning to be part of this Conference. As Arnie
7 said we appreciate the vast interest in the Conference. I
8 hope it is not just because the movie theatre has been dark
9 for a while but you actually want to see the movie that you
10 came to see. Thank you for bearing with us as we attempt to
11 make our facilities accommodate all of you.

12 And I want to thank staff for the tremendous
13 amount of work, both substantive and logistical they have
14 done just to get us to 9 A.M. May 1 so thank you.

15 I believe the issue that we are going to be
16 discussing today and tomorrow, the interplay between our
17 competitive wholesale markets and state policy choices on
18 the selection of resources is the most critical issue we are
19 confronting right now.

20 And the interest in this Conference suggests many
21 people agree. It is no secret that I am a strong supporter
22 of the wholesale competitive markets which I believe have
23 done an excellent job of meeting the objectives for which
24 they were designed.

25 Procuring and dispatching resources to keep the

1 lights on at least cost to customers. The markets,
2 particularly the centralized capacity markets in the three
3 regions we are talking about today and tomorrow are designed
4 to signal new entry and exit through a transparent price
5 signal rather than through integrated resource planning used
6 in the vertically integrated model.

7 As we all know in recent years, recent months and
8 recent week's states that restructured their retail
9 electricity service have taken steps to attract and retain
10 resources outside the construct of the competitive markets.
11 These actions are driven by various state policies and seem
12 to indicate dissatisfaction with the resource choices that
13 the competitive markets are making for the region.

14 On the one hand I am concerned that out of market
15 actions can undercut the operation of the market for
16 non-subsidized resources and the price signals that are
17 needed for entry and exit when needed.

18 On the other hand having been a veteran of the
19 prophecies that led to these markets, I am very well aware
20 that the wholesale markets in the eastern states are the
21 product of state restructuring and state's choices and they
22 only can exist and continue through the buying of the
23 states, therefore there's a real task.

24 I have said very many times there are three basic
25 ways this could go -- a design market solution, a litigated

1 outcome or a planned change in the regulatory construct of
2 how we handle resource advocacy.

3 The fourth outcome, an unplanned change in the
4 regulatory construct, or unfounded piece meal regulation is
5 one that I think we should avoid because I think it would be
6 a bad outcome for customers and market participants in terms
7 of cost, reliability and regulatory certainty.

8 By the way I read all of the testimony and
9 several people made the point which is correct that these
10 three doors are not mutually exclusive. Once we restore our
11 quorum this Commission will almost certainly have to decide
12 litigated complaints that are already pending before us,
13 even a grievance may be working on market solutions to file
14 with us.

15 Design solutions may themselves suggest changes
16 in the regulatory compact and different regions almost
17 surely will take different paths and different timing. But
18 I do think the three different paths, re-design of the
19 market, litigation or a change in how we do resource
20 advocacy lead to very different places and present different
21 trade-offs and issues that we have to confront.

22 My goal for the next two days is to really
23 explore where the different outcomes lead so that we can all
24 make an informed and deliberate decision about what's next.
25 While we can't decide anything immediately because we lack a

1 quorum, we must shape options and recommendations for FERC
2 2.0 based on the record we develop today and tomorrow.

3 As I said I read all the pre-filed testimony and
4 took notes, including from the panelists who were speaking
5 and I know that Colette and the team and the senior staff
6 did as well so there is no need for anyone to repeat their
7 testimony or recite the positions that you have taken for
8 some time.

9 Our goal is to have a facilitated dialogue that
10 pushes more deeply on the issues. A few of the questions
11 that I would like answered -- for those of you who said, and
12 there were many, that state decisions to procure new
13 resources out of the markets, substantial new resources are
14 not a problem and the markets should just step aside and let
15 the chips fall.

16 My question is do you expect the markets will
17 have to attract new unsubsidized resources in the future
18 based on market price signals or do you see all resources
19 from now on being chosen out of the markets by the states
20 beyond the resource we already have in the markets?

21 And does that include resources to replace
22 resources that are in the markets now that might now be able
23 to survive a hybrid structure? For those of you -- and
24 there were also many who urged FERC to man up, step in,
25 assert our jurisdiction, tighten the minimum offer pricing

1 rules to correct the state's subsidies -- do you have a plan
2 for what happens after that?

3 Are you ready to negotiate a new market solution
4 or do you expect the states to not procure resources or pay
5 subsidies required by legislation? And for the State
6 Representatives beginning with my homies here -- I know you
7 have the most difficult job of all because it is hard for
8 you to state your positions because of your positions but
9 your views are actually the most important we are going to
10 hear which is why you have the floor to yourself in each of
11 today's panels.

12 Do you anticipate relying on the capacity markets
13 to attract investment in the future or do you see all future
14 resources being chosen by the states to meet state goals?
15 We can best design a solution and modify the existing
16 resource adequacy construct if we have some sense of where
17 you think you are headed, not just in the short run but
18 going forward.

19 As I was reading all the testimony over the
20 weekend, one piece of testimony really hit me in my gut and
21 that was a long quote by Sue Tierney from testimony that she
22 submitted in our September, 2013 Capacity Market Technical
23 Conference that could just have well been written last week.

24 And it has been almost four years since that
25 Conference. That really made me realize that we have not to

1 be dramatic, I think we have a moment in time here and now
2 to confront this issue and try to put ourselves on a path to
3 resolution.

4 I don't want our successors to be sitting in this
5 room in 2021 having the exact same conversation or picking
6 up the pieces of a mess that we failed to avert. And
7 speaking of things that hit me in my gut I am very happy to
8 have my wonderful colleague sitting beside me and very sad
9 we won't have as many future opportunities together as I had
10 wished, Collette.

11 COMMISSIONER HONORABLE: Thank you Cheryl. Good
12 morning everyone. Cheryl and I held hands and said we would
13 not have any sappy moments this morning and let me just
14 address the elephant in the room. The surest thing about
15 coming to this wonderful work is that one day you must leave
16 it and it has been short in many ways but in some ways I
17 feel like we have done so much together.

18 And don't worry it isn't goodbye. While alas,
19 parting is such sweet sorrow this isn't goodbye. It's just
20 I'll see you around. My daughter loves this area so I am
21 not going anywhere anytime soon. Where I am going and when
22 I am going remains to be seen so I won't be taking any
23 questions about that today.

24 In fact, I hope all of the questions and
25 attention today will be focused on the reason why we have so

1 many of you in this room and so many others -- maybe it is a
2 record, at least during my tenure here in what, four
3 overflow rooms. It's phenomenal this is the best party that
4 we could have today.

5 Focus on this intersection of the operation of
6 wholesale markets and the development of state policy --
7 this is important work that we really must be focused on
8 today. But know that I loved this work and I still do each
9 and every day and I hope that you have seen that through our
10 meetings and engagement and I look forward to our continued
11 work together. So let's get to work.

12 I want to thank all of you for being here.
13 Clearly there is tremendous interest in this topic and I too
14 want to begin by thanking our staff. FERC senior staff you
15 see leading the way and Arnie who ably commanded the
16 presence in this room maybe better than we have and also to
17 Jamie and David and so many others, I want to especially
18 thank the FERC staff.

19 Some of them you see sitting here. Dozens of
20 others with whom I have met with my team over the last
21 couple of months as we have discussed these issues -- I want
22 to thank them for all of their work, especially in this
23 unprecedented time without a quorum.

24 And Cheryl mentioned that maybe some are
25 suggesting that we man up and maybe we are "womaning" up in

1 this moment. I hope that what you see is that we are
2 working hard here and we have heard you. Some of you are
3 wondering, in fact I received a question internally this
4 morning -- why now? Why are we having a Tech Conference now
5 without a quorum?

6 We have met with a number of you over the course
7 I would say years about the challenges as they are
8 developing and tensions as they are growing, particularly
9 after the issuance of the now three, the trilogy of the U.S.
10 Supreme Court cases and a number of our decisions here at
11 FERC, a number of actions taking place in regions.

12 I really don't think we could have a better time
13 to tee up this discussion and I want to thank all of the
14 stakeholders who have invested time and effort away from the
15 Commission but also those of you who have for time and time
16 again come into apprise us of not only your progress but of
17 your concerns as well.

18 I believe that the conversations taking place at
19 the regional level are really vital idea incubators and the
20 beautiful thing about the ways in which we work regionally
21 is that we truly appreciate the diversity of experience, of
22 expertise of thought and about your creativity and
23 innovation in helping us find the best pathway forward.

24 So today's Conference in my mind is not meant to
25 supplant or replace those regional conversations but rather

1 designed to support them by bringing the Commission's
2 presence into a broader discussion.

3 Pardon my comments a little longer than I would
4 ordinarily give -- Cheryl and I haven't had time to do this
5 in a few months now so we have a little pent up -- a few
6 thoughts we would like to share.

7 So while today my role is one to enjoy really the
8 luxury of sitting at what we call the kitty table to take in
9 what we are hearing today. I am excited to be able to do
10 that and not worry about the clock and who is moving around
11 but to really listen to each of you.

12 Thank you for saying yes and being willing to
13 come and share your expertise with us as we take on these
14 challenging issues. I want to touch on what I'm looking to
15 get out of this Conference. I am hoping that over the
16 course of the next two days we will hear from you, not the
17 other way around -- you have done that enough by now.

18 I am looking forward to hearing about in great
19 detail your stakeholder discussions, what you perceive the
20 challenges to be as well as any thoughts about potential
21 solutions -- even if untested, even in their infancy. At
22 the conclusion of this effort I am hopeful that we will be
23 able to see at least a glimmer of light at the end of the
24 table.

25 I have heard Cheryl say we won't have smoke

1 coming from the room we can dust off our hands and say we
2 are done. Let's be realistic. But what I am hopeful about
3 is that we will hear ideas from you about potential pathways
4 going forward or at least identify the foundations upon
5 which we can build upon collaboratively.

6 I too, am not expecting to have fully vetted
7 solutions but rather I believe our collective purpose here
8 over the next couple of days should be to develop a sound
9 record upon which the Commission can act at some future date
10 when we get our new colleagues here to provide better
11 guidance to stakeholders not only in the three regions, but
12 more broadly across our national footprint.

13 So this Conference and subsequent comments will
14 help build the record that we can consider when we develop,
15 when we attain a quorum and as these issues develop before
16 us properly here at the Commission.

17 Importantly and I must say this in deference to
18 my state colleagues, as a former state regulator I certainly
19 and especially want to hear how we can better cooperate and
20 collaborate with our state colleagues.

21 And there can be a tension that arises amongst
22 our federal and state roles but I believe if we are
23 disciplined and we have the ability to harness this
24 opportunity we can use that tension to work through and
25 arrive at solutions that work well for all of us. And my

1 hope is that we can collaboratively work through these
2 challenging times and provide opportunities that ensure that
3 markets operate as intended, support state policy objectives
4 and best serve consumers.

5 I too, recognize that there may not be a one size
6 fits all approach and I particularly appreciate -- yes I too
7 have read the pre-filed comments. Thank you for doing that
8 in advance and thank you for sharing, even if you are
9 testing the waters, some of the ways in which you are
10 working to accommodate state actions and particularly I am
11 interested in what's happening with ISO New England.

12 I want to hear about how you have walked this
13 path over quite a bit of time to arrive at where you are and
14 also from the New York ISO and maybe some of the things that
15 you are working on in creative ways to find solutions going
16 forward.

17 FERC has also consistently embraced solutions
18 that embrace the uniqueness of each market and so although
19 we are bringing three regions together today my expectation
20 is that a solution for ISO New England may in fact differ
21 for one for New York ISO or PJM.

22 And I believe again that the pre-filed comments
23 beautifully bear out your courageousness and innovation
24 going forward. I am also looking for ideas that can support
25 markets comprehensively over a broader time horizon and that

1 are not just stop gaps or efforts to plug holes. Market
2 participants indeed depend upon stable market rules when
3 making investment decisions and I worry that any solution
4 that is short lived will only serve to introduce more
5 uncertainty that will unnecessarily and inevitably dampen
6 participation.

7 And I believe we all by virtue of our mere
8 presence today truly do embrace robust markets and I am
9 hopeful that we can really rally around that concept at its
10 core.

11 As I mentioned in the statement I released
12 contemporaneously with the issuance of the Notice announcing
13 this Tech Conference, all options in my mind are on the
14 table. This is in fact a new day. We aren't going back to
15 a time when states weren't so active, particularly in the
16 region we are here today to focus upon.

17 And I think that we can learn from these
18 challenges and these times going forward in a way that works
19 best for all market participants. So in closing I have a
20 page left. What are some of the issues on my mind?

21 First, states have a responsibility to enact
22 policies that are in their citizen's interest. Let's be
23 real about that and that's what we expect the states to do.
24 I believe that the Commission should take a cooperative
25 approach and only take action when necessary to ensure just

1 and reasonable rates.

2 Many of the comments focus on how far wholesale
3 markets can bend without breaking to incorporate state
4 policy goals. And I think that this notion is captured in
5 the achieved versus accommodate on that process. Again I
6 want to hear more about that.

7 I recognize that finding the right balance is
8 difficult and one that must include investment, policy and
9 consumer perspectives. And I want to briefly touch on
10 several issues that cross the three regions.

11 First, MOPR -- we know it has certainly been a
12 challenge and I appreciate the perspectives that were shared
13 in the Pre-Tech Conference comments about the pathway that
14 you see going forward. I took to heart certainly those
15 comments from Dr. Patton and others that speak to your
16 thoughts about how MOPR should be employed by the Commission
17 going forward.

18 It is certainly a blunt tool and its application
19 varies considerably across the three markets being discussed
20 at this Conference. And I know over the course of my tenure
21 a number of you have come in either supporting the ways in
22 which we have used it and employed it and others of you that
23 have said it absolutely has to change. So I hope to hear
24 more of that discussion today.

25 And in my opinion it is often the point of

1 friction between state policies and wholesale markets that
2 we regulate but I also believe MOPR is naturally a part of
3 this conversation and I hope that we can talk more about how
4 this tool and other mitigation tools may be employed going
5 forward.

6 Another cross cutting issue in my mind is the
7 future of wholesale energy and capacity markets. As several
8 of you have commented we are quickly advancing to a reality
9 where marginal costs for many resources in the energy market
10 are negligible and this can have profound impacts on
11 revenues collected from energy markets and place additional
12 pressure on capacity and ancillary services.

13 I believe we are already seeing this play out in
14 California and I would like to better appreciate how the
15 ideas discussed at this Conference work in connection with
16 this broader trend.

17 Similarly, wholesale markets identify cost
18 efficient resources without attributing resource attributes,
19 whether it is to integrate renewables to foreign
20 environmental considerations that are indeed the focus of
21 various policies. And I too have a few questions.

22 Should wholesale markets approach cost efficiency
23 differently in order to best serve consumers? Another
24 question that I have -- should state policies be reflected
25 in efficiency decisions -- some of your comments have

1 touched upon that.

2 Some of you believe that there may be a middle
3 approach to addressing that and so I would like to hear from
4 you. And if so, what broader reform should we consider to
5 reflect or potentially price these resource attributes?

6 These are tough questions I acknowledge.

7 I want to close by thanking my personal staff in
8 particularly Will Sauer who has been my point person for
9 helping me with this Tech Conference but my entire team. I
10 often say and Cheryl has heard me say I have the very best
11 team. She'll say something different I will imagine.

12 But I really feel well supported by them and I
13 wanted to take this opportunity to close in thanking them
14 and thanking all of you. I look forward to the discussion.

15 MR. QUINN: Alright thank you Commissioners. You
16 have done a nice job of setting us up for the day and for
17 the next two days. So today's discussions will involve
18 three sessions one for each one of the eastern RTO's or
19 ISO's.

20 There will be two panels for each session. The
21 first panel will be a panel of State Representatives and the
22 focus will be on getting the state's perspective. The
23 second panel will be of industry stakeholders and the focus
24 there will be yet the stakeholder perspective on the broad
25 side of discussions that we are having.

1 At the very highest level Day 1 will be about
2 framing, identifying issues. Day 2 will be about completing
3 the picture, rounding out the sense of what our possible
4 alternatives are and the implications of those alternatives.

5
6 There is clearly some potential for overlap
7 between the discussions we will have today and the
8 conversations that we will have tomorrow. Staff is going to
9 try to keep the conversations moving to avoid that overlap
10 but it is probably inevitable to some degree.

11 So to start our first panel I would like to start
12 by welcoming our panelists, thanking you for your time and
13 the pre-Conference statements. We have Jeffrey Bentz, the
14 Director of Analysis for the New England States Committee on
15 Electricity.

16 We have Sarah Hofmann, Board Member for the
17 Vermont Public Service Board and speaking on behalf of the
18 National Council on Electric Policy.

19 We have Commissioner Robert Klee, a Commissioner
20 for the Department of Energy and Environmental Protection in
21 Connecticut.

22 We have Chairman Angela O'Connor from the
23 Massachusetts Department of Public Utilities and we have
24 Robert Scott, a Commissioner at the New Hampshire Public
25 Utilities Commission.

1 So on this first panel we would again like to get
2 your perspective on the policies that you are pursuing, the
3 kind of goals that you have and we would also like to better
4 understand what role you think the wholesale markets are
5 playing broadly but also in pursuit of the goals and
6 objectives that you have identified for the policies that
7 your state has decided to use to support and encourage
8 either specific resources, particular resource types, or
9 particular resource attributes.

10 So I think we will start with I think a question
11 that both the acting Chairman and Commissioner Honorable
12 identified. A number of the pre-Conference statements
13 suggested that new resources -- all new resources could
14 potentially come into the market as a result of state
15 programs to encourage or support specific resource types or
16 specific resources.

17 And that maybe the only role for the capacity
18 markets at least is to organize exit of the resources that
19 are no longer needed. So I think first we would like to get
20 a sense from you whether you agree with that perspective but
21 more broadly I think we would like to get a sense from you
22 what role you would like the wholesale markets to play again
23 broadly but also in pursuit of the policies that you have.

24 We can go down the line or we can take volunteers
25 first.

1 MR. BENTZ: Well I think I can start maybe on the
2 first part of the question. I think the second part as it
3 relates to state policies obviously we have Chairs and
4 Commissioners here that are going to be able to speak better
5 to those individual state policies than NESCOE can
6 collectively.

7 The question about is entry into the markets only
8 going to come from state procurements -- I can say that
9 states collectively haven't had much discussion about that.
10 I don't know that I would personally buy into that
11 perspective.

12 Certainly in New England we have some very well
13 some very low growth, we have seen it over the last few
14 years but we are facing a lot of retirements coming up in
15 the next 10 years so you know what we have seen in the last
16 3 or 4 FCA's is some big retirements that have opened up the
17 ability for new entry to come in.

18 And at least in my last 5 years with the state
19 prior to that I was on the generator side -- the one thing
20 that I know for sure is when you start looking at RFP's for
21 out of market contracts, they take a long time. They are
22 very transparent, the process is just long -- the approval
23 process is long and as we saw in the 3 state RFP there was
24 all this expectation that there was going to be these large
25 megawatts that are going to come down at the end of the day.

1 Yes there's some procurement but it is not as
2 large as people had thought originally when the RFP hit the
3 street. So I think that you know will all the entry come
4 from state procurements? I don't think that is true. I
5 just think there will be some retirements to continue to
6 have the markets run as they are.

7 Will there be quite a bit that comes from state
8 procurements? Well we have some RFP's out there. Again
9 they are to solicit not to purchase and time will tell
10 whether we actually do purchase from those RFP's. Thank
11 you.

12 MS. HOFMANN: Thank you very much, Sarah Hofmann
13 I'm on the Public Service Board in Vermont and I am actually
14 speaking for the National Council on Electricity Policy, as
15 has already been noted. It also means that I am actually
16 speaking for a national group so anything I say is going to
17 be wrong for some members of our group.

18 But I actually don't see that all entry is going
19 to be from state procurements. You know when you look at it
20 on the broad spectrum of the entire United States, some
21 aren't even in wholesale markets but for those of our
22 members who are I think that there is going to be a
23 percentage that comes from the state procurement side but
24 there still is going to be a role for other wholesale
25 purchases because I think we all would generally agree that

1 states have benefitted from the wholesale market -- or
2 consumers have benefitted from the wholesale market.

3 So I can't see it going all the way that way but
4 time will tell and we do have very diverse groups and states
5 and regions that are not one size fits all.

6 MR. QUINN: Thank you, Commissioner Klee?

7 MR. KLEE: Hi good morning, Rob Klee,
8 Commissioner of Connecticut's Department of Energy and
9 Environmental Protection. And on this panel well first of
10 all this is my first time at FERC so thank you for having
11 me.

12 And I probably am the one most suited to dive
13 into the policy side because that is our agency. We are a
14 merged energy and environment agency and because of that we
15 think about our energy choices with the environment in mind.
16 And that has led us and our legislature and our governor to
17 put in place significant sort of state statutory goals and
18 obligations that require delivery of clean, renewable power
19 for both our climate change goals and 80% by 2050 reduction
20 that's on the books in Connecticut.

21 We have our RPS goals -- currently 20% by 2020
22 but our legislature has 3 or 4 new options in front of them
23 to increase that percentage. And we have our existing -- we
24 are also the EPA in Connecticut so we have our existing
25 ozone and criteria air pollution standards.

1 All of that has led us to use this new outside of
2 the market tool of procurements to bring those resources
3 because the market wasn't delivering them. The market was
4 only delivering one resource -- natural gas.

5 And because of that particularly in New England
6 where it gets cold in the winter we were having reliability
7 problems. So I am actually a fan of the role that states
8 can play in bringing diversity of resources and reliability
9 of resource into play when the market isn't delivering them.

10 That said we still are a fan of markets. We
11 believe in markets. We believe that they bring with them
12 that ability to drive down prices and get low cost options
13 and that's why we are here. We think that these two things
14 can co-exist in a way that's effective and efficient.

15 It is bringing to the states those things that
16 their state legislatures and their governors are demanding
17 of them but in a way that is efficient and effective. So we
18 think that there will be a mix of opportunity here but right
19 now seeing what's coming from the markets we believe that
20 there is an important role for the states to play in
21 delivering the resources that we are statutorily obligated
22 to ensure are there, thank you.

23 MS. O'CONNOR: Hi, Chairman LaFleur and
24 Commissioner Honorable and Staff thank you for the
25 opportunity to be here today. This isn't my first time but

1 it is kind of interesting because I'm on a different side of
2 the table right now.

3 And I guess Massachusetts has demonstrated its
4 commitment to markets from the very beginning. We were all
5 in on competition, one of the first states to do that and I
6 am here to tell you that the administration in Massachusetts
7 is still very much committed to that.

8 But now let me talk about the 800 pound gorilla
9 in the room which is our procurements which were set -- and
10 I think that my pre-filed comments really lay out the
11 details pretty well in what the legislature has required us
12 to do which we will do.

13 Also our GWSA and all the same sorts of things
14 that Connecticut and some of the other New England states
15 are dealing with. But let me turn quickly to the --
16 particularly the large scale hydro which gets into the
17 accommodate aspect that Commissioner Honorable mentioned.

18 You know that large scale hydro is coming. We
19 will procure that, the dates are set. We are expecting --
20 we will be seeing those contracts as required by statute but
21 I guess I would say that New England has done a phenomenal
22 job of finding ways to figure out how to accommodate
23 wholesale markets and how to work through difficult details.

24 And I think we are yet again and I am sorry to
25 say this, perhaps the canary in the coal mine because there

1 still is a commitment to those markets. While we just
2 recently saw what ISO New England has proposed and it would
3 be relating directly to the purchase of the large scale
4 hydro I suspect.

5 The devil is in the details but we are exciting
6 about rolling up our sleeves with our fellow states in
7 figuring out if that's something that we can do that will
8 still allow the markets to function as they should and they
9 have provided tremendous benefit.

10 I go back in my energy experience to the very
11 first electricity contracts and so back with power options
12 and north of 100 million dollars of benefit. Sorry Exxon I
13 know that's painful. But so they have provided that
14 benefit. I still have in Massachusetts right now before our
15 siting division there are two power plants that are in that
16 siting process so yes, the capacity markets both units have
17 cleared in the capacity market.

18 So the capacity markets continue to deliver the
19 types of units that are needed to maintain reliability. But
20 we are at a crossroads and what the legislature requires us
21 to do we have to do so the challenge before us, at least in
22 New England is how do we marry that and still provide the
23 consumer benefits for wholesale markets?

24 They were not intended, they are not going to get
25 us our large scale hydro or the off-shore wind or frankly

1 gas pipelines. But what they have done is provide a
2 tremendous amount of detail so I think that for New England
3 and I do believe and I appreciate the Commission's
4 recognition that it isn't a one size fits all solution.

5 But New England has a history of working together
6 and I am convinced that perhaps I'm a glass half full kind
7 of a person but I am convinced that if we roll up our
8 sleeves with the appropriate time and we are looking for the
9 support and guidance of the Commission that we can work
10 things through the process that is well established in New
11 England and look forward to working with everybody to do
12 that.

13 And thank you very much for the opportunity to be
14 here and I am happy to try to answer any questions that were
15 not clear in my pre-filed statement.

16 MR. SCOTT: Again Bob Scott with the New
17 Hampshire Commission and again thank you for putting this
18 together. I think this is a very timely and important topic
19 obviously. So on the question of would state procurements
20 basically allow room for other new entry I think as Mr.
21 Bentz mentioned I think the jury is still out on that
22 myself.

23 When I look at the amount of retirements in New
24 England or at risk as you will compared to the amount of on
25 the books procurement there seems to be some room left. As

1 far as the markets for New Hampshire and this will highlight
2 some of the differences among the states and I tried to
3 highlight that in my testified is what New Hampshire expects
4 out of the markets is to get the benefits of competition, to
5 get the best economic result for our rate payers.

6 That's a little bit intention obviously with some
7 state policies and we look a little bit with trepidation at
8 our neighbors to the south of us because obviously they
9 impact the market and that's why we are here.

10 Having said that I think that factor is in again
11 and so another reason why I think the jury is still out is
12 there is a cost to these policies and I am not suggesting
13 there is not a social benefit and a good reason for the
14 legislatures to act but I think understanding the full cost
15 to those actions are important to see what happens next.

16 And I can't remember Commissioner Honorable or
17 Chairman LaFleur mentioned ancillary markets. I'm very
18 interested to understand the full dynamics as we move
19 forward to hopefully a long-term solution. I think the
20 ancillary markets are going to have a much larger role but
21 quantifying that and understanding that I think are
22 necessary to inform us as states on what we can feel
23 comfortable with moving forward.

24 So the bottom line is I think the jury is still
25 out on new entry and we still hope to harness the

1 competitive market to the extent we can.

2 MR. MORENOFF: Thank you very much for those
3 answers to Arnie's questions. I'm picking up on a couple of
4 those responses. Chairman O'Connor you made a reference
5 that one of the roles traditionally of the capacity market
6 has been the identification of resources that are needed for
7 reliability.

8 Commissioner Klee had made a similar observation
9 with respect to the reliability aspect. Can you talk a
10 little bit more about what you see going forward as the
11 respective roles of the states and of the RTO and therefore
12 more specifically with respect to that reliability aspect of
13 the resources that we will need for the future?

14 MS. O'CONNOR: Clearly we do rely on the markets
15 and ISO regulated by FERC to maintain reliability so that's
16 critically important. But we have two dynamics here don't
17 we? We have got the legislature saying, "Thou shall" and,
18 "we will" and we have got over here markets that are
19 designed to maintain reliability.

20 So I think it is on the states really -- and I
21 appreciate the comments from Commissioner Honorable and
22 Chair LaFleur that this is a tough job as a state regulator
23 so we have got to look to try to figure out how to balance
24 that and I think that's what we have tried to do in the
25 process and we are where we are which is we kind of hit a

1 pause button and I do think it falls into two different sort
2 of markets to accommodate, being the first as I mentioned
3 with the large hydro.

4 But we have got to find a way to balance that and
5 again I feel there is a commitment on the part of
6 Massachusetts and the administration to continue to do that
7 and to work with the ISO and fellow states and market
8 participants to figure that out.

9 If I had the answer I'd be on an island somewhere
10 right now.

11 MR. KLEE: So I would only add and perhaps to
12 clarify that our feeling in Connecticut in particular is
13 that the state policies and procurements thus far and the
14 types of resources that we are seeing go into those
15 procurement processes are actually enhancing the regional
16 grid and its reliability by bringing those diverse
17 resources, particularly with our winter peak problem.

18 When you have the ability to bring in hydro,
19 wind, other non-gas resource efficiency those are the types
20 of things we are seeing bid into our procurements and those
21 are all -- our procurement actually, our most recent was
22 designed to address the winter reliability problem because
23 we weren't getting a solution either from the markets or
24 elsewhere to bring in more gas infrastructure.

25 And the market is only delivering natural gas

1 resources. So in essence that's part of hopefully what I am
2 trying to get it is I think that where state procurements
3 are actually a value added to the region where they are
4 bringing in that diversity and enhancing reliability because
5 we definitely don't want to -- we have been lucky to have
6 mild winters over the last couple of winters.

7 We don't want to go back to the polar vortex
8 winters and the impact that that was having throughout our
9 New England region. So I think that's again the place where
10 we need to find that right balance and how these state
11 policies and programs -- which in addition are going to be
12 increasing load growth.

13 So quite a bit of what we are doing in our
14 Governor's Council on Climate Change in Connecticut is
15 looking at the future and how we are going to reach that 80%
16 by 2050 goal and that's electrification.

17 Electrification of our transportation center,
18 electrification of our building heating sectors -- that's a
19 whole lot of growth that's coming in not to distance future.
20 So how are we going to work collaboratively both in the
21 state procurements and in the regional market to achieve
22 that growth and have that reliable resource there for what
23 we are only seeing as a growth in electric demand?

24 MR. QUINN: I'll follow-up a little bit on kind
25 of a line you drew a little bit and a line that David tried

1 to draw. In some of the pre-Conference statements talked
2 about when state action and I will interpret this in air
3 quotes and not offend anyone by saying legitimate.

4 The legitimate state policy phrase was used a lot
5 in the pre-Conference comments and I appreciate that it is a
6 very loaded term. But in trying to distinguish between the
7 things that we should expect the states to do and the things
8 that we should expect the wholesale markets to do, one of
9 the principals that a couple of the comments laid out was if
10 the wholesale markets are designed to go do something like
11 resource adequacy or you know, acquire flexibility or
12 acquire that winter reliability, maybe they are not doing it
13 as well as the state would like.

14 But if they are already designed to do that we
15 should let the wholesale markets do those things and state
16 policy should address those things that the markets aren't
17 designed to do like environmental policies.

18 And that was a fairly broad or a very stark
19 distinction that some of the comments made. I wondered
20 whether you all think that that's a reasonable principal
21 that we could use as we think about what role the wholesale
22 markets have versus what role the states have.

23 Do you let the markets do what the markets are
24 designed to do and states shouldn't interfere there and then
25 where the markets aren't doing something that's a place

1 where the Commission should try to accommodate and defer as
2 much as possible.

3 MS. HOFMANN: Sarah Hofmann. I think one of the
4 problems may be in terms of that distinction that you are
5 trying to make is that we have -- we cannot tell what our
6 legislators do. And so they are going to have policies and
7 it doesn't matter what anybody here or any place else says,
8 they will have policies that set the stage for what the
9 state wants and that's what legislators are for.

10 So I'm not sure how that division is going to
11 actually work in terms of, kind of drawing a line because
12 there is no way to -- I mean when you think about, I'll go
13 back to Remady even though I'm speaking nationally I'll use
14 it as an example.

15 I mean most of our policies are very
16 environmentally forward looking in terms of what we want --
17 greenhouse gases, renewables, you know all those kinds of
18 things that we are trying to address. But at some point it
19 does carry over to what kind of resources are procured and
20 I'm not sure how we can differentiate along the lines you
21 are talking about.

22 MR. SCOTT: Thank you. I think ultimately I
23 agree with that proposition the way you phrased it. I think
24 as a practical matter as just mentioned and I am one of the
25 offenders. I have 424 legislators in my state right so the

1 good news is that they are all engaged in energy policy.

2 The bad news is they are all engaged in energy
3 policy. So things can change pretty dynamically but I do
4 think you know you resource adequacy, liability is -- should
5 be in that purview on the wholesale market.

6 A good example New Hampshire is a net exporter of
7 energy right so if we are going to try to manage those
8 issues at the state level we are really providing energy to
9 some of our outlying states so how does that work?

10 We have six different states so you would end up
11 with a patchwork of things so I think as pragmatically
12 because we are not able to control our legislators I think
13 pragmatically it would need to be a hybrid approach.

14 So some states may want to weigh in from their
15 legislatures and say okay we want a subsidy for nuclear
16 power for instance, not my state. But that may be something
17 they would want to do but I still think ultimately we need
18 the backstop at that level to make sure that for all of New
19 England we have these needs met.

20 MR. KLEE: Thanks Jeff. Just quickly and Bob we
21 often don't always see exactly the same way as the folks up
22 there in New Hampshire do down in Connecticut. One thing I
23 would caution is that the resource mix was always something
24 that was -- and the resource mix being determined by the
25 state was always part of our deregulation.

1 I mean we enacted our RPS at the same time as we
2 deregulated so we still sort of believe in Connecticut that
3 we retain you know that ultimate sort of choice of what
4 types of resources we are seeing coming through RPS and
5 through other policies.

6 So I just want to sort of Connecticut would
7 probably be less on the side of giving up that authority
8 than New Hampshire would be.

9 MR. BENTZ: Jeff Bentz from NESCOE. I think if
10 you try to keep them separate sooner or later there is going
11 to be a collision. We have all noted the tension and the
12 conflict between state policies and markets and I think it
13 is one thing that the process has brought out we have heard
14 a lot from however many meetings we had, 7 to 9 meetings
15 that everybody is concerned about this tension and this
16 conflict and presentation. I would call it a train wreck.

17 And I think that if you let them both go down a
18 single path sooner or later the markets will unwind
19 themselves, I think that's pretty clear. States aren't
20 interested in having markets just for the sake of having
21 markets that oversupply that would happen if the markets
22 took care of reliability and state procurements took care of
23 the state requirements you would end up with too much of an
24 overbuild.

25 So I think maybe that's not in the next 3 to 5

1 years but down the road clearly we can see that train wreck
2 coming and probably the end of markets as we would know them
3 today.

4 MR. QUINN: Thank you that's really helpful. So
5 I think what we are hearing a little is that there is a
6 desire to keep the markets, have them do the job that they
7 have traditionally done -- a recognition that the states
8 have policies that they would like to pursue.

9 I think that the first set of comments I heard a
10 little bit of the potential for -- especially given the
11 interconnected nature of the markets and the fact that a
12 particular state action is kind of necessarily exported a
13 bit to the rest of the states in the region that it shares
14 an RPO with that there is that possibility for -- if not
15 conflict between state policies and the market outcomes
16 other states experience it will at least export or
17 implications for other states.

18 So do you have a view on how if there are
19 conflicts, or if states are being affected -- one state is
20 being affected by another state in its RTO who's role it is
21 to mediate those conflicts, especially as they are
22 promulgated through the wholesale markets. Is that a role
23 for the Commission?

24 If it is not a role just for the Commission how
25 do the states and the Commission share that role?

1 MS. O'CONNOR: Angela O'Connor from Mass. DPU.
2 It cuts both ways doesn't it? I mean I look at the
3 investments from and again a lot of that is in my pre-filed
4 testimony. We have -- Massachusetts doubled down some years
5 ago on energy efficiency when load was like this, it is now
6 like this.

7 We were 49.5% of the load we are now 46.5% of the
8 load. Those investments behind the meter will continue. I
9 have the mother of all rate cases in front of me with all
10 sorts of interesting tasty little tidbits of behind the
11 meter things that include electrification, it includes
12 storage, it includes all sorts of things.

13 So the world is changing. It is not the same as
14 it was. I was you know, first in when I remember
15 restructuring of those original contracts but the world has
16 changed. And we have a legislature and I appreciate both
17 Bob and Sarah talking about the inability to control them.
18 That could not be more true than it is in Massachusetts but
19 you know we have made a serious and significant financial
20 investment. So we do support those markets but we still
21 have to make these you know -- we have to do what we have to
22 do so if that is in conflict -- and there is going to be
23 significant cost to the things that we are doing, we have
24 done it before and we are going to continue to make those
25 investments.

1 But that presents its own sort of a challenge
2 within that market structure so are we -- you know the
3 Commission has the responsibility of representing rate
4 payers here so we have to do -- we have to make these
5 procurements and do this at the least cost to rate payers
6 which is a tremendous benefit that the markets provided
7 with an economic dispatch marble et cetera.

8 But they weren't designed to do this so I think
9 what we all have to do together is to find a way that we can
10 marry them both. I apologize for the redundancy in that
11 comment but I don't know another way to describe it.

12 MR. KLEE: Hi Rob Klee from Connecticut. I think
13 to follow-up on Angie's comment to this specific question of
14 when two states are -- their policies or directions are
15 potentially in conflict. I think we have demonstrated in
16 New England that the first thing that we should do is for
17 the states to get together and work together and try to work
18 it out and try to resolve conflicts amongst the states
19 before asking or going to another entity.

20 And we have been successful at that in our
21 regional greenhouse gas initiative, RGGI process, through
22 IMAPP, through our multi-state procurement RFP's. We can it
23 down in a room as co-sovereigns and figure it out which is a
24 good thing to do and I think that could help actually avoid
25 intervention by the ISO's or FERC to resolve or mitigate

1 those conflicts.

2 Because I think that we have principles to when
3 we approach those conflicts and I think those are important
4 to have to make sure that everyone is honored and respected
5 in the different positions and different places each of us
6 are coming from as states.

7 And then be very aware of if and when there is
8 potential for costs that might be shifting regionally to
9 address that and to be open about it and then allow those to
10 be allocated appropriately and we believe the states can
11 figure those things out pretty well on their own.

12 So I just wanted to sort of say that we have had
13 some success and I think we are going to keep working at it
14 through the other sort of processes we have been working on
15 as well.

16 MR. SCOTT: Thank you and I think here's where
17 Rob and I do agree. Again RGGE was not an easy thing but
18 the states are doing it. A couple concerns obviously my
19 opinion is I question whether really a lot of this in the
20 different IMAPP proposals revolves around carbon and carbon
21 policies.

22 I question whether frankly FERC has -- that's in
23 their jurisdiction frankly but even within that I think that
24 the prospect of not following Rob's advice, not allowing the
25 states to figure this out is you are going to end up

1 inevitably in a situation where the optics are the federal
2 government is forcing a solution on states and there's a
3 couple -- many problems with that.

4 But one is state policies are dynamic. We just
5 talked about legislators so what we have today could change
6 tomorrow. Trying to lock that into a federal policy really
7 doesn't work and the other thing we haven't really talked
8 about here but it is one of the elephants in the room is
9 siting.

10 So if you are in a world where you need to site
11 projects but there is this discontent in states because they
12 feel something has been forced on them that takes an already
13 almost impossible situation you know again, we have a lot of
14 engaged people and makes it even harder to get what we all
15 collectively may want to do.

16 So I would argue there are a lot of pitfalls to
17 that approach even if it were legal and I will leave it at
18 that.

19 MS. HOFMANN: On behalf of the National Council
20 of Electricity Policy I just wanted to echo some of what the
21 Commissioners here have said in terms of on a national level
22 too. There's a lot of collaboration between the states to
23 resolve their differences and I think they have been
24 successful not just in New England but in other parts of the
25 country from talking to other people on the Executive

1 Council for NCEP.

2 So I just wanted to echo that in terms of on a
3 broader scale.

4 MS. SIMLER: Quick question Commissioner Scott I
5 would like to follow-up on something I think I heard you say
6 about the state policies being dynamic and the potential for
7 failure if there was federal policy that locked in state
8 policies at a certain time.

9 So I'm wondering if instead of as you know
10 locking in policies we instead look to principles of what we
11 want to accomplish, you know, kind of state level narrowing
12 up to the federal level.

13 And in someone's filed testimony there was
14 comments about minimizing artificial surpluses and
15 minimizing excess costs borne by customers and Chair
16 O'Connor I think I heard you mention at least the minimizing
17 the excess costs to customers.

18 So I'm wondering if we could hear a little bit
19 about the potential for the common policy objectives that
20 may help marry up what's going on at the state level with
21 federal and Commissioner Scott if you would like to start.

22 MR. SCOTT: I think that is the crux of the
23 issue. We are six different states with six different
24 policies and again I'll pick on carbon because that really
25 is the crux of the discussion. We have RGGI and that's a

1 state policy and that's something we are implementing,
2 that's something that periodically we review and we are in
3 that process right now and so far the last time we did the
4 review we strengthened it looking at that again.

5 I think it ends there though. The problem is for
6 instance especially for my state, my legislature hasn't gone
7 beyond that. We have minimal portfolio standards, the
8 Commission just enacted last year an energy efficiency
9 resource standard so we are in different places but we don't
10 have the Massachusetts and Connecticut Global Warming
11 Solutions Acts.

12 We don't have the Fuel Diversity Act that
13 Massachusetts just had so we are at very different places.
14 So I agree that we need to marry those so that would argue
15 to me whether people like it or not you take the least
16 common denominator and that's the group policy but that's
17 really RGGI and we are already doing that so it is not a
18 perhaps fulfilling answer but I think that's where we are.

19 MS. O'CONNOR: I'm not sure there is an easy
20 answer to that question because again there is as Bob said
21 and Bob and Rob are the experts on RGGI, that's not what my
22 office does. But we have done that and there are a number
23 of other things that are happening behind the meter.

24 But we have the procurements so part of our job
25 will be and it will be as I keep saying the devil in the

1 details, we see what those contracts look like and the
2 procurements. The nice thing is that when you have a party
3 and everybody wants to come so I think there's a great deal
4 of interest in what Massachusetts is doing whether it is the
5 large scale hydro or it's off-shore wind.

6 But when we look at that part of our job is to
7 look out for rate payers and to do that as economically as
8 we possibly can recognizing that those are not insignificant
9 purchases.

10 But then the flip side of that is -- and it goes
11 to the minimum offer price rule because it becomes punitive.
12 You know we have to do this by law in Massachusetts so if it
13 triggers the minimum offer price rule then that's going to
14 be an extraordinary expense to the rate payers of
15 Massachusetts now isn't it.

16 If it's a firm -- again the devil is in the
17 details with a contract but in the particulars of large
18 scale hydro it should be a capacity resource. If it is firm
19 and that's the way the decisions are made around the
20 contracting it should be a capacity resource and it should
21 count towards that and our rate payers should not have to
22 pay for it twice.

23 But how do we do that? And I think that what
24 again the devil will be in the details but we will see what
25 ISO has come forward with. It is just in the very early

1 stages of discussion but I go back to Lycop the musical and
2 sat here and talked to the Commissioners at that time about
3 you know give us some more time we are going to figure this
4 out.

5 And was it perfect? No. But did we figure it
6 out? Yes we did for that time. But we are at a crossroads
7 and the world has shifted yet again in New England. So I
8 guess my suggestion is -- is that as a region we need the
9 time to sit down with state regulators, to sit with ISO and
10 to sit with the other market participants and figure out how
11 we can do this.

12 MS. SIMLER: Anyone else like to comment?

13 MR. MORENOFF: I have a two part question picking
14 up on statements that some of you have made. First picking
15 up on a statement from Commissioner Scott who said that
16 resource adequacy should be in the purview of the wholesale
17 markets.

18 I was hoping just to go down the line and see do
19 each of you agree with that statement.

20 Second, to the extent that there is a -- as Sarah
21 Hofmann had noted, likely to be some percentage that comes
22 from the wholesale market and some percentage that comes
23 from state procurement. To what extent does the larger
24 degree of the -- as the percentage of state procurement
25 becomes larger, how does that affect the role of resource

1 adequacy in the wholesale market?

2 But the first part is just down the line
3 commenting on Commissioner Scott's statement.

4 MS. O'CONNOR: I do think resource adequacy
5 should -- of the state at least in Massachusetts we are not
6 looking to take that back thank you very much. But it does
7 present that challenging dynamic so I do still think that it
8 does belong there and I'm sorry for the second part of your
9 question, my flight was delayed last night I'm tired.

10 MR. MORENOFF: I think you may have picked up on
11 also the second part of the question would be does the
12 larger degree -- as the percentage of resources coming from
13 state procurement increases how does that affect the world
14 -- the wholesale markets with respect to resource adequacy?

15 MS. O'CONNOR: You are channeling your inner Jeff
16 Bentz. So we have the legislative mandates -- again that's
17 all laid out in my pre-filed testimony. I mean ultimately
18 the hope will be once we get past that that if we are able
19 to create a market mechanism so instead of the legislature
20 saying, "Thou shall," hold on you know if we want to procure
21 this is there a way whether it is demand bids and I'll turn
22 it over to Jeff to talk in maybe more detail about some of
23 these other conversations.

24 Because if we are able to use that, ultimately
25 that would be the best thing. I mean forgive me for wanting

1 my cake and eat it too because we have to do these
2 procurements but if we are able further down the road that
3 within the markets of New England that we are able to have a
4 mechanism that allows competition.

5 You know, here's what we need and then allows
6 folks to bid for it. I mean the best possible result is
7 that you have multiple entities pursuing what it is that we
8 need. That would be the best case scenario and hopefully
9 again there is no -- you can't control the legislature but
10 if we can demonstrate to the legislature that we have worked
11 and then you know going forward there is this mechanism and
12 maybe stop the world of RFP's and these types of
13 procurements and find another way to do it within the
14 market would be ideal.

15 MR. KLEE: So that actually made a whole lot of
16 sense to me which is a little scary. Just in full
17 disclosure I'm probably the least in the leads amongst the
18 group here but that did make sense particularly on the need
19 to sort of evolve over time to that future state while
20 recognizing our current state and our current legislative
21 mandates that you have in Massachusetts, we have here in
22 Connecticut as well and the fundamental roles of the ISO.

23 And the things that ISO does well and delivers in
24 the safe, reliable you know complex system that is managed
25 and is delivering you know, power each and every day. I

1 mean those are all the things we want to and I think
2 actually Miss Simler it goes back to your sort of question.

3 The sort of fundamental principles upon which we
4 all can agree that the things that we want to have delivered
5 by our grid, delivered by ISO and respected in terms of what
6 the rate payers are not double-paying or over-paying for
7 resources and what not.

8 So I think that keeping those fundamental
9 principles, having those out in the forefront and then
10 having the system evolve to recognize what has come forth
11 from our independent legislatures that have been directing
12 us to do certain things and then I do like the idea of that
13 opportunity in the future where we can point to to say hey
14 if you want those sorts of resources here's the mechanism
15 that will be able to deliver them to you in ways that you
16 are comfortable with in terms of cost to rate payers and
17 getting the most efficient and the most effective in terms
18 of our other and effectuating our state policy goals and our
19 significant ones, particularly around climate.

20 MS. HOFMANN: Sarah Hofmann, National Council on
21 Electricity Policy. I think that as a general principle
22 resource adequacy is in the purview of the wholesale markets
23 but obviously things are changing and that's why we are
24 having this conversation.

25 I want to thank FERC for actually deciding that

1 you need to have this collaborative discussion and that is
2 happening at ISO New England in a big way. It's happening
3 at other ISO's and RTO's as well and that is really you just
4 kind of named the whole crux of the problem.

5 How are we going to integrate this as state
6 procurements get bigger without making the market useless or
7 not really doing its function? Because I do think it has
8 this function and has benefitted rate payers greatly so our
9 challenge is how do you marry the two?

10 MR. BENTZ: Jeff Bentz from NESCOE and since we
11 speak collectively for the states what they said that keeps
12 me out of trouble at home too. I will say those as far as
13 involvement all six New England states have been very
14 involved in the IMAPP process -- that's what this process
15 was about when it started.

16 NESCOE was very clear what we wanted to see out
17 of the IMAPP process was a possible mechanism that we could
18 all employ to better integrate policies and markets.
19 Because as I have explained it to the IMAPP group you know
20 the states have different pasts and create a CES and create
21 RPS, this path and that path but the one path that we have
22 never had because of the MOPR was a really competitive
23 market path.

24 And I do want to give credit on behalf of NESCOE
25 to all the participants in the IMAPP process. They brought

1 together a lot of good proposals. They have given us a lot
2 of stuff to think about. We now have the ISO New England
3 proposal so I can't really answer your first question other
4 than to say that all the states have been -- state
5 representatives have been at all the IMAPP meetings we have
6 had plenty of collective discussions among the states.

7 But there is conflict and to go back to your
8 earlier question that started this you know should the FERC
9 get involved in trying to settle those conflicts I can tell
10 you as NESCOE that's what we do and good luck.

11 But I do appreciate all the Commissioner's
12 comments. We have a good history of working together
13 resolving those conflicts and I think from a FERC standpoint
14 writing rules to settle those conflicts would be very
15 difficult.

16 We have a saying in New England is whack a mole
17 sometimes you fix one thing and you know three more pop up
18 and I think if the FERC were to try to get involved in
19 settling state conflicts you could see that come up.

20 MR. QUINN: At this point I'll ask the
21 Commissioners whether they have got any questions for our
22 panelists.

23 COMMISSIONER LA FLEUR: This has been a great
24 panel. I'm just trying to unpack what you said and kind of
25 go around the merry go round here. So the first thing we

1 heard was that people in general still want the centralized
2 market to play some role in bringing in resources for
3 liability and sustaining existing resources for reliability
4 I presume since that's part of what keeps the lights on.

5 In fact it is most of what keeps the lights on
6 right now but that will change over time. So no one said no
7 we are going to take over buying all the resources at the
8 state level, we don't want the market to call for any so on
9 the one hand that felt good for the first five minutes but
10 then it made me realize well then we have to figure out how
11 to sustain a just and reasonable price in that market for
12 the existing resources that were built into the market and
13 are there now and for new resources that might be needed
14 that are not going to be procured by the state because they
15 are not the favored technology.

16 So that brought me around -- there was a very
17 strong theme in the comments and I am just going to be real
18 blunt and call it out which was a kind of lack of trust of
19 FERC solutions. Because one thing the economists would say
20 is okay figure out what the states one, define it. When you
21 define it you can price it. But it came through loud and
22 clear, don't do that please.

23 Whatever you do, don't figure out what our state
24 laws add up to and price it in the market, we don't want a
25 FERC plan that was pretty clear. So where does that -- that

1 kind of crosses the achieve off the table at least if you
2 take it all the way.

3 So that leads us around to if we have to protect
4 a just and reasonable price and you don't want us to
5 redesign the market for what you want, then we probably have
6 to do what you don't want and somehow do a double price
7 curve for the unsubsidized resources, or a minimum offer
8 price rule or something to protect that price, that you
9 still want us to protect because you don't want to buy
10 those other resources.

11 So we are kind of going around the curve and I
12 know you don't want that, that also came through loud and
13 clear so now we are back to the beginning. So the ISO New
14 England solution to me is a phase step toward the market
15 getting out of resource adequacy because all of the new
16 resources come in unless there is a cap to what the states
17 want.

18 But if Massachusetts want's 80% clean I mean
19 that's a pretty big cap, that's a small market. So is that
20 the solution to kind of weed us off this where every year
21 you would buy a little more and the market would price a
22 little less and more things would retire or do you see a
23 long-term non-state market in which case we have to figure
24 out a price for it no matter how hard it is.

25 And this is the kind of -- my mind has been going

1 in this curve for a long time so help me.

2 MR. BENTZ: It's great to be me. So thank you
3 Chair LaFleur. I did hear you say you know accomplish isn't
4 a goal and I want to push back a little bit and say no, I
5 hope you are not hearing that.

6 I know that I have heard collectively from the
7 states that some of the "accomplished" proposals that have
8 been put out at IMAPP are something that we want to continue
9 to look into. NESCOE is doing a mechanism study.

10 We are actually going to look at some of those
11 proposals in that study. And I can state from some of our
12 collective discussions you know there is a lot of value in
13 having ISO run markets just you know, qualifying capacity,
14 the transmission constraints, they have the people to do it,
15 the engineer to do it.

16 So that's one of the things that the states are
17 looking at so I do want to push back that I think there are
18 some proposals out there.

19 COMMISSIONER LA FLEUR: So it's just carbon
20 pricing you don't want. Other things are still okay?

21 MR. BENTZ: I think the states have been pretty
22 clear on the carbon pricing proposals. I think that it is
23 more than just -- I'm going to use your words, so it is not
24 my words, the trust issue. I think that is a big one. I
25 think that came through loud and clear in our April 7th

1 memo. But I also think there were six or seven other
2 reasons in there, cost clearly being one of them.

3 Certainly what we have seen in New England
4 through the IMAPP discussions and also through the NESCOE
5 study that we just published, New England has a pretty flat
6 supply curve and so pricing carbon in New England probably
7 is not going to give you the carbon benefits that it might
8 in other regions.

9 So I don't want to say that carbon is just bad
10 everywhere, but in New England given our current supply
11 curve I don't know that we will get much carbon benefits so
12 from a consumer perspective if I look at the number of clean
13 energy megawatts that are produced today and I take the time
14 to say a \$10.00 per megawatt carbon price, that's a half a
15 billion dollars.

16 And I'm not sure the supply stack is going to
17 change. At least no one has been able to prove that to us
18 through the IMAPP process. So I want to say that as far as
19 carbon goes, it's not just trust there were quite a few
20 other reasons.

21 COMMISSIONER LA FLEUR: But do you think there is
22 a way to define what the states want and price it? I mean
23 if it is not carbon and I do understand that -- I mean or do
24 the states want by the very definition the ability to choose
25 which means even if we could somehow put an attribute on it

1 and ask Gordon Van Wiley to run an auction to price it, it
2 wouldn't come out with the specific thing you want.

3 Because if it is the specific thing then I think
4 we are at accommodate because the market might not -- I mean
5 I think it would take a genius to back design the market to
6 come up with this much off-shore wind and this much that,
7 and this much that. Definitely -- so should we be trying
8 for that attribute or is it -- should we just be trying to
9 protect the price of everything else and let you run with
10 your market?

11 MR. BENTZ: Jeff Bentz from NESCOE. Excellent
12 question one that has been asked really early in the IMAPP
13 process. One that if you look at our April 7th memo we have
14 basically said to NEPOOL we get that question, we have to
15 answer it. That ball is in our court. We understand it is
16 very important because you can't get economists to go design
17 something without a good goal.

18 So that is in the state's court. We are
19 continuing to meet on that issue. One thing that we have
20 talked about both openly at IMAPP and collectively at our
21 state meetings is you know maybe we don't get 100% of the
22 way there. Maybe we can only achieve 70% of what we want
23 because as the Commissioners have said the legislature is
24 always going to do what it is going to do and maybe there is
25 some 30% that stays out of the market, outside the market.

1 But is that a success if you get 70%? I kind of
2 think so personally. So it is a goal that we haven't
3 dropped at the state level yet.

4 COMMISSIONER LA FLEUR: Okay I have to ask this
5 question even though I think I know what the answer is going
6 to be. I just want to ask a question about RGGI. Do you
7 know we have folks on the hill who have been watching the
8 IMAPP process saying, "Why don't they use RGGI?" RGGI was
9 designed to do this. RGGI is to get clean energy. It
10 already exists it's controlled by the states not FERC. I
11 think there are ways you could you know, design it to allow
12 for different state policies if you wanted to you know and
13 let things separate if you had just a couple of states that
14 want to do it a different way.

15 But yet every time -- I mean on the face of it it
16 looks like it was designed to do what the states are trying
17 to do which is meet those stair step carbon goals. So is
18 that -- are we just barking up the wrong tree or does RGGI
19 have a role in getting us to do part of the job or none of
20 the job or if not what is it for?

21 MR. SCOTT: Sure, thanks for that question and
22 you may remember this Chair LaFleur is at the very beginning
23 of this process for NEPOOL my recollection is that's what a
24 lot of the participants said well just obviously there is a
25 mechanism -- you have RGGI, just make RGGI a lot more

1 stringent and that will be your answer.

2 In a vacuum I don't disagree with any of that
3 because the reality is as you know is RGGI is 9 states, each
4 state gets a vote and it is not just a vote it is -- we all
5 have to unanimously agree.

6 And what's needed for RGGI -- the allowance price
7 for RGGI to do what the market is now and that's just what
8 Connecticut policies are fully engaged in is at this point
9 is not practical for all of the states to do.

10 So we are negotiating behind the scenes how far
11 we go on RGGI. One thing I think I can say is nobody is
12 anticipating going that far right now with RGGI. So that as
13 a case in point of going back to the carbon matter what a
14 lot of people are suggesting to us is okay states -- you are
15 saying it is a non-starter to do that and RGGI for whatever
16 word you want to use practical -- political, whatever.

17 And the suggestion that then instead we will do
18 it for the federal market -- if you think about what that
19 just said the states agreed we can't do this at this
20 juncture but yet we will try to do it at the federal market,
21 how does that work?

22 So that's the conundrum if you will, RGGI is the
23 right answer I agree.

24 COMMISSIONER LA FLEUR: Whether it was RGGI or
25 something else. If want you wanted was the most carbon

1 improvement -- the cheapest, some structure would get you
2 there. So if what you really want -- if the problem is whoa
3 it has to be a really high price to bring off-shore wind or
4 whatever it is we want, then that means you want to select
5 the specific resource.

6 I mean I just want to understand what you want
7 because if we -- the worst thing I want is to come up with
8 some God forbid, may I say brilliant solution, but it is not
9 what you want because it doesn't produce.

10 So if you really want to choose that's different
11 than wanting clean. It's -- they might be clean things but
12 you want to choose specific, at least some states it sounds
13 like.

14 MR. SCOTT: And to finish my statement what I
15 want is not to pay for Massachusetts and Connecticut's
16 policies bluntly. So that shows you the dynamic there.

17 MR. KLEE: And I think Bob, I will agree with you
18 there actually, which is a surprise. But because one of the
19 things we have learned through RGGI and one of the things
20 that my Governor and other Governors are laser focused on
21 with RGGI is the fact that it is a 9 state collaborative
22 with a process that has to bring all of us together in
23 consensus.

24 And one of the main goals of all the members
25 right now is to keep the band together and to keep RGGI

1 together and to do that in a way that respects the varying
2 places where all of our states are coming from.

3 And that has a parallel in New England. We are
4 in different places in southern New England with our
5 legislative enactments that are pushing hard and sometimes
6 on individual resources but not always.

7 I mean our procurements have for the most part
8 been open to all Class 1 resources. We compete different
9 resources against each other, that's the way the Connecticut
10 way is a different way than Massachusetts. But again we
11 need something that respects those different approaches and
12 each state's sovereign right to have those approaches.

13 The last thing on RGGI obviously is that it is 9
14 states in three different ISO's and not all of those states
15 are the entirety of their ISO like we are in New England,
16 another concern that some may have about RGGI as a solution.

17 COMMISSIONER HONORABLE: I'll make a quick
18 comment and then I will ask Commissioner Scott I want to
19 follow-up on something that you mentioned earlier. I
20 appreciate this panel because you have teed up nicely the
21 larger tensions that we are facing.

22 And I know you. I've come from where you are now
23 and I understand you and I also sympathize with you. You
24 are trying to thread a needle that you found in a haystack
25 and it is a sewing needle and you have got to thread it with

1 wool yarn and you are sitting precisely between very active
2 legislatures and I hope that you shared this message with
3 them.

4 We couldn't possibly control them nor do we want
5 to. And then we sit in this unique place of trying to
6 protect markets which have been not perfectly operating as
7 intended and not -- and we too can't be controlled by
8 individual legislatures.

9 But I think that we all have demonstrated really
10 quite passionately and eloquently our willingness to invest
11 in this and be hopeful as Angela said about where we are
12 headed for the future and how we do that in a way that
13 appreciates your respective states goals.

14 You are very active and we will hear from New
15 York and others about their activity. It's a beautiful
16 thing, it's a challenging thing. And we have also managed
17 to touch on in less than an hour what's at the heart of
18 this, its trust.

19 And you guys have teed up to your faith journey
20 with one another but I am hopeful that we can continue and I
21 have often said so much of our work depends upon our ability
22 to trust one another and work well together. You all have
23 demonstrated that with your RGGI effort though Rob has
24 eloquently stated it doesn't represent the entirety of the
25 three regions.

1 And I look forward to our work together, even in
2 my time but more broadly the Commission's work with you to
3 help you achieve your goals while attempting to accommodate
4 them in markets.

5 So let me get to my question I know we want to
6 stay on time. Bob and I should say Commissioner Scott for
7 the record, you mentioned earlier but you touched on it
8 briefly and I wanted to ask you to elaborate on it just for
9 clarify in our record -- a trepidation you have about
10 activity to the south of where you are.

11 I wanted to ask you to touch on that a bit and
12 what are the market concerns you might have about that.
13 It's a loaded last one isn't it?

14 MR. SCOTT: Well I love my neighbors to the south
15 let me go on record for that. Really it goes back to the
16 off-hand quip I made the concern we have -- I'll speak for
17 New Hampshire. Right now there are a lot of concerns about
18 rates and it is not such that the rates are so high in New
19 Hampshire and New England absolutely but it is really
20 compared to other regions right.

21 So our industry spends a lot of time concerned
22 about that and there is a lot of concerns about are they
23 going to leave the region, that type of thing. So that's
24 the context of a lot of this so -- and again good for them
25 and they are very laudable goals that the states to the

1 south of us have passed as I mentioned.

2 The concern is what's the economic impact to a
3 state that the legislature didn't take those actions right?
4 So one of the reasons why I'm here and IMAPPED and I
5 participate in NESCOE regarding IMAPP is we do recognize --
6 I do recognize that whether we have a policy or not their
7 state policies and they drive most of the load in New
8 England, they distort the market right.

9 So those distortions have some impact to the rate
10 payers of my state. So that's the variance that I am
11 interested in dealing with. How can we mitigate that? So I
12 am less interested though -- again my legislature tomorrow
13 could do the same thing who knows but we are not there at
14 the moment. So that's my interest if that makes sense is
15 there is an impact, how do we mitigate that and how do we
16 maintain the benefits of a competitive market which I know
17 FERC shares also.

18 COMMISSIONER HONORABLE: And I certainly wanted
19 to open it up and that's my only question but if anyone else
20 has any thoughts to share, yes Angie?

21 MS. O'CONNOR: But you also benefit from some of
22 the things that we do with flattening that load curve so it
23 does cut both ways.

24 MR. KLEE: And our improvements to winter
25 reliability as well so.

1 MS. O'CONNOR: But I also wanted to add that one
2 of the things we did as a region, now I'm speaking as not as
3 the National Council of Electricity Policy, is we did make
4 principles up, what we were interested in and what our final
5 outcome would be.

6 And it was one of the principles was not have
7 states pay for other state's public policies and we have
8 been very respectful of that throughout the process.

9 MR. BENTZ: And I'll just add at least -- Jeff
10 Bentz from NESCOE -- when the MOPR came out I think I was
11 here for the capacity market technical conference and a lot
12 of talk about renewables.

13 You know we see that the six states did see that
14 as a way to accommodate if you will policies in the markets
15 and we wrote that to be very narrowed and very tailored to
16 help protect the markets and then you know as the policies
17 continued to grow I guess we can debate and question whether
18 that exemption needs to grow a little bit, at least maybe by
19 definition because the definitions change, maybe the
20 megawatts don't need to change, but we did come together and
21 view that as a way to help accommodate certain state's
22 priorities without harming the market.

23 And I'm sure a lot of debate about whether it
24 harms the market or not but it has been in place for three
25 years, we have had three really good options, we have had

1 new entry clearing all three options the first two being gas
2 turbines. I think the last one only being energy efficiency
3 but we have seen new clear where that renewable exemption in
4 place.

5 COMMISSIONER HONORABLE: Thank you all and Sarah
6 your comments really harken back to something Jaime asked
7 about and that will be a takeaway for me to really think
8 about how you develop those principles and how they could
9 really aid a regional effort, thank you all.

10 MR. QUINN: Thank you for your frank comments.
11 We are going to move you off of the hot seat and move you to
12 the warm seats and ask our second panel to come up, thank
13 you.

14 (Pause.)

15 MR. QUINN: Alright we are going to get this
16 panel going. We'd like to try to keep as much on time as
17 possible. So reluctant sitters your last panelist is --
18 alright thank you. I want to thank our panelists again and
19 I'll briefly introduce them.

20 We have Matthew White who is the Chief Economist
21 at New England. We have David Patton who is the President
22 of the Potomac Economics.

23 We have Brian Forshaw who is the Principal at
24 Energy Market LLC speaking on behalf of the Connecticut
25 Municipal Electric Energy Cooperative, the New Hampshire

1 Electric Cooperative and Vermont Public Power Supply
2 Authority.

3 We have Peter Fuller who is the Vice President of
4 Market and Regulatory Affairs at NRG. We have Seth Kaplan
5 who is the Senior Manager of Regional Government Affairs for
6 EDP Renewables also speaking on behalf of RENEW Northeast.

7 Tom Kaslow, speaking on behalf of NEPOOL. We
8 have Aleksandar Mitreski, Senior Director of Regulatory
9 Affairs at Brookfield Renewables and finally we have Bill
10 Murray who is a Senior Policy Director at Dominion
11 Resources.

12 Again thank you all for joining us today. Thank
13 you for your pre-Conference statements. We have a whole
14 stakeholder panel to cover a little of the same ground we
15 covered with the states, particularly I would like to
16 explore the role of the wholesale markets generally in light
17 of state policies but also in pursuit of those state
18 policies but also for this panel I would like to explore a
19 little bit more the implication of those policies on the
20 wholesale markets and the decision-making that the market
21 participants are attempting to do.

22 We spent some time at the last panel talking
23 about the relative role of the state in addressing resource
24 adequacy and procuring the resources, especially new
25 resources versus the market's role in getting those

1 resources.

2 I think what I heard was a state's desire to
3 continue to have the wholesale market be the place where
4 resource adequacy occurs. But at the very end of that panel
5 we had the discussion a little bit about maybe what the
6 tipping point is regarding when the amount of procurement
7 coming through the states starts to make the remaining role
8 of resource adequacy for the market more difficult.

9 And so I think I would like to start there on
10 this panel and ask all of you what you think the relative
11 role of the states in the market is in addressing resource
12 adequacy and particularly if you see a diminished role for
13 the RTO and as you are giving us an answer to that --
14 particularly focus on how important it is to have that role
15 defined whether it is the state or the market.

16 How is that important to the decisions you make
17 and how well the market functions?

18 MR. MURRAY: Bill Murray with Dominion and I will
19 lead off to the extent you think of gas as a rough proxy for
20 the market and I think that's a fair approximation. If you
21 look at the New England market from the time markets were
22 restructured in various states to now I think it would be
23 hard to say that gas has become less central a resource.

24 If anything the region has become substantially
25 more dependent on gas and I think it makes sense to step

1 back and look at the world as we saw it in energy when
2 markets were restructured. We assumed the existence of base
3 load coal -- that's not a good assumption anymore.

4 We assumed a nuclear renaissance which has proven
5 to be a debatable assumption. I would say even the most
6 ardent proponent of solar energy in the room probably is
7 surprised by the degree of the deployment of large scale
8 solar energy and some of it is rooftop solar energy and not
9 -- if anybody here saw the shale gas revolution coming
10 somebody earlier referenced why you are not on your private
11 island and why you are here today with us in D.C.

12 So the world has changed substantially. What I
13 don't think has changed is that gas is sort of at the margin
14 and if anything it is only going to become significantly
15 more gas dependent without necessarily the corresponding
16 increases in natural gas infrastructure.

17 At Dominion we actually like natural gas for a
18 major, major natural gas mid-stream developer but we don't
19 think it is smart to rely only on one resource so we think
20 appropriately and when a major natural gas midstream
21 developer tells you it is not smart to rely on any one
22 resource, you know that that may have some salience so we
23 think that states appropriately are stepping in to look at
24 not just resource adequacy but resource diversity and other
25 attributes besides just energy and that is carbon and

1 renewables and those are not one and the same.

2 I think because RPS's tend to get set up at a
3 time when no one was thinking about a national conversation
4 on carbon constraints, those are imperfectly designed in
5 various state RPS's and now what you see are states stepping
6 up with separate or companion climate policies so we have to
7 sort of think of not just the energy markets but also carbon
8 and renewables.

9 But I certainly don't see us at any sort of
10 tipping point if anything quite the contrary.

11 MR. MITRESKI: Thank you good morning everyone.
12 Commissioner LaFleur, Commissioner Honorable and Arnie thank
13 you everyone for organizing this wonderful Conference. I
14 think everyone is looking forward to discussing this very
15 prevalent topic right now and looking forward to hearing
16 some opposite interesting ideas and views from different
17 perspectives so thank you for that.

18 From Brookfield Renewables perspective we are one
19 of the largest renewable companies in North America, about
20 1100 megawatts of generation of which 88% is hydro so I just
21 wanted to kind of put that as a perspective, but we are very
22 much a big supporter of the wholesale market itself.

23 A very, very small subset of our resources
24 receive out of market revenues, so we rely on the revenues
25 and the health and the sanctity of the wholesale markets.

1 With that said we also sustain support of public policy
2 initiatives and goals and believe that the states have the
3 rights to pursue those goals. We are very much in support
4 of those.

5 I do think that it will be short-sighted if these
6 two elements are not integrated. I think the markets and
7 public policies have been operating sort of in a vacuum on a
8 standalone basis but it is coming to a point now when we are
9 reaching sort of the landmark years of 2020, 2025 and so on
10 where sizable procurements will happen.

11 And I think what is very important to keep in
12 mind is consumer cost and making sure the consumers do not
13 pay twice. Maybe I will just illustrate this as an example
14 -- if I own a bakery in the neighborhood and let's say that
15 baker is also hydro in Maine and a bakery moves next door
16 and it's perhaps a wind facility -- I don't think it's the
17 right place or location to implement that type of a
18 facility.

19 Likewise where I am going with that example is
20 that the markets, the wholesale markets, do an excellent job
21 of sending the price signals where and when certain
22 resources need to come in. And I think integrating those
23 will ensure that that wind facility that is needed to meet
24 public policy maybe put in a better position on the system
25 and not interfere with the hydro or other renewable

1 policies because that will be counter intuitive.

2 So from our perspective I think the time is right
3 to integrate public policy wholesale markets.

4 MR. KASLOW: Thanks, Tom Kaslow I'm here as the
5 Chairman of the New England Power Pool and I also wanted to
6 thank the Commissioners and staff for inviting NEPOOL here
7 to make a few comments.

8 I also want to thank the prior panel for the
9 multiple compliments on the NEPOOL integration of markets
10 and public policy initiative. Certainly that's something
11 that our region and NEPOOL has tried to be at the forefront
12 of these discussions.

13 We recognized a lot of the issues that the
14 Commission has identified and we started a process almost a
15 year ago so about a year into our process. I think with
16 respect to the specific question our focus has really been
17 on how do we avoid the tipping point right?

18 If there are solutions that can accommodate or
19 achieve state policy through the markets then perhaps the
20 tipping point isn't the question as much as how we address
21 avoiding it. And we represent 450 members. We have a lot
22 of different perspectives.

23 We have some of them on this panel. There are
24 about 17 proposals that have been made within our processes
25 -- I'm sure you will hear about all of them in the comments

1 following the Technical Conference. But I think the real
2 key takeaway from a NEPOOL perspective is we are working on
3 this as a region. We do have a lot of proposals. We have
4 the active engagement of the states. We have the active
5 engagement of your staff and I think from our perspective we
6 would like the opportunity to find a way to avoid that
7 tipping point, thank you.

8 MR. KAPLAN: Good morning Seth Kaplan, EDP
9 Renewables and RENEW Northeast. And I would just pick up on
10 some of the historical perspectives that Bill started with.
11 You know at the time that these markets -- and also I think
12 the reason to think about the history is to distinguish
13 between markets in the abstract and the exact markets that
14 we have gotten used to and that we have all built in the
15 past.

16 The energy markets as we know them were
17 constructed with gas turbines in mind. Initially simply
18 turbines and then moving more toward combined cycle. And
19 the market design was shaped by the technology. We are
20 increasingly moving in the case of my company was built all
21 around the world -- we built a lot of in North America
22 resources that have no fuel price, that have large capital
23 cost and that the way you build them is by taking advantage
24 of the customer value that flows from having certainty what
25 the production cost will be 10, 20, 30 years in the future.

1 You know the markets quite simply were not
2 designed with these kinds of resources in mind so it is not
3 surprising that the square peg doesn't fit into the round
4 hole. You know and it is very legitimate for the states to
5 want to get the environmental and the economic value of
6 these resources. So therefore the task at hand
7 is to you know, as we have all been saying re-design the
8 markets and you know get out a drill and reshape the hole in
9 order to be able to accommodate the resources that are on
10 the table in front of us.

11 I would take note of the fact that this
12 Commission has other tools. You know as somebody who has
13 been working to try to build Aleksandar, who seems to have
14 characterized this bakery across the street as someone who
15 has been trying to build wind in Maine since before the Red
16 Sox won the World Series for the first time.

17 I would note that you know we have projects that
18 had contracts with the state of Connecticut that were ready
19 to go and the only thing I can tell you from my unique
20 perspective on this that foiled that was transmission.

21 And the fact that you know that the ISO New
22 England transmission planning process and the cost
23 allocation process and a variety of things with over on the
24 transmission side of this Commission's jurisdiction has
25 frustrated the implementation of those state goals is a very

1 real thing.

2 And that we must understand the need for the
3 Commission to use all of its tools to both assist the states
4 in reaching its goals in the least cost way and to move the
5 markets forward in an efficient way. You know at the end of
6 the day it is about cooperative federalism. It is about
7 comedy. It is about designing to accommodate the state
8 policies to deal with the reality that as the courts have
9 said inevitably state policy is going to affect wholesale
10 prices.

11 The states don't have the right to set wholesale
12 prices but the states have the inherent ability through
13 their actions to affect them and to figure out how to set
14 that balance and to design the wholesale markets in a way
15 that accommodates those state policies and that recognizes
16 that reality that the states are going to affect them.

17 Now it won't be easy and we need to have some
18 faith that as we have set up a good market design there will
19 be more storage, there will be more technologies that can
20 respond to the market signals.

21 MR. FULLER: Good morning Pete Fuller with NRG.
22 First of all Chairman LaFleur, Commissioner Honorable thank
23 you very much and thank you to the staff for putting on this
24 very timely and very important effort.

25 I actually want to pick up with a point that Seth

1 raised and I think it's important to keep in mind this is
2 sort of the third "A" in our AAA series here of accommodate,
3 achieve and adapt.

4 We need to be thinking about that world where the
5 grid is primarily powered by renewables by intermittence, by
6 variable resources -- however you think of it. We need to
7 be thinking about that as a different paradigm than the
8 fossil fuel input heat raid world that we have dealt with
9 for the past century or so.

10 We need to think about what new products are
11 going to be necessary, how does that work in a market
12 construct and I don't start with that because it's what we
13 need to do first but we need to be doing it because we can't
14 leave that. We can't wait for that.

15 What we have in front of us right now is perhaps
16 the states -- not in these terms, but the states actually
17 recognize something sooner than many of us in the markets
18 did which is the markets aren't giving us what we want.

19 We want cleaner energy. We want other kinds of
20 energy. We want other kinds of resources and when that
21 wasn't happening through the markets the states took actions
22 through tools that they have at their disposal through
23 legislation or regulation and said, "No, let's get what we
24 want."

25 And that creates the tension and the challenges

1 which we have in front of us now. I think what we -- in
2 order to really plot a good path through the accommodate
3 stage and the achieve stage I think we need to get in mind
4 how this is going to work when you have got wind and solar
5 and storage and controllable demand as your primary means of
6 energy production and delivery.

7 So stepping back from that where we are today in
8 terms of the role of markets -- we believe that the markets
9 are fundamental and can be adapted, can be modified to get
10 the states what they want, to get consumers and the nation
11 what we all need in terms of reliable and affordable energy
12 and address and get ahead of the climate and other
13 environmental goals that we all have.

14 So as NRG we are fully committed to moving down
15 the market oriented path and we think it can be done. In
16 the near term, the states have begun to act and Chairman
17 O'Connor and others referenced the substantial moves in New
18 England that are underway. Those are going to happen as far
19 as I know. I can't see any way to stop them from happening.

20 So we need to accommodate them in the markets,
21 recognize the double payment problem, the double purchase
22 problem, figure out a way to allow those resources to
23 actually have their role in the markets while not
24 undermining the markets for those of us who have invested
25 strictly on the basis of market revenues.

1 So we have our two-tier pricing mechanism. ISO
2 has proposed its substitution auction, both good ideas that
3 merit further consideration. I don't think we are at the
4 tipping point yet but if we don't move fairly quickly on
5 this accommodate side and move a little farther into how do
6 we build some of those objectives into markets and further
7 how do we ensure that markets can actually support the kind
8 of renewable based future.

9 If we don't do all of those things then we could
10 very well tip over and I think that would put us in perhaps
11 I think that was option 4 from Chair LaFleur which I agree
12 would be about the worst of all possible worlds. I think we
13 need to commit to markets and move down this AAA path that
14 we have laid out or something along those lines.

15 MR. FORSHAW: Good morning and thank you for the
16 opportunity to be here. I'm here today speaking on behalf
17 of the group of municipal electrical utilities from
18 Connecticut, Vermont and New Hampshire. I also have a
19 feeling I'm probably going to be a little bit of an outlier
20 in some of my comments.

21 First of all starting with resource adequacy -- I
22 think it's important to note that really we no longer have a
23 uniform or a single resource adequacy standard in New
24 England now. We have a variable resource adequacy standard
25 that says will procure a certain quantity of resources at a

1 given price and those can vary over time.

2 Many folks believe that actually when we talk
3 about a capacity market we are really you know talking more
4 about an option based administrative pricing construct that
5 determines how much we pay for resources to come on to the
6 New England system, how much do we pay for resources that
7 you know we want to keep operating within the New England
8 system.

9 It's not really a free you know open entry, open
10 exit type structure. We spend many, many, many meetings and
11 as a consultant I like that but coming up with a bunch of
12 administrative assumptions on you know what's the cost of
13 resources, what are the projected non-capacity market
14 revenues going to be.

15 What are the forecasted economic conditions going
16 to be? How are suppliers going to behave? What are the
17 projected loads? How are resources going to perform? You
18 know, what kind of exposure will the region have to
19 reliability events and we construct demand curves and
20 evaluate supply offers based on you know, all of those sets
21 of assumptions.

22 I think the concern that we have is we are in a
23 mode right now and many have mentioned it where we have
24 these non-electric market policy requirements that have been
25 set out by the states, some of them are environmental, some

1 of them quite frankly are economic development.

2 Some of them are in response to you know, extreme
3 weather events we have had in the past and people looking
4 for added resiliency to the system on a local level. All of
5 those are out there. We have a construct where states have
6 obligations to pursue those. Customers want to pursue
7 those.

8 In terms of the ISO resource adequacy -- they are
9 independently going to looking at meeting those requirements
10 you know through the resource adequacy construct. That will
11 put us in a position today where we are going to have sort
12 of two buckets of resources.

13 A whole set of resources that are procured for
14 these non-market objectives and at the same time we are
15 going to have a bunch of resources procured to meet all of
16 the ISO wholesale market resource adequacy objectives and
17 that's where you get the redundancy.

18 I think in the last panel towards the end,
19 probably the most salient discussion was how do we integrate
20 those, allow states who might enter into bilateral contracts
21 with people to say okay I'm willing to develop a project and
22 we are on behalf of customers or customers directly are
23 willing to pay for that, irrespective of what the market
24 revenues might be.

25 And let those come in so that we don't have too

1 much capacity in the region. I think the key point is there
2 needs to be a critical mass and we all need to recognize
3 that in terms of whatever residual needs are met through the
4 wholesale market construct if you will and that's really the
5 point I think we all need to focus on to come around and
6 come together on, thanks.

7 MR. PATTON: Great question. I think the
8 question was through the roles who maintain resource
9 adequacy it is unambiguously FERC's role and the market's
10 role in facilitating and states have a role. I think this
11 is really a key question to delve into.

12 The states have a role. What makes these markets
13 unique is -- and we throw the word administrative around all
14 the time which frankly bothers me because what makes these
15 markets unique is the consumers don't participate directly
16 in the market. So somebody has to figure out what they are
17 demanding.

18 And one thing that they are demanding is
19 reliability so we procure a lot of things to provide the
20 kind of reliability that consumers are demanding so we
21 procure operating reserves beyond energy. Operating
22 reserves, we procure capacity -- so it's somebody's job to
23 figure out what consumers want and I think the states have a
24 role in defining what that is.

25 I would love at some point for somebody to take a

1 step back and look at this one day in 10 year standard but
2 there are lots of other requirements. And I think to the
3 extent that the states have a role in establishing the
4 planning standards, that's a key role and I don't want to
5 discount that, but then when you ask yourself then once the
6 requirements are determined whose job is it to satisfy those
7 requirements? It is the market's job to meet those
8 requirements.

9 And I would challenge you or caution you not to
10 think about this too simplistically because you know lots of
11 times we think about well a state wants to bring in 1,000
12 megawatts of whatever -- hydro in New England for example so
13 that may displace some resources.

14 And it's easy to think about that in a pool wide
15 context but there is far more going on in these markets than
16 simply what is the aggregate amount of megawatts that we
17 have to procure. There are transmission security needs in
18 local areas, there are second contingency requirements in
19 local areas that require us to buy capacity in those areas.
20 Some of that capacity has to be controllable at a certain
21 level. If they are not gas turbines we are really in
22 trouble in some of these areas.

23 We can't just you know stick a wind turbine in
24 there and imagine that is going to provide the same service.
25 So the nice thing is that the markets give us a mechanism to

1 price all of those requirements so we have local
2 requirements in a lot of these markets that serve a very
3 important role.

4 A lot of times people will think well the market
5 can operate as a residual but there is no such thing as a
6 residual market. The market is the market. You can sort of
7 pretend it's a residual but it is setting the marginal price
8 for every megawatt that's bought and sold which is why the
9 MOPR is so devastating for the resources that it is applied
10 to.

11 So if you think of it in that context and you say
12 well you know we have de-regulated the wholesale markets how
13 can we -- what is our whole theory on why the prices that
14 consumers are going to pay are just and reasonable -- it's
15 all premised on the markets functioning.

16 The worst possible outcome you can imagine for a
17 capacity market is we need new resources, we set a price
18 that looks like it would recover more than the cost of new
19 entry for new units and investors don't respond so the price
20 keeps going up and we are watching billions of dollars flow
21 out the door.

22 It would be hard to imagine who could look at
23 that scenario and think that what we are seeing is just and
24 reasonable. Well what stops that? It's the willingness of
25 investors to put money into these markets to either build

1 assets. I like that we are focusing so much on retirement
2 because a lot of times it takes a lot of money to keep an
3 old 40-50 year old unit in the market.

4 And their willingness to put money in the market
5 is directly dependent on how credible the market is because
6 none of these investments pay off in one year. They are all
7 paying off over many years. So if they see things down the
8 road that could you know undermine the market and the
9 revenue streams that they may expect from the market, then
10 their willingness to invest is going to be fundamentally
11 undermined and that hurts everybody.

12 That hurts the states, that hurts consumers, that
13 hurts the investors so this isn't an us versus them we have
14 got to find a way to keep these markets working because we
15 have no backstop. We can't -- I don't know what it means --
16 I know what it means in the Midwest to say well let the
17 states just take it over because they are still vertically
18 integrated.

19 I don't know what it means in the Northeast if we
20 don't have a market that's functional. So I think at the
21 end of the day we have to -- but I also recognize the
22 importance or the truth that legislatures pass laws and
23 there's no choice but to implement the laws that they have
24 passed.

25 So I think at the end of the day we have to

1 really put our eye on what it is that would undermine the
2 market, you know where the rubber meets the road. And I
3 tried to articulate that in the comments and I worked with
4 ISO New England on their proposal to really focus on the
5 core of the issue which is artificial surplus.

6 If you can avoid artificial surplus then there's
7 an awful lot that you can allow the states to do that would
8 not fundamentally undermine the market. But I don't think
9 -- back to your question, I don't think anyone can move away
10 from the answer to this question with any other answer but
11 that it's FERC's responsibility to ensure that these markets
12 work to maintain resource adequacy and frankly the other
13 planning requirements that I mentioned.

14 MR. WHITE: Good morning Commissioners and
15 Commission staff. It's an honor to be here no pun intended.
16 Dr. Quinn you asked originally about responsibility and
17 accountability for resource adequacy.

18 The ISO believes that ensuring resource adequacy
19 requires a single entity to be accountable to those
20 standards. Those are complicated standards and you fulfill
21 them by having someone whose feet you can hold to the fire
22 to know they are fulfilled.

23 In New England's restructured electric system
24 going back 20 years that responsibility was vested with the
25 ISO and of course indirectly as David noted with our

1 regulators with FERC.

2 Other alternatives are possible. It is certainly
3 possible as Chairman LaFleur has noted -- I believe it was
4 the third door that states could if they choose to do so
5 take on that mantel and might call it -- since we live with
6 it, an albatross rather than just a mantel, particularly
7 through their actions they could take with the state
8 regulated utilities.

9 But echoing the comments that you heard on the
10 prior panel this morning the states have not indicated to us
11 any interest in taking on that accountability in New England
12 at least to day.

13 To be clear the states have tremendous influence
14 over what gets built in New England through their siting
15 authority, through their environmental permitting authority,
16 through their obligations to carry out their legislative
17 mandates. We don't see that changing that's been true for
18 many, many years.

19 But ultimately we do not see -- we see that
20 really as something that we have to accommodate because we
21 do not foresee the ISO as facing a diminished role and
22 remaining ultimately the entity that is accountable to those
23 standards for resource adequacy.

24 MR. QUINN: So the last two David and Matt I
25 heard very unequivocally say that it is the market's role

1 and ISO New England's and FERC's role to do resource
2 adequacy ultimately. I liked the use of the word
3 accountability ultimately ISO New England and FERC are
4 accountable for resource adequacy in New England. Is there
5 anyone on the panel who disagrees with that fairly stark
6 statement? I should ask it the other way so I could
7 actually get comments.

8 So if no one disagrees that there is -- that
9 ultimately it is -- Brian?

10 MR. FORSHAW: Just yes I agree that the ISO plays
11 a central role. I guess I would argue that sort of defines
12 the minimum level of resources that might be needed going
13 forward to meet the reliability objectives.

14 And Matt I like your characterization that at the
15 end of the day the ISO you know really is going to stand to
16 being the accountable entity so thanks.

17 MR. MURRAY: I'll simply add that the way I heard
18 both statements with the caveat that you stole a response
19 both for implementing the regulatory powers of the state
20 legislature -- I worked at the Governor's Office when my
21 home state of Virginia had legislation to join RTO and I
22 could assure you had anybody represented to any Governor of
23 Virginia who has ever occupied that office that you are
24 surrendering state sovereignty when you join the RTO and you
25 are giving up your ability to act in any number of areas

1 whether it is climate, whether it is renewables, whether it
2 is general environmental policy siting I would have a hard
3 time seeing any Governor of Virginia I have known in our
4 modern history signing such legislation.

5 So it's always with the understanding that states
6 remain the one sort of unit of government in our federal
7 system that have plenty of regulatory powers and you don't
8 ask where's the state legislature in numerated power you
9 asks what stops the state legislature from doing it because
10 it is assumed that general regulatory powers, that's the
11 important caveat I would add.

12 MR. FULLER: Thanks Arnie. To take the bait on
13 that one I think the -- I absolutely agree that you know
14 it's the ISO's, it's the RTO's, it's FERC that are
15 responsible for and accountable for the resource adequacy
16 and reliability generally.

17 And I think that we keep hearing that loud and
18 clear from the states and I think it is evident in the
19 design. The challenge we have just to continue to pile on,
20 the challenges notwithstanding that you know as Bill
21 discussed you know the states have certain authorities, have
22 certain interests and those are beginning to increasingly
23 impede or step into effect that reliability issue.

24 So when you know, when states are doing things
25 for other purposes I want clean energy -- okay that's fine

1 you can get clean energy but that has effects on price, it
2 has effects on reliability. How do we wall that off? How
3 do we accommodate, how do we make that work?

4 So absolutely agree that the responsibility is
5 here but the bigger challenge now is to say in the face of
6 actions that are going on beyond that can we build the
7 markets that actually stop the states from feeling that
8 their needs aren't being served?

9 And in the meantime how can we accommodate that
10 so that the markets remain vibrant and sustainable?

11 MR. KAPLAN: And to continue on in the direction
12 that we are going you know the ISO and any you know
13 federally designated agency that is implementing this
14 responsibility of course needs to be aware of you know the
15 realities around it.

16 I analogized in my written comments to Order 1000
17 that understanding the implications of state policy,
18 ignoring state policy in the design of markets in the
19 administration of the transmission planning process is a
20 ticket to higher costs.

21 You know you pay now or you pay later. You know
22 to indulge further in cliché you know failing to plan is
23 planning to fail and it's planning to fail at higher cost.
24 If the way in which that very accurately described
25 responsibility that we all agree as Matt said, if we ignore

1 these realities in discharging that responsibility by the
2 ISO of maintaining adequacy -- if we ignore the realities of
3 the state policies then we will increase cost.

4 And it is incumbent upon the ISO in discharging
5 that responsibility to pay mind to those policies both in
6 terms of market design and in the way that it does
7 transmission planning and cost allocation.

8 MR. QUINN: Aleksander?

9 MR. MITRESKI: Alex Mitreski, Brookfield
10 Renewables. Just to kind of add on what Seth was discussing
11 earlier and I think it was a theme throughout all of the
12 comments that I read is that the ISO's do an excellent job
13 in meeting two objectives which is least cost economic
14 dispatch and meeting reliability.

15 And I think when listening to the panel with the
16 state representatives it was -- I have been picking up two
17 themes. One is frustration and trust. So frustration that
18 the market is not delivering the needs of the states and it
19 was said that the ISO's need to design the markets with that
20 in mind I think that the ISO's do not have the mandate right
21 now and that's why they are only focusing on those two
22 objectives, which is least cost and reliability.

23 So we saw there in New England SK 11 there was a
24 need the basis was cleared there was a need, it was cleared
25 on this cost basis to maintain reliability. So I think this

1 is why we are here is that that third need, third constraint
2 in the ISO's model is not there.

3 And how do we get there? The ISO's do factor in
4 some of these state's policies so that they optimize the
5 solution to that. I think the ISO's have the ability, have
6 the tools, have certainly the expertise to design the market
7 but I think it takes a little bit of a trust and partnership
8 with the states to have an input in what and how that design
9 is implemented so that public policies are met through the
10 markets.

11 MR. QUINN: Tom?

12 MR. KASLOW: Thanks I only wanted to really
13 comment on one thing from an equal perspective. We are
14 certainly interested in the information the Commission has
15 as guidance on these issues but at this point I am not sure
16 we are asking for a mandate on the ISO. ISO New England has
17 been engaged in the NEPOOL IMAPP process as have regional
18 stakeholders and the states and discussions are still
19 ongoing.

20 MR. QUINN: And maybe that's where I will
21 follow-up. In the comments the pre-Conference statements
22 they are expected within New England there was a certain
23 theme of rounds -- accommodate versus achieve type solutions
24 and to some extent some of the comments suggested that it
25 was really a two- step process.

1 The first step would be to accommodate. The
2 second step would be to achieve and I think I have heard a
3 little bit of that in the comments on the first set of
4 questions. I wonder if the questions are -- it feels like
5 Jeopardy where you are going to answer before I ask.

6 Is the sense that you could stop at accommodate
7 or is there a sense -- do you think that you have to start
8 with accommodate but then get to achieve? Get that mandate
9 to incorporate -- if it's the latter what happens in
10 between? Is it just that we magically discover the achieve
11 ability?

12 And how urgent is all of this? Is it urgent to
13 get from accommodate to achieve or again is accommodate a
14 fine landing spot so I didn't pay attention to who went
15 first.

16 MR. KASLOW: Thanks I'm going to speak generally
17 so maybe it's best that I go first. First of all when
18 NEPOOL set up the IMAPP process it didn't have a specific
19 solution in mind. In fact that was its purpose was to try
20 to increase education of the regional stakeholders and
21 explore ideas on how to address the challenges.

22 We have 17 different proposals and in the course
23 of discussions there are many issues, there's a lot of
24 complexities and I think things naturally broke down in the
25 proposals between accommodate and achieve.

1 And at least from a NEPOOL perspective at this
2 point there is no desire to say one versus the other or that
3 one was necessarily pursued before the other. I think as a
4 practical matter the proposals were made and as you will
5 hear from ISO New England there's a specific accommodate
6 proposal that they are going to be bringing through the
7 Committee process.

8 Our participant's agreement sets forth our
9 stakeholder rules. It does give ISO New England the ability
10 to bring a proposal to the process as it gives all other
11 stakeholders an opportunity to bring a competing proposal.
12 But there is a target in mind that ISO New England has of
13 having something in place for a February, 2018 forward
14 capacity auction.

15 So we are going to be taking -- we are going to
16 be considering the accommodate approach. At least ISO New
17 England and perhaps others for the longer term but we are
18 still determining the pace and direction of the longer term
19 solution. So I would emphasize again at this point we are
20 hoping that there isn't a specific mandate but we are
21 interested in guidance.

22 MR. QUINN: Brian?

23 MR. FORSHAW: First of all I think we are clearly
24 in the accommodate camp. I think when we started thinking
25 about and looking at how do we achieve a lot of the other

1 objectives that are out there. You know, our capacity
2 market construct is incredibly complex.

3 It's -- from a consumer standpoint it's difficult
4 to understand. When you see in option results where you
5 know June 1st of 2017 capacity costs are going to triple.
6 The following year they are going to go up to four times
7 what they are today. Then they are going to drop back down
8 and only triple.

9 And then a year after that it's 2.4 times what
10 they are. So you know that's again looking at it from the
11 perspective of the people on the ground, people at the end
12 of the pipeline who are going to have to pay the bills
13 there's difficulty understanding it.

14 When we look at achievement the question becomes
15 what are the objectives? What are you going to design --
16 whatever the market construct is going to be to achieve?

17 Each of the New England states and the regulatory
18 jurisdictions in the states have their own distinct set of
19 policy objectives, their own distinct set of policy
20 requirements. Each of those has potential implications on
21 wholesale market outcomes.

22 Some states put a greater emphasis on
23 environmental stewardship you know we heard it in the last
24 panel. Others look more to fuel security, fuel diversity or
25 a number of other things.

1 In addition there's a concern of one state having
2 to subsidize the different policy objectives of another
3 state. So when you put all of that together even having
4 smart people like David Patton and Matt White trying to
5 design something unless you can first get all the parties to
6 agree on what's the common set of objectives are going to
7 be.

8 And then secondly, consolidate all of those
9 competing objectives into a single objective function that
10 they can design around, that's going to be very difficult to
11 do. And so that's the concern about you know going too far
12 in terms of the longer term and really what brought us to
13 let's get down to the accommodate, let's try and avoid the
14 train wreck now and you know get some experience working
15 through that.

16 Maybe something will come up where we can do
17 something better in the future. I mean you know we have had
18 our markets in place since you know the early 2000's and
19 maybe there have been 6 or 8 months where we haven't had a
20 major market re-design initiative during that time, thanks.

21 MR. QUINN: Pete?

22 MR. FULLER: Thank you Pete Fuller with NRG. I
23 think the -- it's a good question, it's the right question
24 and I'd say that the accommodate piece is urgent and I
25 appreciate ISO's commitment to move for the FCA-13 time

1 period so I think that's on a good track.

2 I would say it's a necessary but not sufficient
3 step. If we go that far to accommodate whether it is
4 through a substitution auction or some other mechanism I
5 think we continue to have the situation that I think the
6 state legislatures and other policy makers have looked at
7 and -- yes but the market is not doing what I want so I need
8 to act.

9 What I hope we can do and I grant it is not a
10 trivial problem at all, it's a massive one but I think we
11 can make actually pretty good effort at it is to figure out
12 that objective folks that Brian referred to. Figure out
13 what the region needs even if it is not precisely the
14 prescription that any one state would lay out but that
15 actually addresses the clean energy and the reliability and
16 affordability goals and build something that moves us in
17 that direction.

18 And the hope would be that you know, the next
19 term of the legislature they can look at that and say well
20 you know what that's doing what we really want or its close
21 enough, it gets us where we are going. We don't need to act
22 separately. So I think the achieve part is it is a now
23 problem in terms of working on it, but I think it comes just
24 after the accommodate in terms of implementation.

25 I would say we need to get there if we are going

1 to get out of the cycle and to Chairman LaFleur's comments
2 and to Sue Tierney's comments not be back here talking about
3 it in 4 or 5 years. So I think we have to get to achieve.

4 MR. QUINN: So I think we'll do David, Matt and
5 then Bill, Seth and then we will go to the Commissioners of
6 FERC for questions.

7 MR. PATTON: Okay so I think it's hard to imagine
8 that achieve is a good idea going beyond accommodate. But I
9 think a lot of it centers around the objective and we can't
10 ignore what it is the objective is. So if the objective is
11 a technology neutral public policy objective like reducing
12 carbon emissions then that certainly is achievable through
13 markets.

14 We monitor the RGGI market in the Northeast and
15 it works great. There's no question in my mind that you
16 could use the RGGI to accomplish any carbon goal you could
17 articulate and then the wholesale electricity markets would
18 actually help you.

19 There's also no question that it would be very
20 expensive in the short run but in the long run I think
21 subsidies end up being more expensive than allowing the
22 market to achieve an objective like that.

23 On the other hand if your objective is technology
24 specific or unit specific even that's just not something
25 that I can imagine achieving in the market. Having the RTO

1 run an auction that's designed to achieve something that
2 specific is not that dissimilar from a state running an RFP.

3 I'm not sure what the advantage of doing it is
4 other than it gives you a mechanism to spread the costs to
5 more people which seem like a disadvantage in my mind. So I
6 think accommodate is the essential piece because it allows
7 you to navigate the point where the markets are going to
8 struggle and to try to protect the market in light of what
9 the states want to achieve.

10 But I don't know how you go any further beyond
11 that. The proposal that we have worked on with New England
12 I think actually is a sound long-term proposal.

13 MR. QUINN: Matt?

14 MR. WHITE: First I want to thank David for his
15 last comment which was not agreed upon in advance so I
16 certainly owe you a beer for it. I actually would second a
17 number of the comments raised by both Brian Forshaw and
18 David just now.

19 We agree that accommodating the current
20 activities of the state is a pressing issue for New England.
21 I think that has been an increasingly prevalent view that I
22 take away from our broader integrating markets and public
23 policy process that Tom and NEPOOL have shepherded.

24 We have developed a fairly detailed proposal that
25 we believe is worth betting and working through with

1 stakeholders of the coming year and can help lead to a
2 productive solution at a problem in concern with the ideas
3 that stakeholders are brought forward.

4 And that is really timely and essential because
5 of the procurement timing highlighted by Commissioner
6 O'Connor's comments in the prior panel. That said you asked
7 in your question and as I wrote down, get a mandate to
8 achieve and so forth and I kind of stopped at the word
9 mandate because being on the business end of 9 complex
10 NOPR's and orders under the prior Chairman the word mandate
11 just makes me shudder at this point.

12 It is a challenge to make progress and keep up
13 with the volume of issues that are pressing price formation
14 issues as it stands today. That said, I think to your
15 question about the achieve objectives -- I think there are
16 differences of opinion among regional stakeholders.

17 I think it raises -- where that will go is
18 unclear and it certainly would warrant greater vetting
19 before anyone draws firm conclusions about the regional
20 position on that. At a root cause I think part of it is
21 that it raises significant issues that go beyond the issues
22 posed by just the accommodate solution.

23 One of them was hinted at by Alex Mitreski
24 earlier in this panel where he commented on the scope of the
25 ISO's authority. We were created essentially -- I counted

1 one thing which is keep the lights on cost effectively you
2 can call that two if you like.

3 But what's notably not in there is and meets
4 certain environmental objectives. And if we were going to
5 be asked to do that in the future there is an immediate
6 question about maybe that's not a little step. That is
7 changing in fact the scope of what the ISO's are asked to
8 do.

9 There is nothing about that in our corporate
10 mission statement and arguably this of course tees up the
11 broader jurisdictional questions of the Commission's scope
12 of authority. Then there is the question of what are we
13 actually seeking to achieve?

14 As David and many others have highlighted and I
15 believe that perhaps it was Jeff Bentz earlier in this
16 morning's panel that said that economists require specific
17 objectives before they can go design a good market for
18 anything. I couldn't agree more.

19 There are no truly specific objectives on the
20 table for that. That process has not gone far enough and
21 perhaps more importantly not all states may necessarily
22 agree on the specific objectives they might want to achieve
23 and so that must be reconciled taking us back to the
24 challenging issues you posed this morning about how does one
25 reconcile differences than what the states want the ISO to

1 do -- there's only one ISO.

2 And last but not least we actually have written a
3 fair bit on many of the issues stakeholders have brought up.
4 I would highlight for people interested in a January 25th
5 paper that my colleagues and I developed.

6 To give you the bottom line so you don't have to
7 read about 25 pages of it many of the ideas under achieve
8 with the possible exception of something -- I know it was
9 just an expansion of RGGI and has been restricted from the
10 state's domain are likely to be extremely complex, very
11 resource intensive at a very high level.

12 They involve new products or new options and
13 anything that involves creating new products and new options
14 involves not only new market rules and stakeholder process,
15 but software systems, financial assurance, accountability,
16 performance standards. And once you are in this you are in
17 a long multi-year process that could be very resource
18 intensive so it is not something for which the path at this
19 point is entirely clear.

20 MR. QUINN: Thank you. My feelings are hurt by
21 the way about the price formation comment.

22 MR. MURRAY: I'll just close by saying my own
23 view and I think well I'm certain that many of you, we don't
24 view it as a market failure when a state acts. The state
25 acts because they are a sovereign entity with broad

1 regulatory power and what makes sense for a state is
2 something that the elected official of that state are often
3 in the best position to judge.

4 I will observe that we have been here for a
5 couple of hours now and no one said the word Congress
6 because we are in a policy and political era where we really
7 don't expect a lot of policy making at the national
8 legislative level.

9 So in the absence of federal legislative action
10 and it's neither a bad nor a good thing, it's simply an
11 observation. Of course you are going to see the states
12 being more active, that shouldn't be surprising at all.

13 In the discussion this morning we have had
14 reference to RGGI which is 9 states and the difficulty of
15 getting consensus among 9 states. We have heard New England
16 is the unit of analysis, we have heard southern New England
17 is the unit of analysis. At the end of the day we are the
18 locusts of what policy making is and we are going to see the
19 most frequent policy makers at the state level.

20 It's the whole U.S. federal system has always
21 been designed -- it's not a judgment of regulators, it's not
22 a market failure it is simply the prerogative of the state
23 legislature it's nothing more than that.

24 MR. QUINN: Thanks Seth?

25 MR. KAPLAN: Yeah and to put a little bit of a

1 sort of a legal and Constitutional gloss on sort of the
2 message that achieve is much harder. You know I think that
3 just a basic principle of comedy and cooperative federalism
4 is that the federal exertion of authority over the states is
5 minimized you know, if only just in order to kind of keep
6 the wheels turning.

7 You know the fed's act when needed and just
8 simply the achieve kind of goals where the FERC and the
9 delegated authority through the ISO imposes a system that is
10 intended to achieve state goals as opposed to accommodate by
11 its nature will require more exertion of federal authority,
12 more friction.

13 And the good principles of cooperative federalism
14 is to try the thing that is lower friction first before the
15 thing that induces more friction. One thing that is just in
16 terms of the reality of what's going on here -- as Chairman
17 O'Connor noted Massachusetts is on the eve of doing another
18 procurement for I would note both Tier 1 renewables and
19 hydro is what the legislation calls for, both are eligible.

20 And those -- you know that procurement is
21 laudable and it is wonderful that it is moving forward and
22 that reflects a longer term goal. A desire by Massachusetts
23 as the states have to enter into get their customers the
24 benefit of those longer term obligations of power that is
25 not -- the price is not sensitive to fuel prices.

1 Just looking at where we have vacuums we do not
2 have a federal mechanism that gets customers that value,
3 that commodity. Now in the long-term could such a mechanism
4 be created? Certainly -- you know there is nothing that
5 says that all federally regulated markets need to be real
6 time or day ahead or one year or three years or five years
7 of fifteen years.

8 One could imagine the mechanism where a federal
9 market got customers the value of that longer term resource
10 but that will be a heavier lift to circle back where I
11 started -- and I think that's sort of an overall theme here.

12 Let's do what we can that induces less friction
13 that is accommodate before we start really going down that
14 path of trying to fill in that -- to meet that need that the
15 states have identified for customers to get their value
16 through a federal mechanism.

17 MR. QUINN: Thank you, Commissioners?

18 CHAIRMAN LA FLEUR: Well since most of you have
19 expressed a fair amount of optimism of coming up with some
20 sort of regional solution I hate to pile another kind of
21 fuel on the fire but I feel like it's my last chance to see
22 you and it's not ex parte so what's going around my head is
23 like what works for new resources and who picks new
24 resources and what works for existing resources and what's
25 going on.

1 And most of the policies we have seen so far pass
2 legislatively in New England are procurement policies, some
3 of them very specific and the ISO New England, CASPAR
4 proposal is geared to that. Let new things come in and how
5 you wean other things off.

6 The conversation in the other RTO's that were
7 about to start is a lot of it about out of market payments
8 for existing policies which is something I understand the
9 Connecticut legislature is actively talking about.

10 Mr. Murray said in his pre-filed comments he
11 doesn't think paying what Connecticut is talking about is an
12 out of market solution and it would not affect the market.
13 If what happens in the other two regions in New York and
14 Illinois happens here what will happen is that if that get
15 passed within a couple of days we will get a complaint at
16 FERC and it doesn't seem like what you are talking about is
17 about shoring up existing resources.

18 Yet the more new resources get piled on the more
19 they might need that. So I would like to ask anyone else
20 while we have this opportunity to comment on support for
21 Nuclear New England, where you see that fitting in to this
22 picture.

23 Because it does seem that we see a lot of
24 different kinds of state policies and not all of them fit
25 into the procurement plan that ISO New England talked about.

1 So if anyone has anything to add I would appreciate it.

2 MR. FORSHAW: I'll try and kick it off. Thank
3 you Madam Chair. I think the structure that we have tried
4 to articulate in my statement that we put forward in the
5 IMAPP process was a bilateral residual type of construct.

6 Really what we are focusing on there is simply if
7 a load customer or states on behalf of customers in general
8 come up with a contract and that's enough to support the
9 resource without getting any capacity market payments that
10 comes in there. The challenge in that structure which you
11 mentioned with the earlier panel is making sure there's a
12 critical mass in the residual market so that pricing is
13 sufficient to allow existing resources to remain, continue
14 operating any other resources that aren't procured subject
15 to a bilateral contract.

16 You know the prices are high enough that those
17 can come in. That's not a trivial challenge either but at a
18 high level you know we see that as that first step -- the
19 bilateral market. It doesn't necessarily have to
20 differentiate between new resources, existing resources or
21 anything else.

22 CHAIRMAN LA FLEUR: I appreciate the clarity of
23 your pre-filing comments. I mean I do understand that when
24 the New England states de-regulated, they didn't de-regulate
25 the muni's and that has been an issue. I understand that.

1 But it sounded like your comment said turn New
2 England into ISO and I didn't hear the states raising their
3 hand to do that. You know I mean there are regions that run
4 with state authority for resource adequacy and the capacity
5 market is residual but that is a different construct.
6 That's just I mean I know where you are coming from, okay
7 thank you I'll shut up and let other people talk.

8 MR. QUINN: Alright. I have Bill, Aleksandar,
9 Pete and then David.

10 MR. MURRAY: Without repeating what's in the
11 pre-filed testimony one comment I will make since the
12 Chair's question was posed about New York, Illinois,
13 Connecticut I must apologize I don't work in New York or
14 Illinois so I am going to speak just in a very global level.

15 Globally what the three states have in common is
16 they are attempting to recognize around the clock carbon
17 free resource in a way -- in various forms in a way that is
18 analogous to what they have long done in renewable portfolio
19 standards since the early stages of the market.

20 Recognize with nuclear you have got fewer units
21 with a lot more megawatt hours. You also have the ability
22 to run around the clock. You have got a market for energy
23 and what the states are doing is recognizing the carbon
24 attributes at a time when states -- those three states all
25 share a philosophy towards moving towards a lower carbon

1 public policy, a lower carbon economy.

2 And that in our view is entirely complimentary to
3 the activities of the market. I will say more broadly
4 working back to what I had just said about sort of the
5 absence of federal action the -- you know we were involved
6 in a nuclear unit closing in Wisconsin.

7 That was a well-running nuclear unit that closed
8 for purely economic reasons. I don't think that was a
9 public policy success and I would not necessarily just
10 speaking only from my point to that as a market success. I
11 think that that is something that you could even go so far
12 as to say it was a market failure.

13 There is probably broad recognition at the
14 federal level that this is a problem. There is not equally
15 broad federal action and the absence of federal action
16 states quite appropriately using the tools that they have
17 and exercising those tools albeit in three different forms.

18 I would share what is in common among the three
19 states is that they are recognizing the carbon attributes of
20 nuclear units.

21

22 CHAIRMAN LA FLEUR: Do you draw a
23 distinction from the state as recognizing carbon and some of
24 the discretion of resiliency and so forth which is fairly
25 heavy overlap with what the ISO is pricing?

1 MR. MURRAY: It states in choosing to recognize
2 carbon -- nuclear is unusual and that it is an around the
3 clock or base load resource I think as an industry we have
4 got to start using more common -- we have to let base loaded
5 dispatchable go and say on off switch and around the clock.

6 Nuclear has both of those attributes but I don't
7 think -- they are distinct attributes and there is not
8 another resource that has both of those attributes that is
9 in place now. Notably states are bringing in hydro which
10 has some of those same types of resources.

11 They have hydro and they are bringing in more
12 hydro.

13 MR. QUINN: Aleksandar?

14 MR. MITRESKI: Speaking of hydro -- I think it's
15 an excellent question Commissioner because it's the -- I've
16 heard the panel discuss about achieve and accomplish and
17 accommodate but if we don't come up with a comprehensive
18 solution what's happening in the CASPAR solution as you have
19 pointed out there is a lot geared toward new resources
20 coming in to meet state policies.

21 But those new resources will have some constricts
22 and some of them may be inadvertent and I think that the
23 state's policies do not intend to be counter-intuitive such
24 as they effect the existing non-emitting research. So what
25 I started initially the comment if you place one big connect

1 to another although they are providing the same product one
2 will certainly have the effect on another in terms of
3 revenue.

4 And speaking from a hydro resource and I think
5 there's companies from various technologies here in the room
6 but if I ask anybody that has a resource that is 100 years
7 old and still performing, producing energy I think we would
8 have very few people who could raise their hands.

9 So my point is these hydro resources go every 30
10 to 40 years through a FERC licensing renewal process,
11 continual investment of capital to be performing over this
12 long-term period. So having a comprehensive solution that
13 maybe as Jeff pointed out -- maybe it won't meet 100% of the
14 state policies, maybe come up with a solution that will meet
15 90% of those state policies -- maybe in this situation you
16 could make sure that the existing non-emitting resources
17 such as nuclear, such as hydro, such as wind was also coming
18 to a tail end with some of the PPA's.

19 It will continue to be compensated, continue to
20 meet some of these state policy goals and I think that's
21 where if we overlook that we will come up in a situation. I
22 just want to go through one more point where we had an FCA
23 tent in New England where 1,000 megawatts of new capacity
24 cleared because that's what the market was sending the
25 signal.

1 However, with the procurements now they may come
2 in as hydro. So you can say was the 1,000 megawatts
3 necessary -- I think that's why going back to the ISO having
4 that comprehensive view of those public policies that can
5 ensure the public policies are met.

6 MR. QUINN: Pete?

7 MR. FULLER: Thanks and Chairman LaFleur what I
8 heard in your question really was the distinction between
9 new resources, procurement of new and payments to existing.
10 And I think this is one of the conundrums that I am
11 struggling with and have struggled with through IMAPP and
12 other processes.

13 I believe the states and their representatives
14 are very sincere in their desire for markets and recognize
15 the tremendous value that has been delivered through
16 markets. But I think one of the principals that we have to
17 keep in mind in markets is for lack of a better term and I'm
18 not an economist -- equal pay for equal work.

19 And so we need to come up with ways to define
20 what it is we want in ways that are technology neutral, fuel
21 neutral and let the market find the lowest cost outcome.
22 And I would argue that whether it is New York or Illinois or
23 the Connecticut pending discussions and frankly a lot of
24 what Massachusetts is doing in its RFP's is not about that.

25 It is very specific. It is very directed. Some

1 cases the definitions are a little more tortured and
2 circuitous but they all kind of get you to the same place.
3 We know exactly what we want as the solution and I think
4 that to me is where the red flag should go up for the
5 Commission and say if you really do something that's
6 tech-neutral, fuel neutral we can work with it.

7 If you start tipping the scale that's really
8 going to be a problem -- so I think recognizing that equal
9 pay for equal work is an important principle to keep in
10 mind.

11 CHAIRMAN LA FLEUR: Well it seems a lot of this
12 is revolving around carbon because every state in New
13 England has a carbon goal. RGGI prices carbon but we heard
14 about that. We have a clear paper from NESCOE, whatever you
15 do don't price carbon.

16 Now Connecticut wants to come along and price
17 carbon. We have got a little discontinuity about where we
18 are I think.

19 COMMISSIONER HONORABLE: And if I could jump in
20 here to say one question that I have is could we even agree
21 upon the subjective we heard from the economists. If we
22 need to improve our market design we need to start with some
23 metric -- what is the objective?

24 Can we even agree upon that if we are going to
25 first tackle accommodating say policy before we even get to

1 the topic of achieving which I thought I heard David Patton
2 saying let's start with accommodating then we can talk about
3 achieving.

4 So I want to jump in on that conversation and ask
5 you, can we even agree upon that first objective?

6 MR. FULLER: If I could Commissioner -- you know
7 we presented this idea in the IMAPP process a few months ago
8 and at the time did not represent it as the answer. But I
9 think it gives an interesting way to sort of get into this
10 discussion and to start to get your heads around it.

11 In New England all of the six states have RPS
12 goals -- so clean energy goals. And those are legislative
13 and they are on the books and so as a starting point to
14 begin to think about this could we look at the achieve
15 element in terms of clean energy market or clean attribute
16 market to say they have all got their trajectories out there
17 about how much clean energy they want, could that form the
18 basis of a purchase requirement that is centrally procured?

19 COMMISSIONER HONORABLE: Do you agree with, I
20 think our panelists on the earlier panel said, maybe it was
21 Bob Scott said starting maybe with the least common
22 denominator so I want to push you a little bit on that, what
23 do you think about that as a beginning point?

24 MR. FULLER: If you are thinking that is the
25 least common denominator, yeah that's why we put it forward

1 to make it a little more tangible that in fact there may
2 actually be some alignment even if it isn't everything in
3 the full requirements, there is at least the basis to begin
4 working on something to create a structure, create a
5 mechanism and again glass half full -- if people see that
6 that can be effective and can actually bring the kind of
7 investment that the Massachusetts legislation is trying to
8 do and others are thinking about.

9 Can we get some momentum going and build on that?

10 MR. QUINN: David do you want to take a shot at
11 both questions and then we will --

12 MR. PATTON: Sure. You know I'm not quite as
13 optimistic at bringing some form of consensus around the
14 objective. I think it's interesting because the objective
15 and the rationale are two different things. So the
16 rationale for the nuke action is zero carbon.

17 But as we have shown in our reports it's
18 generally cheaper to achieve carbon reduction by building
19 really efficient combined cycle units and retiring in
20 certain locations and retiring high emitting units which is
21 obviously not at all consistent with what the policies that
22 we are pursuing.

23 So I think we have in working in various regions,
24 we haven't seen a coalescence around you know a single set
25 of objectives and certainly when you get to renewables it's

1 hard to equate that with carbon because carbon price can't
2 be high enough to make a lot of the renewables economic.

3 To your question on the uneconomic retention -- I
4 saw you rubbing your head and it looked very familiar to me.
5 I find myself doing that a lot, thinking about these issues.
6 And what makes it a little easier is we always try to start
7 with the principle which is why I put that in our comments
8 about any solution you come up with should have a set of
9 principles.

10 And if the first principle is that the threat to
11 the market is related to artificial supply then you can sort
12 of put everything into that context and say okay how big of
13 a threat are renewables? How big of a threat is the hydro?
14 How big of a threat is the nuclear intervention?

15 Renewables actually ends up being a much smaller
16 threat than you would think and we put a table in our
17 comments showing how much -- how many megawatts we think are
18 going to be generated through various initiatives over time.
19 And the reason is that most of the renewables get very small
20 capacity value so their actual supply in the capacity market
21 is pretty small with the exception of the hydro and
22 off-shore wind is actually quite a bit bigger than on-shore
23 wind.

24 But the nuclear ends up being a bigger threat in
25 some regards and smaller in other. Bigger with respect to

1 the size of the units we are talking about. There's nothing
2 on the horizon on the renewable side that comes even close
3 to the size of some of these nuclear units.

4 On the other hand they are far closer to being
5 economic than some of the renewables. But in thinking about
6 it in that context I think you can look at solutions like
7 the CASPAR solution and it could actually be applied in an
8 uneconomic retention sort of context.

9 But then the last thing I would say is at the
10 beginning of our comments we talk about and I can't think of
11 another word other than legitimate and I think somebody
12 mentioned that distinction of legitimate policy and policy
13 that is targeted at objectives the RTO's have handled.

14 When you start looking at uneconomic retention
15 it's the nuclear -- I think there are some arguments about
16 it being carbon related but there are other uneconomic
17 retention that I think is much harder to put into context
18 and so if you are going to go down the road of figuring out
19 how to address the uneconomic retention it is still
20 important to make that distinction and not just accommodate
21 everything.

22 MR. QUINN: Thanks. So I think to Commissioner
23 Honorable's question I have got Bill, Seth, Tom and Brian.

24 MR. MURRAY: In this phrase you talk about the
25 three states and on Connecticut a little bit. We've been

1 talking about those unique attributes of each state and one
2 unique attribute of Connecticut is they have the highest
3 power prices paid by retail customers in the lower 48.

4 So there's an opportunity -- now it varies a
5 little month to month, the records the Commission keeps but
6 just like in other states we operate in generally
7 residential rates and Virginia would be very competitive
8 with industrial rates in Connecticut.

9 So there's an opportunity in looking at
10 Connecticut policy makers and looking at policy options
11 available to them. As I understand the conversation around
12 Senate Bill 106 which is I think the legislation that has
13 been referenced. There are discussions there is an
14 opportunity to recognize the carbon attributes of two very
15 large nuclear units that Connecticut has.

16 And one reason Connecticut is acting in this area
17 is Connecticut has got two big nuclear units which are a
18 little over half of the generation of the state. A state
19 without nuclear units may feel less pressed to act in that
20 regard.

21 So as I understand the policy conversation in
22 Connecticut and this is a bill that's passed Committee but
23 certainly has not passed the General Assembly yet. The
24 question is can we have our cake and eat it too. That's
25 been used a couple of times here.

1 Can we recognize carbon attributes as the Chair
2 acknowledged at the same time provide some long term price
3 certainty for customers recognizing as it was just said that
4 nuclear is as a resource more competitive with where gas is
5 right now and some other types of resources and recognizing
6 that any of us who feel we can predict natural gas markets
7 forever and ever again should probably be on that private
8 island that many of us have been talking about.

9 So is there a spot to have our cake in
10 Connecticut and eat it too in the sense of long-term price
11 certainty, potentially a savings to customer by cutting out
12 some of the intermediary parties that are typically involved
13 -- the middle man if you will, and at the same time achieve
14 carbon goals.

15 And as I understand the conversation on the
16 legislation -- that's the goal of the legislation.

17 CHAIRMAN LA FLEUR: I think it would be
18 interesting to have a conversation which we don't have time
19 for of how much of your cost increases are driven by the
20 wholesale energy market versus other things. And I think
21 this is another thing -- it's going to go through retail
22 rates I assume I mean it's a state decision I guess.

23 MR. MURRAY: Well I would simply observe that the
24 very significant downturn in wholesale power prices in New
25 England has not been fully reflected in retail bills paid by

1 customers in Connecticut.

2 MR. QUINN: Seth?

3 MR. KAPLAN: One very simple thought is that yet
4 another reason to focus on accommodate rather than achieve
5 is for this reason of identifying objectives. That you know
6 you need to refine the objective needed much more sharply if
7 you are actually shaping an achievement mechanism as opposed
8 to accommodate.

9 I would simply suggest in terms of the
10 conversation that's been going on here about the question of
11 an open process that is intended to inspire new generation
12 as opposed to subsidizing existing generation.

13 That one principle that one might look at is that
14 a state in attempting to achieve a legitimate goal like
15 greater price stability -- not dictating what the price is
16 but trying to achieve some stability and customer protection
17 against the rising and falling fuel prices.

18 That in achieving that legitimate perspective
19 that a state might be required to employ more of a market
20 mechanism and whether that is through a competitive RFP that
21 is truly open and competitive to all comers or more of an
22 option or something like that.

23 But as opposed to -- as people were saying as
24 more focused on a targeted existing resource. And you know
25 just simply saying and trying to walk that line and saying

1 okay the state has this legitimate desire to maintain
2 greater stability for the customers that live within its
3 borders, let's figure out a way to accommodate that in a
4 mechanism that you know that recognizes that they are doing
5 that in a method that is most respectful of maintaining
6 markets.

7 COMMISSIONER HONORABLE: I wanted to make two
8 points before I conclude. One is that I think our mere
9 presence here today should reflect that we absolutely want
10 to be accommodating but we all have mandates too.

11 So I think it was Mr. Murray that said the C work
12 Congress. We are getting ours from Congress and we can have
13 another subject -- conversation on another day about what
14 Congress says and the roles of state and federal government.

15 For our part we certainly want to accommodate
16 states but it is going to take cooperation on both of our
17 parts. It's not just the feds doing something to the states
18 or increasing rates on retail consumers. This is the hard
19 part and so I'm really -- well maybe Dr. Patton isn't as
20 hopeful as I am.

21 I'm hopeful that with all of the experts that we
22 have here we are going to find a glimmer of the start of
23 cooperation where we are both operating in reality that our
24 work is reflecting and impacting the other, so I appreciate
25 your comments today.

1 MR. QUINN: Tom?

2 MR. KASLOW: Thanks actually a good follow-up.
3 Certainly from the New England region there has been a lot
4 of cooperative dialogue with respect to your question about
5 what's the outlook on progress of achieving some type of
6 proposal to accommodate state resources.

7 We all work better under deadlines and ISO New
8 England is introducing its proposal into our process in
9 June. They are going to have a certain schedule on that. I
10 presume if they are looking for the February option some
11 time toward the end of this year and we have the right under
12 participant's agreement to offer competing proposals but
13 they ultimately can request a vote, hopefully with a
14 consensus.

15 And I'm sure that's what they are working toward.
16 But if not there can be competing proposals. There could
17 even be a jump ball filing which is unique to New England
18 but I think that you will have more feedback on that by the
19 end of this year thank you.

20 COMMISSIONER HONORABLE: Thank you.

21 MR. QUINN: In response to that?

22 MR. WHITE: Yes I just wanted to confirm and
23 second Tom's characterization. He actually believes this is
24 a priority accommodating issues is a priority issue. There
25 are a number of concrete ideas on the table. We have added

1 ours and we think it is productive to engage with
2 stakeholders.

3 We have indicated that we do think it is prudent
4 for the region to work toward being able to develop this
5 sufficient to use it in our 13th option, that's the one in
6 2019 which would require us because of the timing of when
7 resources that may elect to retire are required to meet
8 certain deadlines.

9 Under the current tariff we would require a
10 Commission decision, hopefully a full Commission decision by
11 approximately March which would mean we would be aiming with
12 the region to work toward a filing no later than essentially
13 the first of the New Year.

14 It will be a push for the region but we look
15 forward for the opportunity to work with everyone.

16 MR. QUINN: Unfortunately I think we probably
17 have to kind of wrap up, just to kind of keep us moving. So
18 with that I'll say thank you to the panel, apologize to
19 those that didn't have a chance to speak and then I look
20 forward to the New York state panel, thank you.

21 PANEL 3

22 MR. QUINN: So I appreciate the discussion so far
23 this morning with our second session focused on New York
24 ISO. We will start again with our state panel -- exactly
25 the same format and the same objective as we had for our

1 state panel with ISO New England.

2 So I will cut to the chase and introduce our
3 panelists and say thank you for joining us. We have Susanne
4 DesRoches, the Deputy Director of Policy, Infrastructure for
5 the City of New York.

6 We have Janet Joseph the Vice President for
7 Innovation and Strategy at NYSERDA and we have Scott Weiner
8 the Deputy of Markets and Innovation for the New York State
9 Department of Public Service.

10 Thank you for joining us. We look forward to
11 having you join us after lunch at the state table. So I
12 think the first couple of sessions this morning we have kind
13 of gravitated to this opening question about what role do
14 you see as representatives of either the city or the state
15 for the wholesale markets broadly but also very particularly
16 in providing resource adequacy?

17 I think we heard one message from New England but
18 the purpose really for the first day of doing regional
19 panels, regional sessions is because we think there's
20 actually a potential there that you would give us a
21 different answer.

22 So we would look to hear what your point of view
23 is and what role you hope for the wholesale markets and in
24 particular in achieving resource adequacy.

25 MR. WEINER: Thank you I'll start. Without

1 wanting to be facetious I would say it depends. And one of
2 the takeaways of course from all of the dialogue that has
3 proceeded it this morning and the Commission -- many of you
4 were in New York City about two years ago, two and a half
5 years ago when part of this discussion took place.

6 It takes place in many venues in many forms. And
7 what we heard this morning to me is that it depends. And I
8 want to really stress the point that how we collectively
9 decide something is a necessary pre-requisite and it can be
10 as important certainly and maybe more important than what we
11 decide.

12 And I would like to stress that if we are going
13 to tackle that question a couple of things. Number one we
14 are at an inflection point and one of the elephants -- the
15 herd of elephants that we have in this room is to really not
16 only recognize that we are at this inflection point we are
17 not in the same set of environmental influences that affect
18 or should influence market design that have existed in the
19 past.

20 And I think we need to embrace that and we need
21 to recognize that and set that as a foundation. I want to
22 endorse enthusiastically and wholeheartedly the point that
23 we have to come up with principles and unlike David Patton I
24 am very optimistic.

25 And I'm optimistic that we can find the

1 similarity not just because we have to but because if we are
2 going to start and say let's recognize the paradigm that
3 exists today -- not that existed back in the 1990's, not
4 that has evolved through a number of very well meaning, very
5 well thought out but albeit bolted on solutions to a prior
6 structure.

7 I'm very optimistic. We try and maintain the
8 current structure, we try to ignore the fact that there are
9 state policies, there are new technologies. New York's REV
10 is just an example of that. We are going to talk about
11 markets and sometimes the term markets has been played to
12 fairly administer wholesale markets but this room is awash
13 with not just market participants but people who operate in
14 various markets.

15 NYSERDA -- my colleagues and I will talk about
16 it, operates a central procurement competitive mechanism for
17 us to get the environmental attributes which is at the heart
18 of our state policy. We are in the midst is a cornerstone
19 of REV, a developing a distribution level market that will
20 need to interface with the wholesale markets.

21 So to answer the question is there a role for the
22 wholesale markets? Absolutely. Is it going to change --
23 probably but I don't want to sit here and try and take out
24 my scalpel and say how would I surgically adjust things
25 today. If nothing else comes from this Conference I hope it

1 is that there is something that we are doing on Wednesday,
2 there's something that we are doing to continue the
3 discussion that happens today.

4 And I just want to close for the
5 moment and say that there is a lot of good work going on at
6 the regional market level. Tomorrow my team and Janet's
7 team together with Brad Jones's team will be taking a look
8 at an idea that has been developed at the NYISO.

9 We don't know whether it is something that can be
10 supported or should be supported or should be evolved. What
11 we do know is we have to turn over the stone. We have to
12 work together to see what that -- what possible solutions
13 are.

14 But I also think there's a role for the federal
15 agency and I put that in my remarks. I think the federal
16 agency can be a convener of those of us who work at the
17 state level within each of the three federal markets and
18 that could be a starting point because we need to find
19 commonality.

20 We need to be able to identify those first
21 principles and sometimes that exercise feels very touchy
22 feely but I just simply don't know how we are going to get
23 an answer that is going to prevent us from being back here
24 having this exact same discussion a year or two from now
25 unless we start with both a recognition that things have

1 changed and we need to develop first principles.

2 MR. QUINN: Janet?

3 MS. JOSEPH: Alright well let me try to build
4 upon that. First of all thank you very much for inviting us
5 to participate in this session. We do believe this is a
6 very important dialogue and one that we will need to
7 continue. NYSERDA for those of you who may not be familiar
8 with the organization -- we are the clean energy
9 organization in New York state we are not the regulators.
10 That is the purview of our colleagues at the Department of
11 Public Service and we work very closely together to design
12 our policy structures and implement our programs.

13 NYSERDA is also the chair of the Energy Planning
14 Board and so we are involved in designing policy and in
15 implementing a number of the programs that are being
16 developed under the reforming the energy division framework.

17 In doing this we work with a range of energy
18 market participants from utilities to new technology
19 solution providers to researchers, clean tech companies,
20 financiers, consumers as well as the market participants that
21 are in this room.

22 And it is very clear that the energy landscape is
23 changing and we have distributed energy resource technology
24 today that we only dreamed of back in the early days when we
25 were restructuring the industry.

1 We are seeing prices come down in distributed
2 energy resources and renewable energy. We are seeing
3 expression of customer preference changing. We are seeing
4 some customers who want more green products or more secure
5 long-term visibility into price.

6 We are seeing new solutions for resiliency and we
7 are even seeing some new business models that we believe can
8 open up clean technology to new classes of consumers. So my
9 message here is certainly agreeing with the earlier panel.
10 The market is changing, our energy landscape is changing.
11 Our policy construct is changing and that will no doubt
12 affect the markets.

13 Now these changes that I just went through are
14 positive generally they are positive. But from a policy
15 perspective in New York we still do not see kind of business
16 as usual evolution to be sufficient to address our energy
17 policy challenges.

18 So when we look at energy I am going to cite Sue
19 Tierney's remarks. She talked about solving simultaneous
20 equations. We are trying to solve an equation that's going
21 to build and increasingly resilient energy system given
22 extreme weather events, given an aging infrastructure.

23 We want a more dynamic flexible system that's
24 capital efficient. We need to develop clean transportation
25 systems so when we look at our clean transportation future

1 it is linked to our electric system and we need to think
2 through all of that.

3 And yes we need to reduce greenhouse gas
4 emissions and preserve the quality of our environment. And
5 then all of this needs to be done while maintaining
6 affordability and driving system wide savings and value to
7 customers.

8 So there are multiple things in our policy
9 framework that we try to solve for and I think that's very
10 critical to understand from the state perspective. So the
11 economic efficiency of the wholesale power market is one
12 piece of our energy equation, we view it as a very important
13 piece of the equation in addition to these other elements
14 that we are trying to solve for.

15 Many of you may be familiar with the policies
16 that have been established in New York State. We have a
17 goal to reduce greenhouse gas emissions by 40% by 2030.

18 We have a goal to transform the electric
19 generation sector such that half of it by 2030 will come
20 from renewable resources and we have an energy efficiency
21 goal that's an all fuel goal to reduce energy consumption in
22 buildings by 23%.

23 Now you know when we look to the future there is
24 no doubt uncertainty in the technology evolution and the
25 pace of the emergence of these distributed energy resource

1 technologies and solutions and the pace in which we develop
2 these retail markets that REV is so aggressively focused on.

3 So given that -- given that uncertainty, given
4 that none of us can predict the future we believe it is very
5 important for states to have the ability to develop the
6 policies in collaboration with the local markets with
7 customer preference in mind, with stakeholders to meet the
8 policy objectives as well as the system requirements.

9 So we do see wholesale markets as a critical part
10 of this but one part of our integrated energy policy
11 framework. And our roadmap in New York State for an
12 integrated energy policy framework is laid out in our state
13 energy plan which is statutorily required.

14 So I guess in closing I certainly concur with my
15 colleague that we look forward to collaboration with FERC
16 with our New York ISO. We believe we will have to resolve
17 how these markets and policy objectives will work into the
18 future. We do have a new emerging energy system today
19 that's different from the one that we designed back in the
20 mid '90's and we all need to be cognizant of that.

21 So I look forward to continuing the collaboration
22 and again thank you for inviting us here today.

23 MR. QUINN: Susanne?

24 MS. DES ROCHES: Thank you. And I want to thank
25 the Commission for extending the invite to a locality. So

1 the city of New York is happy to participate in this. So
2 one thing that I have been reflecting on as I have been
3 listening to the other panelists is really the why are we
4 here and how does it affect people and how does it affect
5 our economy?

6 So when we govern at the local level right -- we
7 do a lot of thinking about that. How do we make people's
8 lives better and at the local level in New York we are
9 seeing the effects of a changing climate today. We are
10 getting hotter right -- so just a couple of interesting
11 notes on that.

12 450 emergency room visits every summer as well as
13 150 hospitalizations due to heat. We see approximately 13
14 deaths a year and this is in a climate that is going to
15 continue to get hotter. We have 115 excess deaths so these
16 are folks that die of natural causes but that are
17 exacerbated by heat.

18 So when we talked earlier about urgency, this is
19 really at the local level we are dealing with issues today
20 that we expect to get worse. Energy plays a big part in the
21 solution. Sea levels are also rising. We saw a foot of sea
22 level rise since 1900. We saw the devastation of Sandy --
23 44 lives lost in New York City -- 19 billion dollars in
24 damages and economic losses from one event.

25 The climate is changing, we are anticipating

1 these events to happen sooner and our electricity, our
2 source needs to adjust so that we can provide solutions to
3 what we see coming. So New York City has been our leader in
4 both mitigating greenhouse gases and adapting to a changing
5 climate.

6 We also have a series of goals 80% reduction of
7 greenhouse gases by 2050 but I would argue that we are not
8 talking about an environmental issue, we are talking about
9 an economic issue and we are talking about our livelihoods
10 and we are talking about our future.

11 Effects in New York City have a global reach and
12 that's a serious issue and we take that very seriously. In
13 the energy sector which plays a large role in this equation,
14 we need to use all of the tools that we have and we need to
15 innovate. And so we support wholesale markets.

16 We also want to use our energy efficiency goals,
17 our distributed generation that will bring us clean and
18 resilient energy sources at a local level. We need large
19 scale renewables and additional transmission to get those
20 renewables to New York City.

21 We are going to electrify as we have heard
22 earlier. We are electrifying transportation goals and we
23 need fuel diversity as well as we move closer and closer to
24 natural gas as our main fuel source we think renewables will
25 play an excellent balancing role to that fuel supply.

1 So in New York City we have the 80% in city
2 generation as a rule. 76% of our units will be 50 years or
3 older in 5 years-time so we have a very aging fleet. And as
4 we look at how the market works we believe we are not
5 incentivizing repowering of those units.

6 We understand that we will need fast ramping
7 technologies to balance out our renewable goals in the city
8 and so we would like to see repowering happening quickly.
9 We are also committed to 100% of New York City's power to be
10 renewable and we will work to meet those goals.

11 So in closing I would like to just say that I
12 echo what my other panelists talked about, about a
13 collaborative process. We support the wholesale markets but
14 we see that innovation is needed and we would -- especially
15 at the local level where we are already seeing these impacts
16 happen today we need to figure out a quick path forward -- a
17 Wednesday path forward as mentioned earlier to start to
18 integrate these innovations, thank you.

19 MR. MORENOFF: Thank you all. A couple of
20 questions following up on that -- in light of the changes
21 that you noted in the energy landscape and beginning Mr.
22 Weiner with your prepared remarks where you had noted that
23 premier prospective states that settled jurisdiction with
24 respect to a number of topics including both resource
25 adequacy and reliability.

1 Noting your support for the wholesale markets
2 what do you see as the substantive contribution that
3 wholesale markets make particular at capacity market and I
4 guess correspondingly what do you see as the substantive
5 role that FERC should have if it goes beyond the convenor
6 role that you were describing?

7 MR. WEINER: FERC has a clear role in terms of
8 the administration of wholesale markets. And again I want
9 to avoid conflation because we think about the federally
10 administered wholesale market sometimes we have to think or
11 I try to think about them separately and not conflated.

12 So the energy market I think will always be
13 there. The capacity market as the Chair noted may not be.
14 There are models where it doesn't exist. And I don't want
15 anybody to read that either I individually and certainly not
16 the states advocate that.

17 But that's our spectrum of outcomes and I think
18 as we sit down and try and identify what are our first
19 principles we will be able to see what the role plays. And
20 I think it can play a role. But possibly -- not an
21 exclusive role in dealing with entry and exist -- maybe
22 heavily burdened from one group to the other.

23 But I will and it should come as no surprise that
24 we have a belief -- I have a belief that the current
25 operation of the markets with the buyer's side mitigation is

1 not supplied, not just New York but throughout the region,
2 that issues of the MOPR and how that is supplied not just in
3 New York but throughout the region creates a complex
4 labyrinth that really our colleague Richard Kauffman in New
5 York talks about not just in this setting but in the entire
6 energy setting, the bolting on to old historic structures.

7 And we have tried to start again with REV and
8 looking at REV we started the customer. And I want to take
9 exception with anybody who thinks that the state or a city
10 isn't finely attuned to customer needs. We can't do it by
11 ourselves but again this is an area of cooperation rather
12 than presumption.

13 We try to acknowledge emerging technologies but
14 what's hard is the deployment of DER. At its heart is
15 recognizing that load can now be a resource. So we are
16 doing thing in New York -- we just adopted as you probably
17 know, the Commission did, a new methodology to value and
18 compensate DER resources which among other things is going
19 to lead to the elimination of any new enrollment and net
20 metering as a mechanism as of January 1, 2020 and it's
21 continuing today only for on-site mass market applications.

22 That was based upon a common shared principle of
23 the importance of accurate pricing. And without wanting to
24 be facetious who could argue against accurate pricing? The
25 reason it became so important to us is not just because it's

1 a virtue but because by having accurate pricing that can
2 identify the different values, that different DER will bring
3 at different moments in time and at different locations.

4 It will send price signals to people to invest in
5 it and to deploy it and to make it available as a resource.
6 Now all of that and all that surrounds that has to couple
7 with what's taking place in the wholesale market and it was
8 about a year or so ago that my colleagues -- Brad's
9 colleagues began the conversation it was put on a bit of a
10 hiatus because of other matters, but that's something else
11 that's coming up.

12 And I want to end now just by acknowledging the
13 beginning of Brad's formal statement where he noted
14 historically the things that we have done together. And I
15 think if we step back and look at why are we succeeding
16 there and why is it so difficult in other places?

17 Part of it is I think the changing paradigm the
18 need to recognize that but it is also because we started
19 with some first principles, we had very clear objectives.
20 This part is not rocket science but if we don't deal with
21 those fundamentals we just get into this continuous
22 conversation.

23 MR. QUINN: See I want to make sure our
24 Commissioners have a chance to ask questions.

25 CHAIRMAN LA FLEUR: Thank you very much to all of

1 you for being here, it would seem on the surface that a one
2 state ISO in a one state ISO dealing with reconciling state
3 policy and how markets are designed should be easier because
4 you are not dealing with multiple states with different
5 policies.

6 In his pre-filed testimony Brad Jones suggested
7 that if the state defines the attribute or attributes it
8 wants the markets can price that which seems reasonable. Is
9 that something you want? I'm interested in what you are
10 looking for from the market. I mean are you looking for
11 help for new entry? Is it just about pricing existing
12 generators because the market is right there in your state,
13 you should be able to use it to price what you want if we
14 know what you want?

15 MR. WEINER: Well I think it is part of knowing
16 what we want, that's part of our obligation to articulate.
17 But in fairness Commissioner I believe that the state
18 policies are fairly clear.

19 Earlier today we have also heard some I think
20 fundamental principles from a state's perspective. A state
21 is not going to seek sovereignty and I'll acknowledge that
22 nobody is asking it to do so but there is a big difference
23 of -- I forget the phrase that was used, creative I'll call
24 it effective federalism where we come together as peers
25 there's a recognition that there are boundaries and there

1 are responsibilities.

2 And that we work together to see how can it be
3 solved. I can think of lots of scenarios where federal
4 wholesale markets can make a very valuable contribution to a
5 state's energy policy. I don't know that that's been the
6 case today not because anybody lacks the intent but I'll go
7 back to the bolting on of tried and true tools on a
8 framework that may need to be retired itself.

9 So I want to make it very clear there's a role,
10 we believe in markets, we believe in markets as a generic
11 concept. We believe in the federal wholesale markets.
12 Capacity gets us a little concerned but that is not a
13 surprise.

14 We need to work together to figure it out and I
15 do believe that some months of conversation between the ISO
16 and its staff and its Board and the Commissioners and other
17 energy leadership throughout the state and its constituents
18 has brought this to a point in New York where we have that
19 opportunity and that all starts tomorrow.

20 CHAIRMAN LA FLEUR: Thank you, when I read your
21 testimony I thought maybe we had found a new topic for FERC
22 church in the FERC collaborative but what I am trying to get
23 a sense of is the urgency you feel. Because I feel like I
24 am listening to a long discussion of new principles and you
25 have credits taking affect in your market if memory serves

1 next month -- it's May now right, so next month.

2 And that's imbuing some people with a sense of
3 urgency to figure out how we are going to incorporate that.
4 What is your sense of urgency to figure out this issue?

5 MR. WEINER: Well number one I think from a state
6 point of view we developed a framework which is very
7 effective that can stand on its own. I know that's not a
8 view that is shared universally.

9 But now with the feeling I think there is an
10 urgency. There's an urgency because there are other issues
11 around the corner and while the disputes continue to exist
12 as you pointed out in a purely adversarial form that we are
13 not able to have these discussions.

14 And I will admit my filter -- as you know I was
15 an Environment and Energy Commissioner in Jersey literally a
16 generation ago. But there we had with the EPA and there we
17 were wrestling with the implementation of the Clean Air Act
18 back in 1990.

19 And the EPA convened something that was very
20 directly called the State EPA Committee Policy, period full
21 stop. It consists of the administrator, the administrator's
22 key staff and a set of representatives from states around
23 the country.

24 We talked to each other. It became the basis of
25 further collaboration and New York will be talking a lot

1 internally. But I do think that there is a role for this
2 agency to continue these kinds of discussions.

3 CHAIRMAN LA FLEUR: That's what today is for.
4 The opportunity to talk about things that are ex parte and
5 in court lawsuits is hard day to day, yes?

6 MS. DES ROCHES: So going back to some of my
7 earlier comments around urgency one thing I didn't discuss
8 was the valuing of public health benefits which we currently
9 do not see. Certainly at the local level we don't see the
10 markets valuing a public health benefit.

11 So we legislated the reduction of heavy fuel oil
12 in New York City. And since 2009 we have seen an 18%
13 decrease of PM 2.5 locally as buildings and generators but
14 this is a place where we legislated because the market was
15 not incentivizing a switch from heavy fuel oil.

16 That has avoided on a yearly basis 100 premature
17 deaths and 250 emergency room visits and hospitalizations.
18 So from our perspective the market was not stepping in and
19 incentivizing a public health benefit.

20 Clearly we have an issue in New York City with
21 older generation and that re-powering is not happening
22 urgently. So the state has announced that Indian Point will
23 be closing in 2021-2022 with a possible extension. We think
24 that that is potentially going to increase in city
25 generation at a point in which those units will be 76% 50

1 year old and greater.

2 There's another area where the market and we can
3 get into by your side mitigation but the market has an issue
4 that's not being resolved that we think is extremely urgent.

5 CHAIRMAN LA FLEUR: The market will do what you
6 decide it to do which is back to first principles.

7 MS. JOSEPH: One thing I'd like to add with
8 respect to this -- I'll call it the urgency timing
9 dimension. If we talk about a collaborative where an end
10 goal might be achieving the goals I think the first place we
11 have to start is to sort of assess the situation and see
12 where we have created obstacles and roadblocks where maybe
13 our policies are conflicting.

14 Address those first they are probably easier to
15 fix while we work toward you know building perhaps a more
16 harmonized system that reflects the current energy system
17 that we have in current energy policy goals.

18 So I wouldn't overlook those opportunities to fix
19 some of the problems that have emerged and I am not a market
20 design expert but things such as by your side mitigation and
21 the MOPR we shouldn't gloss over those we should see if we
22 can make progress.

23 The other thing I will put on the table from the
24 standpoint of achieving our renewable energy goals --
25 interconnection is a very big process. It's a very big

1 issue and it is a challenge -- it will be a challenge as
2 well as siting in your state so there may be opportunities
3 working collaboratively with our ISO's with FERC to improve
4 the large facility interconnection procedures and
5 requirements.

6 And that can actually help us in the near term
7 from an urgency standpoint that could really help us.

8 COMMISSIONER HONORABLE: I want to thank you for
9 your pre-filed comments. I think taken together very nicely
10 and eloquently depict how not only busy but successful you
11 have been in New York and we certainly have continued to
12 look to you to lead. And we learn from you quite honestly
13 even though you are a single state RTO or ISO.

14 So I want to congratulate you on your work. And
15 I also want to encourage you all, and particularly you
16 Susanne to continue to remind us about the impact of this
17 work and why we are doing this work in the first place.

18 And I say that even as this Commission will
19 change and we will in the same way that we continue to have
20 to educate law makers and constituencies -- yes you have to
21 continue to educate us regulators as well. So it is very
22 important that you continue to put into the record that
23 important message about the impact of this work not only
24 today but tomorrow.

25 The question I have for you is something that

1 Cheryl mentioned. I don't want to put you on the spot today
2 but I want to urge you to consider in your work with the New
3 York ISO what is the objective that you want wholesale
4 markets to achieve, both energy and capacity markets.

5 And I think Miss Joseph you nicely made very
6 clear market -- wholesale markets are one part of New York's
7 plan for how it is attacking energy challenges, addressing
8 them and planning for the needs of your people. So the
9 answer to that question in my mind and I think Mr. Weiner
10 has really hit on it -- it's the identification of that. We
11 are singing from the same hymn book there.

12 Amen -- I'm from the South so I say Amen all the
13 time. I also want to urge you and I want to thank you for
14 your openness to be willing to consider new and different
15 proposals. I think we will hear and we have read in the
16 comments your work with the New York ISO, although in its
17 infancy could be a potential solution for you and I
18 appreciate that you are looking for new and different ways.

19 I don't disagree with our acting Chair's four
20 doors if you will. I have espoused them differently I think
21 in the way that I speak with people. I too would rather
22 that we arrive at a solution collaboratively and not through
23 years of protracted litigation.

24 But I am also open to the ideas that you are
25 bringing and that's why I'm particularly encouraged by this

1 news about this new effort along with the battle groups,
2 I'll be looking forward to and encouraging you guys along
3 the way, thank you.

4 MR. QUINN: I'll just ask maybe a follow-up
5 question. I have heard in the comments so far a suggestion
6 that most of the new resources -- the state and the city
7 want the flexibility both to bring new resources because
8 there is a changing paradigm.

9 Distributed resources perhaps, renewable
10 resources perhaps bring new resources on -- powered
11 resources but also potentially manage exit as well. So you
12 know I think for the earlier session we talked about maybe
13 the role the capacity market as being -- whether or not the
14 role of the capacity market was to organize exit of
15 resources and accept that state and local policies would
16 dictate where the new resources were going to come from.

17 I heard some of the comments here as being maybe
18 you would like to manage exit as well. And so I guess
19 ultimately and this is probably a stark question -- is there
20 really any role left over for the capacity markets at all or
21 is kind of the future that you had envisioned one where the
22 state would dictate through the various policies where all
23 new resources are going to come from, which resources would
24 retire and then the energy markets will just on a day to
25 day, hour to hour basis find the least cost dispatch?

1 MR. WEINER: It'll end the same way it began --
2 it depends. And I don't mean to be as evasive as I know
3 that sounds. But I think if we start with what the
4 objective is, what are the tools that we all have at hand --
5 how might a capacity market operate? What would the
6 underlying assumptions be?

7 What are the problems that the administrators of
8 the wholesale capacity market have to face? What are their
9 obligations? Then we can find out whether there's room. I
10 mean right now today the state DPS and then the PSC are the
11 recipient of Petitions of incumbent sources whose attribute
12 contracts are coming to an end and they want to continue.

13 And we are being faced with some of those
14 questions today and the question of when is the right set of
15 circumstances that the state should step in and operate a
16 maintenance tier if you will. And the CES is adopted by our
17 state Commission has that Tier 2 and we are about to start a
18 proceeding to look at what the rules of engagement will be
19 for that Tier 2.

20 So I think not saying that this is something that
21 we want to exclusively hold on to but again there are issues
22 that are being brought to us because of what I would
23 describe as the "bolted on". We kept building additions,
24 additions, additions. Now I think it would be really
25 interesting and even critical for us to sit down together

1 and say what's the problem we are trying to solve?

2 What are the benefits that a centrally
3 administered wholesale capacity market could bring to
4 solving that problem and how can we do it? And I can assure
5 you that when that conversation is held in recognition of
6 state sovereignty and state responsibility and state
7 commitment, we are going to be your partner.

8 And I know that when we recognize that there are
9 obligations, there are boundaries, that the federal
10 wholesale markets if recognized at capacity market is going
11 to have to operate and we will find that way or we will
12 collectively decide maybe there's a better way.

13 What I do know is the status quo can't be
14 maintained much longer and if that happens we get to I think
15 two points. The fourth door if you will, Commissioner
16 LaFleur and also Sue Tierney's conclusion. That's not our
17 objective. The federal wholesale markets are a tool, they
18 are a resource, they are an asset that I think are being
19 under used right now because they are being burdened by a
20 structure that doesn't reflect today's economic reality.

21 MS. DES ROCHES: So just to add on a bit to what
22 Scott said. So we also would like this to be a
23 collaborative process and a plan to change. Definitely
24 advocating from the local level that you look at what the
25 local needs are and you look at why we are using public

1 policy in the way that we are to best serve our
2 populations.

3 So that we come to the table with our
4 perspective, the markets come to the table with their
5 perspective and we try to meet somewhere in the middle.
6 Right it can't be a zero-some game we all have to meet in
7 the middle. I think it is very important that it isn't just
8 about how the models work and how they were constructed but
9 that we are really talking about the tangible outcomes, yet
10 I haven't heard a lot about affordability today but you know
11 the tangible outcomes to the folks that live in our states
12 and our cities and how do these policies and this change
13 that needs to happen to the market going to affect them?

14 And if we can come to the table in a
15 collaborative process that has all the voices at the table
16 we will have a better outcome.

17 MR. QUINN: I think we hit our hard stop of
18 12:37. I appreciate your comments and look forward to
19 having to bring you back on our side panel for our session
20 after lunch. We will try to come back at 11:30 -- I'm sorry
21 1:30 for our second session.

22 A F T E R N O O N S E S S I O N

23 SESSION II

24 Panel 2

25 MR. QUINN: Alright we're going to get started --

1 too much power. So welcome back to the second panel of the
2 second session. We are going to follow pretty much the same
3 goals and format as we followed for the first session. I'll
4 remind the state participants and the local participants
5 that if you would like to talk during the panel please put
6 your tent card up.

7 I'll remind our panelists that we are looking for
8 an open dialogue and we have all read your testimony so you
9 know to the extent that we can avoid opening comments in the
10 form of the answer to the first question that would be
11 great. I would like to welcome our panelists and introduce
12 them starting out with Brad Jones the President and Chief
13 Executive Officer of New York ISO.

14 David Patton, President of Potomac Economics,
15 Kathleen Barron who is the Senior Vice President of
16 Competitive Market Policy at Exelon, we have James Holodak,
17 Vice President of Regulatory Strategy and Integrated
18 Analytics at National Grid.

19 Next we have John Reese Senior Vice President of
20 Eastern Generation. Oh I skipped over -- I'm sorry, Mark
21 Kresowik the Regional Director of Beyond Coal Campaign,
22 Sierra Club and then finally John Shelk, the President and
23 Chief Executive Officer of the Electric Power Supply
24 Association.

25 So I think we heard in both the pre-Conference

1 comments and statements but also the discussion we had for
2 the first panel -- a discussion about how New York State is
3 transitioning to a new energy environment and an energy
4 environment that certainly is focused on the REV process, an
5 increased role for distributed energy resources, a renewed
6 focus -- an increased focus on clean energy.

7 So I think what we would like to understand from
8 all of you is in the transition from where we are today to
9 where New York State believes its going. One -- do you have
10 a sense for how long that transition is going to take?

11 And two -- how do resources and market
12 participants make decisions along that transition path in an
13 orderly way so that the existing set of resources that are
14 needed during the transition but maybe are going to need to
15 fall out at the end -- know what their time for staying in
16 their time for going is.

17 And is there a way for the market rules that New
18 York ISO runs to help with that transition period. So maybe
19 just have folks you know if you would like to talk put your
20 tent card up and we can kind of go to the first person with
21 the coherent thought.

22 There you go John Reese.

23 MR. REESE: I'm not necessarily coherent. So
24 it's a real dichotomy going on, on how long because we have
25 varying goals as you have heard. You know probably the

1 longest term goal is 80% by 2050. We have 40% renewable
2 energy by 2030 and then we have some interim goals in
3 between.

4 And you know look this is a long -- this is a
5 marathon that New York, my entire career in and out of
6 public service in New York has been about de-carbonization
7 since we have added environmental externalities of \$14.00 a
8 megawatt hour in 1989. This isn't anything new. We know
9 how to do this. There are systems in place.

10 For the last 19 years the market has been able to
11 respond to New York's environmental issues and the
12 environmental goals. If this is about carbon in our view we
13 can do that. It can't be about multiple prices of carbon
14 for the market to respond. The market is very good at
15 responding to the signals you have heard from a bunch of
16 people.

17 Those are the long-term issues and we need a
18 model that gets us to that long-term transition. What does
19 it look like in 2040? We also need to know what it looks
20 like in 2023 and 2024 and that's the challenge because we
21 are facing some additional environmental challenges that
22 aren't on the table today due to regulations affecting NOCKS
23 and peakers in New York City we are likely to see 3,000
24 megawatts in Zone J and K be at risk.

25 This is the aging infrastructure that's what I

1 am. So the challenge on how soon do you need to act. I
2 need a signal. Indian Point -- I need a signal. The market
3 can respond but without FERC action, without the New York
4 ISO action with a simply a regulatory action I have no way
5 for investment. I'm backed by equity investors.

6 We need that signal unlike New England this
7 morning and PGM this afternoon I don't have a 3 year forward
8 market I have a one month market. In the month of May we
9 saw the impact of ZECS. There was no impact of ZECS in the
10 market in April.

11 The capacity price went to a 6 year low. I can't
12 wait for 7 years or 8 years for this to work out regardless
13 of what model we end up with. We need to be sending
14 investment signals now.

15 MR. HOLODAK: We appreciate FERC facilitating
16 these discussions and thanks for the opportunity to be able
17 to share our opinions today. The national grid operates in
18 both the ISO New York/New England markets. We are
19 absolutely supportive of the state's goals in trying to
20 reduce carbon emission allowance emission.

21 How's that better? We absolutely support the
22 state's goals whether they be 40 by 30 or 80 by 50. What's
23 interesting though in order to achieve those goals the
24 generation sector can't do that alone. Roughly a third of
25 emissions come from transport, a third come from heating --

1 residential, commercial heating and then the third comes
2 from the generation system.

3 So remember for states to meet an 80 by 50 goals
4 it's got to be an all-encompassing -- it has to affect each
5 one of those aspects even if the generation sector were to
6 go 100% renewable you would still probably only get halfway
7 to where you need to be.

8 So with that said some folks earlier today
9 indicated that they were focused on transport, on
10 electrification of heating, all of that will tend to
11 increase the load further than what we have today and I
12 don't know that more focus on energy efficiency will help
13 reduce that to keep the load flat without growing.

14 So I think it is incumbent and we are hopeful
15 that we can come to a solution that still involves the
16 wholesale markets. I don't know that national grid is all
17 that happy about the mandated obligations put upon it
18 through contract or otherwise. So to the extent that we can
19 solve these through wholesale markets as opposed to what I
20 like to call virtual ownership having the utility being
21 mandated to enter into a contract with a renewable
22 generator.

23 To me all that does is shift the burden of
24 financing from that developer to the utility and its
25 customers. So we have got virtual ownership of the asset

1 without really having any of the benefits of it or the
2 terminal value of it.

3 So we are hopeful that rather than working
4 through say 1 off or 5 off or 10 off mandated RFP's and
5 PPA's that we could find a way to price things into the
6 wholesale market, price those carbon attributes or
7 environmental attributes that all of the states are
8 interested in into the wholesale market and see if we can't
9 come up with a solution that way.

10 Now you can't necessarily do that if the states
11 are honing in on one particular type of asset or another so
12 if the goal is clean energy and environmental attributes
13 then that ought to be the goal and we ought to be able to
14 price that into the market and let innovation and
15 competition bring the solutions about.

16 To Scott Weiner's earlier point New York is
17 designing a distribution platform that can do that at the
18 distribution level, that sends the correct pricing signals
19 to entice people into the market I can't fathom why the
20 wholesale markets can't do the same thing.

21 MR. QUINN: Brad?

22 MR. JONES: Thank you. Arnie I didn't like your
23 question so much but I did like the answer that came up from
24 Jim from our play-off of that one. Jim has talked about the
25 40 by 30 goal. Now that is a 40% reduction of carbon from

1 1990 levels by 2030 economy-wide.

2 Now he mentioned that. In the electricity sector
3 alone with state policies that have driven us toward a more
4 efficient and lower carbon grid, the NYISO markets have
5 delivered significantly on that goal already.

6 In the electricity market alone there is a 50%
7 reduction in carbon from 1990 levels. But that is not
8 enough and Jim we have to do more. The reason why the
9 transportation sector as Jim mentioned continues to show
10 increases in carbon output. So as the transportation sector
11 grows we have to get more reductions out of the electricity
12 sector.

13 That is where the State of New York has acted.
14 And the two things that they have passed under the Clean
15 Energy Standard they have acted to number one -- drive more
16 renewables into the grid, a goal of 50% of renewable
17 production in 2030.

18 And number two -- to preserve nuclear units that
19 can help maintain that clean energy balance at low carbon
20 balance. Now why did nuclear generation need support?
21 Because the wholesale markets that are operated by the NYISO
22 are at record low prices and those record low prices have
23 put these nuclear plants at economic jeopardy -- jeopardy of
24 leaving our system.

25 So the states stepped in as a bridge to the

1 future, an opportunity to retain those units which gets to
2 part of your question about how quickly do we react -- a
3 bridge into a future that we see for moving towards these
4 lower carbon solutions.

5 Now the NYISO ha supported the ZEC program but we
6 have been very specific that we believe it needs to move
7 into a competitive environment -- that the wholesale markets
8 can resolve this problem.

9 So we have been working collaboratively with the
10 state and with our market participants and I think Colette
11 you mentioned or perhaps it was you Cheryl mentioned that
12 collaborative is our new church word. We are going to
13 change it to partnership because of that.

14 We are in a partnership with the State of New
15 York and with our market participants to try to find a
16 solution for how we can integrate the price of carbon into
17 our markets. We believe it can be done but we have to test
18 our assumptions, we have to run the sensitivity analysis, we
19 have to know that this is the right pathway for the State of
20 New York. So we are in the middle of that process. We have
21 hired Brattle group who is doing that analysis. Brattle
22 will be here tomorrow so if you have specific questions on
23 the program I would be happy for you to ask them.

24 However, the results so far are very preliminary.
25 They are promising though. We believe that there is an

1 opportunity for us to incorporate carbon directly into our
2 markets. Ultimately what we are looking for is a model
3 which will meet the full goal of reliability, low cost, low
4 carbon output and finally and also importantly a balance
5 between state and federal jurisdictions.

6 If we can achieve all of those elements I think
7 we have a process that will work.

8 MR. QUINN: Mark?

9 MR. KRESOWIK: I want to echo the thanks for
10 inviting me to speak here today. I think New York has sent
11 the right long-term policy signals as Johns said earlier in
12 terms of this 50% by 2030 Clean Energy Standard, 40% by 2030
13 the economy-wide carbon target and the Regional Greenhouse
14 Gas Initiative which has certainly gotten some air time here
15 today, a fantastic collaborative of the 9 states in the
16 Northeast to price and reduce carbon pollution.

17 At the same time I think what you are
18 highlighting is a misguided policy that New York engaged in
19 to intervene in a resources decision to exit the market
20 which results and will result in consumer prices in some
21 cases being higher than they should be. But I want to maybe
22 play off Scott's earlier example where he talked about
23 operating with a scalpel.

24 I come from a medical family and so would remind
25 the staff and the Commissioners of one of the first

1 principles of a medical practice which is, do no harm --
2 first do no harm. And so I think that many of the ideas
3 that have been put forward in neighboring jurisdictions we
4 haven't seen yet what New York ISO specifically is going to
5 propose, but many of the proposals in ISO New England and
6 PJM would in fact do more harm than they would help. The
7 cure would be worse than the disease.

8 So I think it is very important that when we look
9 at accommodation as was discussed earlier it should start by
10 not doing more harm than good which means first limit the
11 minimum offer price rule to situations that violate federal
12 law. Don't expand the minimum offer price rule increase as
13 we have seen in ISO New England.

14 And in fact even well intentioned ideas such as
15 carbon pricing as New York ISO is working on with the
16 Brattle group would have the unintended consequence of
17 actually undermining the region of Greenhouse Gas Initiative
18 which certainly Dr. Patton there highlighted earlier as the
19 preferential way to go about pricing carbon.

20 So I think it is very important that whatever we
21 do -- whatever New York chooses to do in reaction to
22 generator decisions potentially to exit does not do more
23 harm than good.

24 MR. QUINN: Thank you we are going to do David
25 and then John and then we will go to Scott the next time.

1 MR. PATTON: Okay so you have heard me express
2 some opinions let me clarify one thing. I'm not pessimistic
3 in general at all potential -- only about achieving
4 consensus among everybody and what the objectives are.

5 But I think actually they are -- I'm pretty
6 optimistic that there are solutions out there that can
7 address some of these problems if we roll up our sleeves and
8 work on it. With regard to New York there are some things
9 that are very different and some things that are not very
10 different in New York that I think we need to keep in mind.

11 One is the market plays as key a role in New York
12 as it does in New England and elsewhere in coordinating
13 decisions by private investors which is really important in
14 New York because most of our generating assets are held by
15 companies that are private.

16 So they are relying on the market signals on the
17 decisions they make to enter and even more importantly to
18 exit the market. Another unique aspect of the New York
19 market is that we probably -- I'd have to look but I would
20 place a lot of money on the fact that it's the oldest
21 portfolio generation in the country. It is dominated by a
22 generation of 40-50 years old.

23 So these are all generators that are approaching
24 or actually at the retirement timeframe and have to make key
25 decisions on making investments to keep units in operation

1 and so when we start thinking about regulatory uncertainty
2 whether it is generated at the state level or at the federal
3 level that will undermine a private investor's ability to
4 make those decisions efficiently then it is just going to be
5 cost increasing and lead to a disorderly transition which is
6 I think not what we want.

7 So I think a large part of what we are talking
8 about here goes back to some of the concepts that we talked
9 about in the New England context which is coordinating the
10 entry and exit decisions which is really critical in New
11 York.

12 You heard the City of New York talk about
13 re-powering. They have an intense interest in moving away
14 from some of the old units that we currently rely on in New
15 York City. One of the aspects of New York that you have to
16 think about -- I think the CASPAR idea is very applicable to
17 New York but one of the challenges of applying something
18 like that in New York is that New York is probably the most
19 locational and complicated and has more locational concerns
20 than any market that we have seen.

21 You can't just say okay we are going to retain a
22 nuke in western New York and we are going to retire
23 something in New York City. And even within New York City
24 there are different voltage level systems and different load
25 pockets where it matters a whole lot. You can't just build

1 something one place in New York City and retire something
2 elsewhere.

3 So as we develop solutions that attempt to
4 coordinate entry and exit we have to think hard about how we
5 keep the reliability obligations of the ISO, the resource
6 advocacy obligations, the transmission security obligations
7 in mind so that we develop solutions that are actually
8 practical which may be more difficult in New York.

9 And finally I think the carbon pricing isn't the
10 easiest thing to think about as a potential solution. I do
11 think utilizing RGGI is probably the best approach but
12 harder than doing something in one state because it requires
13 more agreement across the board.

14 But to the extent that the goals -- the
15 objectives are really carbon reduction I think you will get
16 bigger reductions faster at a lower cost and cause some of
17 the interventions -- maybe not all of the interventions to
18 be taken care of naturally through the market.

19 I think there still are some expressed goals that
20 the states have that carbon pricing won't get you there so I
21 think it is still incumbent on us to think about how we deal
22 with those in a way that's not disruptive to the market.

23 MR. QUINN: Thank you, John?

24 MR. SHELK: Good afternoon and thanks for the
25 opportunity to participate in the Conference. And building

1 on what Mr. Jones said the benefits that you have seen in
2 the market today that you are talking about in terms of the
3 transition that has already occurred, the reduction in
4 criteria pollutants, the reduction in carbon emissions,
5 putting in new resources and investor risk not customer risk
6 -- that's all happened under the current market structure.

7 And certainly the State of New York like other
8 states have interest in clean energy and new technologies
9 and that's all fine and we can discuss those. But what we
10 have to keep in mind is that as Commissioner Honorable said
11 we are here today after 3 United States Supreme Court
12 decisions.

13 And the huge decision, the most recent of the 3
14 unanimously held last year that states cannot pursue even
15 legitimate and through improper regulatory means. And the
16 court also said that this Commission is not required to
17 accommodate everything a state wants to pursue -- in fact
18 just the opposite.

19 So the mere fact that we are here today for two
20 days with 60 witnesses at about 20 questions, indicates to
21 us that the states are in fact, in some instances,
22 encroaching on this Commission's jurisdiction and for that
23 reason we and many of EPISA's members are parties to
24 litigation in New York and Illinois.

25 So we can have this discussion but it is

1 important to keep in mind that this transition that you are
2 referring to in your original question requires all of the
3 resources that are on the grid. We don't have a nuclear
4 grid or a gas grid or a coal grid, we don't have a separate
5 grid for base load or mid peaking, it all has to work
6 together.

7 And our concern is back to what Commissioner
8 Honorable said earlier this has to be done comprehensively
9 and it has to be done within the bounds of the law. So one
10 of the concepts that has not been talked about yet is what
11 should a state do, what should a market do if it doesn't
12 like the current status quo?

13 And what we haven't talked about is when, if
14 ever, is unilateral action allowable -- because that's
15 what's happened to date. We are not having a coordinated,
16 comprehensive discussion through the ISO in the case of New
17 York or the others that were discussed in the next two days
18 to bring everybody together first and then discuss how on a
19 coordinated basis we would achieve the goals you have
20 identified, the transition that's reliable and affordable.

21 Instead up until now we have had unilateral
22 action which actually makes it harder not easier to do what
23 John Reese and the others have said which is have this
24 transition in an orderly fashion that recognizes that if you
25 want the benefits of markets then you have to keep the

1 markets in a well-functioning manner.

2 Accommodation of every single thing that is
3 brought forward is not the law, it's not good policy and we
4 don't think that should be the focus. We should be working
5 together to achieve what we have been able to do to date
6 which is lower emissions of criteria pollutants, lower
7 greenhouse gases, bring on new technologies but do it in a
8 way that works through the market rather than work outside
9 of the market.

10 MR. QUINN: Thank you, Scott?

11 MR. WEINER: Just a couple quick points. I want
12 to build upon Brad's comments. Number one I like the word
13 partnership I'll be very clear about that. I also just on a
14 personal level like the word harmonize better than
15 accommodate -- it just has a better ring to me. It talks
16 about coming together and I want to connect Brad and David's
17 comments.

18 We are absolutely committed as I talked about as
19 Brad mentioned to this partnership to explore. We don't
20 know what the outcome is yet and I think there is a good
21 starting point that has been presented by the ISO to the
22 Brattle's approach and we will take a look at that.

23 But I would venture to guess when all is said and
24 done wherever we end up it is not going to be a single
25 solution. It is going to be a piece part of the mosaic of

1 actions and policies that harmonize with each other, RGGI
2 being one of them.

3 I can, in fact I did with many people in this
4 room I did. I was present at the birth of RGGI but when we
5 came together we came together to lower carbon, we didn't
6 come together to create a market pricing. I'll be happy to
7 divulge that it provides very valuable information and it is
8 something which is harmonized into our policy framework,
9 that's something that will continue.

10 So I want to also continue and say Amen to
11 partnership and Amen to harmony.

12 MR. QUINN: Kathleen?

13 MS. BARRON: Coordination, partnership,
14 harmonization, those are all things that we should certainly
15 do and no doubt are going to result in something that will
16 get you some more harmony on this side of the table as well.
17 So no question that that's what the goal should be. The
18 question is when we don't have that, when we don't have a
19 solution at a wholesale level, what are the states to do?

20 Are they to step back and ignore their clean
21 energy policy goals, ignore the health effects on their
22 citizens and ignore what they think is in the best interest
23 of their communities and that is what the State of New York
24 was facing with respect to the Clean Energy Standard.

25 And it is clear markets have delivered

1 de-carbonization. They have delivered lower criteria
2 pollutants but that is obviously not by design that is just
3 by luck. It's a function of gas prices and the load growth.

4 So against that backdrop and facing resource
5 decisions that were being made on behalf of my company and
6 others that saw a lack as Brad said of a pricing for
7 existing nuclear to stay in the market made decisions to
8 retire, the state stepped in to say that is not a good
9 outcome for our consumers. Nuclear is a very low cost
10 carbon abatement action and we are going to take advantage
11 of that as we look forward towards adding new generation to
12 the system and displacing existing emitting generation.

13 I mean let's just be honest that's what this
14 discussion is about. We have a pretty health reserve margin
15 in New York and elsewhere. We have a lot of supply. In
16 fact the earlier discussion was focusing on this issue of
17 how do we avoid continuing over-supply, that's what we have.

18 And what that means is we don't have a
19 reliability consideration, we don't have a lack of resource
20 adequacy. We have too much on the system right now and we
21 may need to have some, you know, we have had illusions to
22 the fleet in New York City being close to 70% of it being 50
23 years old. We may need to have some of those resources exit
24 as we move through this transition.

25 But keeping the existing nuclear fleet in the

1 market it is not affecting where the market clears, it is
2 already in the market and sure if it were to retire that
3 would have a tremendous impact on the market but it is not
4 changing where the capacity price clears month to month.

5 What it's doing is making sure that these assets
6 remain available to the state as they move forward with
7 their clean energy policy. And taking steps to stop the
8 state from doing that are going to serve only to keep prices
9 higher in a market where we don't need new resources and to
10 what end.

11 Why would we do that to consumers? What would
12 that be solving to prevent a fair amount of what I consider
13 pessimism on the earlier panels about the parade of
14 horrors that could come down the road. We are not seeing
15 those outcomes now, let's keep working towards this
16 harmonization and partnership and collaboration that we have
17 been speaking of and try to get that done.

18 Let's not try to stop the states from doing the
19 things they think they need to do and indeed it was the only
20 thing that they could do in the interim.

21 MR. QUINN: Do you have a quick follow-up?

22 MR. KRESOWIK: Yes very quick. I just want to
23 emphasize what Kathleen said. I think in all three of these
24 regions including New York ISO, there's no evidence of a
25 resource adequacy issue, you know that was one of the

1 questions that was asked repeatedly on the earlier panels
2 and there is none, there is no resource adequacy issue and
3 so I think that's important too.

4 MR. QUINN: John?

5 MR. REESE: Having sat at the table for New York
6 when RGGI was created we talked about markets all the time
7 in setting RGGI up with the states of Massachusetts,
8 Connecticut, with many states. It was a market solution as
9 I recall it.

10 But more importantly I think you have pointed out
11 a large portion of the generation in New York is mature. If
12 I was a little younger I would say it was old. But it is
13 mature. And over the time horizons we are talking about we
14 are going to see a portion of that generation disappear.

15 Whether forced to by other market solutions or
16 just by you know reaching, you get to 2030 and we are 12
17 years out, 13 years out, some of those assets not ours,
18 somebody else's of course may not be around. And we need to
19 think about how we replace those assets because when you
20 look at the amount of renewables for example that is
21 projected to come into New York over the next 12 years that
22 doesn't make up a quarter of the assets that are over 50
23 years old or 45 years old.

24 There's not a good match on the aging out of the
25 resources and the projected realistic you know, how long

1 does it take to bring renewables into the market. So I
2 think it's not something you know, we can wait for a decade
3 until we hit a crisis, we need something before that.

4 MR. QUINN: Thank you, sorry I think we have
5 heard a little bit about carbon pricing and whether it has
6 got potential to be a near term manner to harmonize. I
7 would like to talk a little bit more about that and maybe
8 connect to the conversation we had earlier this morning
9 about the difficulty of doing that in ISO New England where
10 there are 9 states, 9 different goals that carbon price ends
11 up being maybe -- I think we heard the term lowest common
12 denominator.

13 New York is one state. So I would like to talk
14 about whether the fact that New York is one state makes the
15 carbon discussion an easier discussion to have and I also
16 would like to kind of circle back to something David said
17 about RGGI being the place to do that, that clearly turns a
18 one state question into a multiple state question and so
19 that feels like a complication but I sense that there is
20 some desire to avoid creation of seams or the fact that RGGI
21 being multi-state actually has some benefits as well as some
22 complications, so I'm mostly looking for folks to kind of
23 react to kind of that take.

24 MR. KRESOWIK: Again I do want to emphasize the
25 Regional Greenhouse Gas Initiative is we think the right

1 mechanism to price carbon in the 9 state region and even
2 beyond if other states want to join.

3 I do want to I think with New York in particular
4 -- it is possible for a state to price carbon in addition to
5 the Regional Greenhouse Gas Initiative. I think
6 Massachusetts actually has a proposal to do that right now.
7 I am not sure that it is advisable and I think it is
8 particularly troubling to imagine the market operator kind
9 of proposing to do that.

10 The market operator and you know the stakeholder
11 price is not a public entity. It is not a public process.
12 It is not a set of sovereigns getting together to move
13 forward a policy and so I think there is some very big
14 unintended consequences that would happen if the market
15 operator was the entity in order to move forward a price on
16 carbon including undermining that sovereign process by
17 driving down RGGI prices and ultimately undermining the
18 RGGI program itself.

19 So we don't support and think that the market
20 operators are the right entity to price carbon. We think it
21 should be the sovereign and should be the states.

22 MR. QUINN: Thank you. I didn't see the cards go
23 up in order so I am going to go with Brad first and then I
24 will --

25 MR. JONES: Thank you that is not the correct

1 order but still. Well thank you so I will follow behind on
2 Mark on that point. So the question is, is it easier for
3 New York to accomplish this goal through utilizing the
4 energy markets and incorporating the price of carbon?

5 I think easily the argument could be yes number
6 one because the state wants to be the leader in low carbon
7 electricity. Our state is very focused on providing a low
8 carbon solution so the fact that the state is already in
9 that posture wants to be one of the leaders in the nation to
10 accomplish that goal helps us to get there.

11 Next, being a single state helps us to get there.
12 The state is all one so they are all focused on the same
13 overall goal. If we were to use RGGI it is hard to be the
14 leader when you need to make sure that 6 other people or I
15 guess it's 8 other people actually come along at the same
16 time or 9 as Mark suggested.

17 So it is hard to be the leader so I think the
18 state has an advantage there as well. One of the greatest
19 advantages though is that the hardest thing to figure -- to
20 determine, is what is the cost of carbon that should be set?
21 And I am happy to say that our state has already set forth a
22 social cost of carbon when they developed the ZEC process.

23 And so that was a hurdle that we have already
24 overcome. So there are a number of things it puts us at an
25 advantage to move forward on this issue and I say creates

1 the greatest opportunity to solve this in a way as I like to
2 say 9 out of 10 dentists would say the right way to it is
3 through the energy market, we have the opportunity to do it.

4 MR. QUINN: Kathleen?

5 MS. BARRON: I'll just chime in in support of
6 what Brad said. I think the issue is not whether a state
7 can put a price on carbon, it clearly can do that. It can
8 enact a carbon tax but is that going to have the effect that
9 the state wants?

10 Sure it is going to make its generation run less
11 but in an interconnection that we are in right now that
12 means that the generation in the states abutting that state
13 is going to run more and so to what end would -- you know,
14 cause a negative impact on the generation in your state when
15 you are not actually achieving your carbon goal.

16 So that's the problem that I think any state
17 that's looking to do this unilaterally is facing. And the
18 challenges that RGGI has had dealing with that leakage issue
19 are well known. And you know I hate to sort of put a
20 spotlight on this building but I think this is one of the
21 few places that could address that question of how to adjust
22 within the wholesale market flows back and forth between
23 states that choose to price carbon and states that don't?

24 And I think that's part of the work that needs to
25 happen both through the work that the New York ISO is doing

1 and the work that PGI has signaled in their pre-filed
2 comments that they are doing and that I think that the New
3 England processes are already well along the way of
4 examining.

5 Whether the states choose that or not is a
6 different matter. But putting it in the tariff as the
7 Commission has done in California to deal with flows across
8 that border is a pre-requisite to a state acting
9 unilaterally to price carbon because otherwise it won't
10 achieve the goal that it has because plants in the
11 neighboring states will just run more.

12 MR. QUINN: John?

13 MR. REESE: So we do business in EGM, have done
14 business in New England, I'm from New York. It's misery in
15 New York let me just tell you that. It isn't an easy place
16 to do business however I agree with what everybody has said.
17 It is -- it will be easier to accomplish this because it is
18 a one state ISO.

19 When the PSE makes a policy and the ISO has
20 reached agreement the market participants will come up with
21 solutions to deal with this. We did a study in 1994 as part
22 of RGGI what if New York went alone and what were the
23 impacts on the market at that point.

24 I think it can be accomplished but I think
25 Kathleen points out the issue will become seams issues and

1 how do you deal with those and that's a role for you
2 clearly.

3 MR. QUINN: Scott -- alright then Jim I think you
4 are next.

5 MR. HOLODAK: Yeah just a couple of things on
6 carbon pricing as well as on RGGI. I tend to agree with
7 Kathleen that the emission reductions that have occurred so
8 far haven't necessarily been because of RGGI. And I won't
9 say they have been in spite of RGGI but it has helped but it
10 has mostly been about the shale gas and the huge reduction
11 in natural gas prices as well as the economy and the lower
12 generation that was required I think.

13 In order for RGGI to really drive it and a single
14 state as everyone is saying should hope to be easier but I'm
15 not sure New York is really easy with anything. I'd like to
16 flip it on its head a bit and suggest that rather than
17 taxing carbon we ought to be able to find environmental
18 attributes that we are willing to pay for.

19 So as opposed to taxing, collecting funds, you
20 know, redistributing back to electricity customers or using
21 them for general funds or whatever it doesn't necessarily
22 suit the need to solve the issue unless you price that tax
23 high enough or the RGGI priced high enough that it will
24 actually move people to close plants and reinvest in
25 renewables.

1 I don't know that we necessarily have seen that.
2 If we had then you wouldn't need RFP's and mandated PPA's
3 for off-shore or on-shore, solar or anything else so rather
4 than tax and spend I would suggest an alternative would be
5 to price a positive attribute and figure out an ancillary
6 type market in the wholesale markets that you could
7 accomplish that growth and drive behavior that way. It's
8 just two sides to the same coin I guess.

9 MR. PATTON: Okay so at a risk of undercutting my
10 earlier comment that RGGI is the preferred mechanism I do
11 agree with you that it is easier to get consensus in a one
12 state context and I actually don't think the seam issue is
13 that big of a deal because you can establish a carbon
14 content value of imports coming in and price it so that you
15 don't favor generation outside versus generation inside.

16 So that part actually may even be easier to do of
17 one state context then in the RGGI leaking context although
18 I think you tamper in RGGI too. The one advantage I think
19 of RGGI is a couple of things.

20 One is establishing the value of carbon I think
21 the cap and trade system establishes a value rather than
22 having the social value of carbon just be sort of plucked.
23 And if you look at the underlying analysis there's -- that
24 number can end up anywhere depending on any number of the
25 assumptions that go into to calculating it so I think one of

1 the challenges you have -- again back to you have got assets
2 in the hands of private investors who have to have trust and
3 have -- the market has to be credible.

4 You know for decades down the road for the kinds
5 of decisions they are making so that carbon value or
6 whatever you set up to price carbon there has to be a degree
7 of credibility to it and you have to trust that 5 years down
8 the road a new administration is not going to come in and
9 say carbon is worth \$5.00 for instance.

10 And so the RGGI market I think also provides a
11 little more credibility to the price of carbon that then
12 flows through the electricity markets as well but it's no
13 doubt more difficult a solution.

14 MR. QUINN: Thanks. So John then we will do Brad
15 and Mark.

16 MR. SHELK: This has been a helpful discussion
17 because the prior comments illustrate the dilemma we faced
18 with the status quo which is why in the filing that we made
19 at the beginning of the year within this regard we said that
20 the status quo was not acceptable and there's an existential
21 threat and here's way.

22 It's based on everything we have heard from the
23 prior comments. Mr. Jones said the State of New York put a
24 price on carbon. The State of New York put a price on
25 carbon for three power plants that equates to \$45.00 a ton

1 or thereabouts. Everybody else in the state now sees to the
2 RGGI process and Dr. Patton and Mr. Jones and correct me if
3 I am wrong, a price of only \$3.00 a ton.

4 And everything that we have heard about climate
5 science is that a ton of carbon avoided is a ton of carbon
6 avoided whether it is downstate New York, upstate New York,
7 New England, halfway around the world.

8 So this is the problem we have if this Commission
9 acts in these areas you are bound by the law that says
10 things have to be not only just and reasonable but not
11 unduly discriminatory preferential. So we have a system
12 today where extensively for carbon reasons a price was put
13 on carbon, but not just a little bit more, dramatically
14 more.

15 So again Mr. Jones will correct me. The price in
16 New York today is probably \$30 to \$35 a megawatt hour. So
17 when the ZEC program takes affect those three units get a
18 50% premium and the people who pay for it in the State of
19 New York include people who consume 100% renewable energy
20 down state.

21 So if you buy a 100% renewable product you still
22 have to pay for this. So if we are going to put a price on
23 carbon and price attributes which is exactly what we have
24 all said should happen it needs to happen in a
25 non-discriminatory basis and I agree with the earlier

1 comments to find the attributes. If it is carbon, if it is
2 operational, flexibility -- whatever it happens to be but I
3 think what we have heard this morning and we have heard on
4 this panel and we already know ourselves is it has to be
5 done equally for everybody or the price signals aren't there
6 to do this in a cost effective manner and it becomes this
7 dust fire where you are going to drive people out and not
8 set the signals for everybody.

9 And that's what is not sustainable and those are
10 the facts that we need to keep in mind as we evaluate what
11 to do going forward.

12 MR. QUINN: Alright Kathy you have a quick on?

13 MS. BARRON: Yes it's quick because John is my
14 friend I'll be nice to him. Just to verify the record there
15 is a price on carbon for renewables in the State of New
16 York. There was a procurement that was held recently that
17 resulted in a REC price of over \$24.00 a megawatt hour, the
18 ZEC is \$17.00 a megawatt hour.

19 It's not just the nuclear plants that are
20 receiving a signal to stay in the market because of their
21 carbon abatement value -- it's all the renewables as well.
22 That is part of a clean energy program that the state has
23 enacted as I said earlier because it believes that that is
24 the best outcome for its consumers.

25 The question here is could we do so on a more

1 generic basis, technology neutral not fuel specific, that is
2 what Brad is working on, that is what we would like to keep
3 working on.

4 But let's just be clear about what the facts are
5 it's not just the three upstate plants that get a price
6 signal for being low carbon.

7 MR. QUINN: I'll go with Brad and I'll get our
8 friends for the state and see where we are from there.

9 MR. JONES: I'm glad Kathleen poked John so that
10 I don't have to so she covered that. I will say that I
11 agree with David Patton just a few moments ago and it's good
12 because we are sitting right here together. But he
13 specifically said that we can't manage the leakage issue at
14 the border, that's not a concern.

15 There are multiple ways that we can do that so we
16 have not shown a concern for that. And to respond to Jim
17 earlier who was concerned about a tax and spend approach.
18 What we are discussing is not a tax and spend approach, it
19 is an approach by which we charge generators that are
20 producing carbon and we return those revenues equitably back
21 to customers.

22 So I just wanted to clear up those two points,
23 thank you.

24 MR. QUINN: Thank you, Janet?

25 MS. JOSEPH: I just want to get back to a single

1 state system you know to price carbon. I think we are
2 asking the wrong question right? I think that the question
3 needs to be what will the impact be from the mechanism?

4 So when we look at our dialogue with ISO we will
5 be approaching it from that standpoint but making a
6 pre-determination that pricing carbon is the way to go is
7 sort of ahead of where we are at. We want to look at what
8 are the instruments and the mechanisms that can achieve
9 impact.

10 So we have to look at things like leakage, we
11 have to look at things like what will the impact on RGGI be
12 as we assess this. So I guess I would ask the participants
13 not to get sucked into the mechanistically can we do it --
14 mechanistically should we use the wholesale markets to do
15 X,Y,Z.

16 We have to keep bringing it back to those impacts
17 that we talked about earlier -- that's ultimately what we
18 want to achieve.

19 MR. QUINN: Scott did you have anything on top of
20 that?

21 MR. WEINER: Just one point to respond to
22 something John said. The Commission in adopting the CS
23 program included a provision that allows a community that is
24 in fact 100% renewable from new sources to apply to be
25 relieved of the ZEC complication.

1 That has not yet been implemented but we are
2 waiting and expecting some application soon.

3 MR. QUINN: Maybe I'll ask a follow-up of your
4 kind of re-framing of the question about you know not
5 whether we can but whether we should and what would the
6 impacts be. I certainly didn't mean to you know, solicit a
7 filing for carbon price.

8 But when you look at those impacts, is one of the
9 impacts you look at and maybe this is a bar question is one
10 of the impacts you look at not just the impact on cost and
11 how those costs are allocated but also how congruent that
12 those impacts are if they are brought into the wholesale
13 markets versus staying outside of the market, is that one of
14 the considerations that you have when you think about
15 impacts?

16 MS. JOSEPH: Yes.

17 MR. QUINN: Alright thanks, so Mark and John and
18 then we will let the Commissioners jump in here.

19 MR. KRESOWIK: I think one of the perspectives
20 that has been lost and that I appreciate here is actually
21 the consumer perspective here perhaps because the previous
22 Respondent panel and this panel are mostly generators which
23 I think the consumer impacts were highlighted in terms of
24 putting a price on carbon in a predominantly gas system may
25 not actually be two significant carbon pollution reductions.

1 Secondarily you talk about returning the revenues
2 generated to consumers may or may not be the best policy for
3 consumers. Regional Greenhouse Gas Initiatives in the
4 states have voted most of the revenue generated to energy
5 efficiency predominantly for low income folks or low income
6 assistance, a variety of mechanisms and I think it is very
7 important to highlight the benefits of those mechanisms that
8 would be lost if the market operators in many cases were the
9 ones who moved this policy forward.

10 And that's one of the reasons why we support the
11 Regional Greenhouse Gas Initiative and been opposed to the
12 market operators controlling carbon prices because of the
13 impact on consumers. So if you get to just and reasonable
14 rates I think it is very important to remember, you know,
15 what are the impacts on the ultimate people who are paying
16 for this which I think has gotten lost in these
17 conversations?

18 MR. QUINN: John?

19 MR. REESE: I will try to -- first just to be
20 clear one of the reasons why you know I was urging action
21 and why I think FERC really needs to take action is we have
22 three prices for carbon in New York. We have a price for
23 two of the three oldest nuclear facilities in the nation
24 which is around \$40.00.

25 We have a price for brand new competitive based

1 on an RFP renewables which is \$24.00 and then we have the
2 price for my mature units and brand new \$5,900 heat ray
3 combined cycles which was \$2.70.

4 There's a disparity there and there's a disparity
5 in the market without modification can't solve. To go to
6 consumers just to be clear, 7 years ago commodity -- the
7 wholesale market price was about 40% of the New York City
8 customer's bill. It's 28% of the customer's bill.

9 The part that has FERC oversight that the markets
10 are responding to for a variety of reasons granted has gone
11 down. We are -- the remainder is for legitimate
12 transmission and distribution and taxes and the fees that
13 are going to these programs and services.

14 Integrating those fees -- integrating our
15 objectives into the marketplace is going to bring us lower
16 prices. I mean we know that.

17 MR. QUINN: Thank you, Chairman LaFleur and
18 Commissioner Honorable?

19 CHAIRMAN LA FLEUR: Thank you Arnie. This has
20 been a really interesting conversation. I'm still stuck a
21 little bit where I was first thing in the morning. To the
22 extent that we want the New York ISO competitive markets to
23 attract investment or send exit signals for non-favored
24 resources is it capable of doing that job in the short run?
25 I know we are going to have a long collaborative process and

1 sing Kumbaya but I'm worried about June 1 and July 1 and
2 what's going to happen now.

3 I know you filed something in January. We lost
4 the quorum February 4th so here we are. I guess my question
5 is if when the state has chosen to make sure certain
6 existing resources stay in the market and is doing a lot of
7 other things to make sure other resources that the state
8 wants to get built and I saw in Jim Holodak's you know,
9 testimony National Grid is willing to come in and build
10 renewables but it doesn't want to build anything else.

11 Well I think a lot of people are willing to come
12 in and build renewables with the system. My concern is when
13 I hear you talk about re-powering to me re-powering sounds
14 like gas and if I was advising a Board of Directors to put
15 capital down into this market to build a gas plant given all
16 the other currents of monies that are going to other things,
17 I'm just wondering if I would and that makes me wonder are
18 we going to get into a thing where either we now have to
19 subsidize gas which in this case why not just re-regulate
20 and be honest, be a one state ISO and run a great energy
21 market out of your beautiful control center.

22 Or are we going to have RMR's where we keep
23 things on and then we have more and more RMR's? I'm just
24 concerned, I see -- some people said in their testimony,
25 "Don't worry none of this is going to affect market prices."

1 Then we heard John Reese say, "It already has." Do we want
2 to attract investment? Do we need it? I know there are
3 lands of plans upstate Kathleen, there have been lots of
4 plans upstate forever. There's wind, there's nuclear,
5 there's old coal. Downstate where the people live there's
6 not lots of plants.

7 And I know people live upstate I'm sorry I used
8 to go there all the time, but where most of the people live.
9 So I mean are we trying to attract investment or we are just
10 going to pay people to come in because I'm just worried
11 about all the things that we are doing in this market. Okay
12 that's my silique.

13 MR. QUINN: David do you want to go first?

14 MR. PATTON: Well obviously I have a fair amount
15 of sympathy for what you just said. Yeah I think what I
16 worry about is the answer to that is now in the short-term.
17 I mean I think we have to keep in mind that any dollar an
18 investor spends is going to be based on an expected set of
19 revenues over many years and if there's no solution in sight
20 at this moment and you are asking me to money in as an
21 investor at this moment-- I don't know why they would.

22 So that's the concern and that's the urgency and
23 I think what I'm afraid we are going to get to is a very
24 competitive market for rents and subsidies rather than a
25 competitive market for generating assets and energy and

1 ancillary services.

2 So I think we have to get our hands around this
3 and figure out which direction we are going relatively
4 quickly.

5 MR. QUINN: Brad?

6 MR. JONES: Thank you. I agree with what David
7 has said. In the short-term this is not a short-term
8 process, this is something that will take some time to get
9 to. Just as we discussed our partnership working in that
10 direction it will take probably a number of years to find a
11 solution.

12 In the meantime my hope is that the state has
13 taken some actions to preserve some generation in a way that
14 will carry them into that future market if we decide to go
15 into that market future.

16 You talked about investment ultimately -- if we
17 do crack this issue and we are able to figure it out we have
18 the real possibility of driving the type of investment we
19 want so quite a bit of discussion from the City of New York
20 about re-powering generation.

21 We will actually be sending signals to generation
22 in the New York City area because if you can avoid a higher
23 carbon output by putting in a more efficient facility that
24 can be done.

25 CHAIRMAN LA FLEUR: I completely agree. But I

1 didn't hear anyone saying that filing is coming any time
2 soon.

3 MR. JONES: It's not coming any time soon. It
4 will take some time to get there and it is a process as you
5 know working through our market participants takes a long
6 time to get there and working with the state to get them
7 comfortable with this approach will take a while.

8 And the entire process I believe at a minimum
9 would be three years.

10 MR. QUINN: I think Jim you are next.

11 MR. HOLODAK: In my testimony we did offer a
12 solution that National Grid would be willing to build large
13 scale renewables under cost of service regulation. We would
14 prefer that the wholesale markets can figure it out, that's
15 our absolute preference.

16 Secondly, in absence of that we do like the
17 NYSERDA model that procures REC's and ZEC's on behalf of the
18 states. One of the questions was whether or not National
19 Grid or each of the panelists up here collects subsidies and
20 the answer for us would be yes but we pass them right on
21 through to NYSERDA who then distributes them back to the
22 other generators.

23 So there's nothing in it for us. What we are
24 trying to do is make sure that to get where we need to get
25 to we are always mindful of the cost and the impacts on our

1 customers. So in the absence of working markets, our
2 proposal on cost of service regulation is just that.

3 We think that it is a cheaper way to do it,
4 potentially more cost-effective way to do it because of our
5 access to capital markets, because of the fact that after a
6 PPA expires those renewable attributes go back to the
7 generator and in New York those contracts for 10 years.

8 Now we may be extending them to 20 -- we had
9 extended them to 20 years. So customers pay for the
10 generator to be installed, recover its capital costs and
11 then at the end of the term we lose all of those economic
12 benefits of the renewable credits.

13 Utility ownership would solve that. I would say
14 we build it or we have a developer build it through a
15 competitive process, come up with as cheap a price as you
16 can, flip it to the utility to own and operate it under cost
17 of service and then we maintain those valuable environmental
18 attributes post when the normal contract would have ended.

19 CHAIRMAN LA FLEUR: I know you don't want to but
20 could you also finance gas cheaper than someone coming into
21 the market because of your balance sheet -- no? I mean
22 that's just like -- now it's everything old is new again.

23 MR. HOLODAK: In fact in New England we worked
24 with Ever Source to potentially do such a thing.

25 CHAIRMAN LA FLEUR: I'm sorry I didn't mean

1 pipeline, I meant a gas unit. But if you want to build a
2 pipeline I'm not your problem, not that I'm pre-judging
3 anything.

4 MR. HOLODAK: Oil and gas needs to balance all of
5 the renewables I guess. No we would consider that if that's
6 what it took.

7 MR. QUINN: So I think I will just run down the
8 line so we will do Mark, John, John.

9 MR. KRESOWIK: Great. To speak to downstate for
10 a moment, since the Long Island Power Authority isn't here,
11 nor PSEG on this particular panel. I do want to highlight
12 their recent integrated resource plan where they went and
13 found re-powering is not the cheapest option.

14 Renewables and demand response energy efficiency
15 are in fact the right things to keep doing. So the
16 assumption that re-powerings are necessary and advisable is
17 perhaps a little premature which gets back to my broader
18 point that I think a lot of this that there isn't sufficient
19 evidence yet of a problem.

20 And I think to the extent there is in terms of
21 you know, resource adequacy problem if there are other
22 reliability issues I think that goes to better defining what
23 reliability services are actually necessary downstate right.

24 So there is resource adequacy -- I want to be
25 very clear that base load is not a reliability attribute

1 which I hear get tossed around, it is simply a definition of
2 capacity factor. Black Star Service is a reliability
3 attribute. Reactive power -- go to reactive power is a
4 reliability attribute.

5 So I think it is better that we better define
6 those reliability attributes, create markets to deliver
7 those reliability attributes before assuming you know that
8 there is a resource adequacy or redefining capacity in some
9 way so I just wanted to highlight those things.

10 MR. QUINN: John?

11 MR. REESE: So I started the panel by talking
12 about urgency. You know we are in city generators, it is
13 where the constraint is, it is where the oldest fleet is.
14 You know Jim if you beg my pardon but if you want to do cost
15 of service, we can do cost of service. I just change my
16 investors. I can get the investors that want to provide
17 that kind of investment for that duration for you know a 40
18 year recovery.

19 We moved away from that market -- from that
20 construct for a reason. One of the reasons was because you
21 couldn't site generation in New York City where you need it
22 because when you moved into a fully regulated market it
23 becomes more political, it becomes more difficult to do a
24 lot of things. Otherwise we would have a lot more
25 transmission.

1 So there is urgency and the model works, and I
2 think the model is the solution, but we need action. I'm
3 going to have to come and ask for investment to meet
4 environmental concerns over the next decade. It takes me
5 between 2 and 3 years to permit a project in New York City.

6 You know look if you can have something in place
7 that works 24 months from now -- oh that can work absent
8 something catastrophic happening, that could work. But it
9 can't be 5 years from now. I need to make those investment
10 decisions you know in the next 5 years, all of the
11 portfolios will, because it is going to take you 5 years.

12 MR. SHELK: I would underscore what John Reese
13 said about urgency. Every time we have done a filing we try
14 to think of a new word, beyond urgency, but to be honest as
15 you all know we have been using that word for 4 years now.
16 We originally were joined by the Nuclear Energy Institute
17 and the Edison Electric Institute and the natural gas
18 industry and we came to you on a fuel neutral basis and
19 others decided to break that and go on a fuel specific
20 basis.

21 My concern is exactly what the acting Chairman
22 said and on this I'll make it clear for future reliability
23 of an old person like me, this is my own personal view. But
24 I have been in this position 12 years now. It has been a
25 privilege to represent this industry, it is every day.

1 I have never in 12 years had the degree of
2 inquiry and concern on a nearly daily basis the last 6 to 12
3 months that I have had from investors, from analysts on Wall
4 Street, from the Trade Press, from members and non-members.
5 And what I fear is exactly the fear that posed your question
6 which is we are going to be back here sadly if this comes to
7 pass, but it is the default path we are on as we speak as of
8 today, absent action to the contrary.

9 We are going to get to the one place that this
10 very table, mention was made earlier of that Conference in
11 September of 2013. There was a lot of disagreement.
12 Capacity markets always spawn disagreement. As I recall
13 correctly that last panel which was thought leaders, many of
14 whom we will hear from tomorrow, the one area of agreement
15 is exactly the place that we are headed to that everyone
16 said 4 years ago don't go there, which was tranches.

17 Let's pick "X" amount of nuclear, "X" amount of
18 coal, "X" amount of gas. Now it is worse, now we are not
19 just picking fuels, we are picking specific units that would
20 otherwise have exited so there goes the road with your
21 markets.

22 So that's the problem the one thing we said don't
23 do is the tranches and I said something on the phone to
24 somebody the other day and there was gasping on the phone.
25 I said but I meant it seriously. We are going to have to

1 make a filing or go to state legislatures for flex --
2 flexible energy credits.

3 You can't get to your transition point, you can't
4 get to a point with all the renewables which are great and
5 we have members doing it every day and not compensate the
6 people who are providing the ramping and the other services
7 that are different than how plants operate today. So Heaven
8 help us.

9 And the thing that hasn't been said needs to be
10 said is this may have started in New York last year on
11 August 1st but in short order it was adopted in my home
12 state of Illinois. And as everybody knows it is now being
13 actively considered in Ohio and Pennsylvania and New Jersey
14 and Connecticut.

15 So this isn't just a threat to the market in New
16 York or a threat to New England, this is a threat to the
17 very thing that so many people for decades spent incredible
18 service in this building to make happen. I hate to say it
19 is on the precipice of falling over unless there is some
20 concrete plan with specific dates and deadlines.

21 And I shuddered when I heard Brad -- not his
22 fault, 3 years. 3 more years we will be at the discussion I
23 hate to say it of what kind of contract, what kind of out of
24 market mechanism will everybody else have to receive to
25 literally keep the lights on, and I hope that's not true.

1 But after spending all of this time on these last dozen
2 years I'd be remiss if I wasn't that candid about where I
3 think we are today.

4 MR. QUINN: Thanks, Susanne?

5 MS. DES ROCHES: So I wanted to go back to an
6 earlier question from the Commissioner around sending a
7 signal on the re-powering side to you know, using natural
8 gas, not using natural gas. And first let me say I'm
9 thrilled that there is this much attention on re-powering
10 needs of New York City so I'm glad to have brought it up
11 earlier.

12 But you know from our perspective we know we are
13 going to need both and I think that John just talked to --
14 we are going to need fast ramping, efficient technologies to
15 balance out what we project as potentially about a 70%
16 renewable -- large scale renewable portfolio on top of many,
17 many gigawatts of solar distributed generation.

18 So when we mapped out New York City's 80 by 50
19 plan and yes it was transportation buildings, the energy
20 sector was rolled into those calculations -- we came out
21 with it's hard to get to 70% renewable plus the distributed
22 generation solar goals.

23 So we know that we are going to need to balance
24 that with these fast ramping technologies so that completes
25 the picture and that is a balance. So just back to your

1 question you know, yes at the moment that is a natural gas
2 resource. In 30 years will that be a natural gas resource
3 -- we don't know but we anticipate needing both.

4 CHAIRMAN LA FLEUR: Well I agree with everything
5 that has been said about ancillary services and ramping and
6 so forth but -- and I also don't get out of bed and want to
7 re-regulate. I lived through the transition also but I want
8 to make sure that if we run a capacity market it is a real
9 market with enough in it, I'll stop there.

10 COMMISSIONER HONORABLE: I'll bet that some of
11 you have been reading my notes because one by one you are
12 leading to where I want to head next. Where do we go from
13 here? Because you all have very well laid bare the urgency
14 of where things stand today, where we need to head from
15 here.

16 And I wanted to echo the comments I made to the
17 New York State colleagues -- keep working on your effort I
18 applaud your innovation and your willingness to try
19 something different to see if that will accomplish all of
20 the objectives that you have enumerated.

21 I've also heard today really a chicken and egg
22 sort of issue when I'm asking you what do you see coming
23 next when you leave here today. And I think John said we
24 have got to start working tomorrow or maybe it was Scott
25 that said tomorrow we are going to start working.

1 What does that look like for you because I have
2 heard a number of things here today and filed in your
3 pre-filed comments? I have heard from some of you, FERC we
4 like you, but leave us alone.

5 I have heard from others of you, FERC we need
6 guidance from you. Kathleen teed up in her comments maybe
7 we need regional tech conferences. You know we don't mind
8 taking the show on the road. If you all will open the door
9 and let us in and put a little kiddie table over to the side
10 somewhere for us.

11 CHAIRMAN LA FLEUR: I need colleagues before I
12 could --

13 COMMISSIONER HONORABLE: That's true, we better
14 do it quick then, right? And then I've heard from some of
15 you that things are fine we don't need to do anything. What
16 is next? Because we are creating a record here which will
17 aid us in shaping policy that will support you, not erode or
18 take away from or undercut.

19 We need some clarity from you about what you
20 believe needs to happen next.

21 MS. BARRON: Thank you for that question and as
22 much as I don't fondly recall the road show tech conferences
23 we did with a number of many other initiatives here I do
24 think that a continuing dialogue is essential.

25 Try to do this through paper and when everything

1 is ex parte is very, very difficult and there are others in
2 the room who have described this as an exceedingly complex
3 problem. This being how do we harmonize the state policy
4 with the wholesale markets. And New England should be
5 commended for the work that they initiated last summer
6 through NESCOE to have a dialogue and I know you have sent
7 staff there but that is not the same thing as you and your
8 staff at the table talking with people about what to do
9 next.

10 And that if it happens I think John Reese
11 signaled you know 24 months as a bogie. Brad was at 36 --
12 we have some time to talk about where we go, not an
13 unlimited amount of time but as Brad said at least in the
14 case of New York I mean his comments represent a signal that
15 taking steps to at least keep some of the existing stations
16 -- the ones that we know we are going to need to
17 de-carbonize in the market is something, that's something
18 that they have done.

19 And the question is what more do we do? How do
20 we facilitate this transition over time? As I said I think
21 that you need to stay involved with that. But I do think it
22 is important you know the suggestion that this problem that
23 we are trying to solve is just about the nuclear programs --
24 it's a very, very small part of what we are dealing with
25 right now.

1 John paints a picture where this sort of is
2 contagious across the country. I don't know, no one in this
3 room knows whether that will happen but we have other clean
4 energy goals that are represented through all kinds of
5 programs including plenty of them that are unit specific.

6 I can think about off-shore wind programs for
7 example that are looking for a specific type of asset to
8 come in because the state feels like it is of some value
9 given other considerations.

10 So we have a lot of things in front of us and the
11 question is what should we do in the meantime? Should we
12 take action on the one complaint you have pending which is
13 only targeting the least cost carbon abatement solution or
14 should we take a step back and try to figure out if there is
15 a better solution. That is what I was trying to communicate
16 with the comments.

17 MR. QUINN: Mark then John Reese and David.

18 MR. KRESOWIK: Thank you for your great question.
19 I would say limit the application of the minimum offer price
20 rule to only situations that directly violate the Federal
21 Power Act and secondly to better define the reliability
22 attributes and services that need to be delivered to
23 maintain an affordable, reliable electric system and ensure
24 that the market operators have markets set up to deliver
25 those reliability attributes.

1 Some of the ones that were mentioned a moment ago
2 including primary frequency response, fast ramping
3 capability you know -- be very, very specific about what
4 those reliability attributes are.

5 As I said earlier and I'll repeat again base load
6 is not a reliability attribute.

7 MR. QUINN: John Reese?

8 MR. REESE: So sitting before you is a complaint
9 and you know 24 months is fine but as soon as you have a
10 quorum which I would hope is before 24 months addressing
11 that and addressing the issue immediately.

12 That 24 months is great to work out a problem --
13 our real problem is immediate.

14 MR. QUINN: David?

15 MR. PATTON: So I think one thing I have become
16 convinced of is the harder the problem is the less
17 confidence you should have that the stakeholder process can
18 negotiate its way to a solution without any guidance or time
19 parameters.

20 So I probably would disagree with some of the
21 panelists here. I think it would be really helpful to at a
22 minimum establish some principles, articulate what the
23 problem is that you want to see solved and establish some
24 economic principles so that when stakeholders are
25 negotiating they are negotiating within a space that they

1 might come up with a solution that's going to be helpful
2 and going to achieve the economic objectives.

3 I think we have been maybe the staunchest
4 supporter of MOPR but to put that in context it was designed
5 from day 1 as an anti-manipulation provision for buyer side
6 mitigation provision and so the whole logic behind MOPR is
7 it is supposed to deter the activity so that it doesn't
8 happen and therefore the market is protected, the supply
9 doesn't enter.

10 It's a really lousy tool to apply to situations
11 where actions are being taken that are being taken for
12 reasons entirely other than manipulation or market power
13 abuse and so you end up with the supply not being deterred,
14 it actually enters.

15 And if you -- I may have been too charitable but
16 in my comments if you read my economic principles I'm not
17 sure the MOPR satisfies any of them when applied to
18 renewable and subsidies and other state actions.

19 So that's where the provision that we have been
20 working on with New England actually is very promising
21 because it provides -- it doesn't dismantle the MOPR and its
22 application to those investments that should apply to but it
23 provides a way out to address the unintended consequences of
24 MOPR for all the other investments that it would apply to.

25 And I think frankly you know New York ought to be

1 looking at that in tandem with the carbon pricing. But I
2 think you know you have heard me say this in filing many
3 times. I think it would be really helpful for the
4 Commission to establish a time frame and some principles to
5 help guide the stakeholder process in trying to deal with
6 this.

7 MR. QUINN: Alright so I think we probably need
8 to move on.

9 MR. KRESOWIK: Sorry I want to disagree
10 respectfully with Dr. Patton's assessment that the proposal
11 in ISO New England does not dismantle the MOPR. I believe
12 it does remove the renewables exemption from the MOPR which
13 I think is important to highlight.

14 MR. QUINN: So with that we are going to move on
15 to the third session. Thank your panelists this has been a
16 great conversation, we very much appreciate all of your
17 comments.

18 SESSION III

19 Panel 1

20 MR. QUINN: Alright so we're going to
21 get started. I appreciate for all of you who have been here
22 all day our lack of breaks has probably been not ideal. But
23 nonetheless we are going to start the third session and our
24 first panel.

25 We appreciate the panelist's patience and waiting

1 to get started. I hope this doesn't feel a little bit too
2 much like Groundhog Day for you all. We have a threat of
3 someone singing if people don't sit down.

4 Alright I'm bringing Mark to all of our meetings
5 from now on. And that's the nice version. So again thank
6 you to the panelists. I very much appreciate your
7 willingness to participate. This is our third session
8 focused on the PJM market. Our first panel of that session
9 will be with representatives from the PJM states.

10 I'm pleased to welcome Robert Erwin the General
11 Counsel at the Maryland Public Service Commission.
12 President Richard Mroz of the New Jersey BPU, Vice Chairman
13 Andrew Place of the Pennsylvania PUC and Brien Sheahan the
14 Chairman and Chief Executive Office of the Illinois Commerce
15 Commission.

16 So we are going to follow again the same process
17 that we followed for the two earlier sessions. Our first
18 panel with our state representatives who will then ask to
19 sit on the side for our second panel with a broader
20 stakeholder group -- like the earlier sessions I think we
21 would like to start out with kind of a broad discussion
22 about what the state's expectations are for the role that
23 wholesale markets play broadly in pursuit of state goals
24 generally but also specifically in the pursuit of the goals
25 related to specific resources, resource types, resource

1 attributes.

2 I think for again reading the pre-conference
3 statements for many of the other regions for New York and
4 New England there might have been a sense that I think the
5 conversation didn't bear this out but maybe that there
6 wasn't an expectation that the markets would get new
7 resources but rather just organized exit.

8 I don't think that's exactly how our
9 conversations went about that question and so for PJM I read
10 the pre-statement or the pre-Conference statements as
11 potentially needing both a new set of resources as well as
12 state actions bring specific resource types into the market.

13

14 They need to also have orderly exit. So we will
15 start out again like we have the other sessions. What your
16 views are on the role of PJM markets and in particular what
17 role you think PJM has in ensuring resource adequacy and
18 identifying the set of resources and the composition of
19 those resources on a long-term basis.

20 MR. ERWIN: Thank you Arnie. First of all let me
21 thank the Commission and Chairman LaFleur and Commissioner
22 Honorable for permitting Maryland -- I know there were a lot
23 of people that would have rather been here than Maryland but
24 we are pleased to participate.

25 I want to apologize for my Commissioner's that

1 one of them isn't sitting here. It wasn't for lack of
2 interest they are in a proceeding all day today and all day
3 tomorrow. So that took precedence.

4 The written statement that we filed was reviewed
5 and approved by the Commissioners so that is the Commission
6 statement. What I say here today are my own views and are
7 not necessarily the views of the Commission or any
8 individual Commissioner.

9 Let me start by saying I disagree a little bit
10 with some of the earlier state panelists. Maryland does not
11 consider the PJM markets as the sole definer or resource
12 adequacy and reliability. And let me tell you why.

13 First of all as my former Chairman Nazarian used
14 to say -- if the lights really do go out Maryland rate
15 payers are not going to storm Valley Forge with pitchforks
16 and torches. They are going to come to the Maryland
17 Commission and they are going to say how did you let that
18 happen?

19 And when we talk to that reporter from the
20 Baltimore Sun we don't want to be in a position of saying,
21 "Well Dr. Bowring and President Ott told us it was all going
22 to be fine." We are not going to rely on that alone.

23 And there's a real reason in the real world. In
24 2007 PJM came to the Maryland Commissioner and said you guys
25 are in trouble. You aren't going to have enough capacity to

1 meet your summer peaks in the future, you better do
2 something. They knew they aren't going to get new
3 generation they aren't going to get new transmission in
4 place in time.

5 So Maryland did do something and what we did was
6 we issued what we called the Gap RFP and we our distribution
7 utilities enter into contracts with demand response
8 resources. We got 400 megawatts of demand response
9 resources that could be activated immediately.

10 Interestingly we did that through a contract for
11 differences -- not unlike the one that we signed -- had the
12 utilities sign with CPV. So we put 400 megawatts into the
13 capacity market same instrument, nobody said a peep. Nobody
14 claimed that we were cratering the market or depressing
15 prices artificially, it all went smoothly and we stepped in
16 and cooperatively we got the job done between the economy
17 tanking and all the rest, we never did have the lights go
18 out thankfully.

19 So first of all we are not relying solely on Dr.
20 Bowering and President Ott. The second thing I would want to
21 say is as long as the capacity markets fundamental premise
22 is it is going to be cost based and resource neutral there
23 will be conflicts with state's environmental policies.

24 State environmental policies by definition are
25 not resource neutral. We have been at this for a long time

1 in Maryland. Indeed even before there were capacity
2 markets. In 2004 Maryland put in our RPS and we have been
3 using a system of RECS to encourage renewable resources in
4 Maryland for over 10 years now.

5 2008 we enacted our Empower Energy Efficiency
6 programs. In 2009 we adopted a Greenhouse Gas Reduction Act
7 which we implement through RGGI. So we have been messing
8 with the FERC markets for a long time and I don't think we
9 have had any terrible impacts.

10 I don't think the market has gone to hell in a
11 hand basket but I do agree with the New York folks that said
12 we really need to rethink the basics of are we going to
13 continue to be cost based and resource neutral or do we want
14 to start rethinking how we are sending signals out of that
15 capacity market, thank you.

16 MR. QUINN: Thank you, President Mroz?

17 MR. MROZ: Mr. Quinn, Commissioners, thank you
18 for having me. It's good to be here and I do appreciate the
19 FERC undertaking this effort. I think it is a conversation
20 that is not only worthwhile but will be very valuable.
21 However it is quite clear there are many opinions, there are
22 many moving parts and my comments today will be sort of
23 confined at least for this afternoon's purpose to what forms
24 my opinions as President of the New Jersey Board of Public
25 Utilities.

1 I think some of you know I have a perspective
2 that's informed from other affairs that responsibilities I
3 have first is the President of OPC, the second as Chairman
4 of the Critical Infrastructure Committee for NERUCK although
5 I am not speaking for either of those organizations
6 officially today.

7 Nevertheless in New Jersey's experience as most
8 of you know we have a diverse generation portfolio. We have
9 45% of the electricity that's generated comes from nuclear,
10 approximately 45% comes from natural gas and the rest is a
11 mix of other sources of fossil fuels as well as robust
12 renewable energy portfolio.

13 We are proud of that. It is one that in my
14 estimation years ago when New Jersey and the other states
15 talked about how the markets would evolve there were
16 probably expectations that generally that diverse portfolio
17 would still be around.

18 Today, largely because of what's happened in the
19 last several years because of the price of the fuel source
20 this discussion and the way we look at the markets has
21 changed dramatically.

22 That in and of itself is one factor
23 as to what is driving this and a number of the presenters
24 earlier today in fact remarked about that how we are now
25 shifting the focus of what the markets might need to

1 consider in terms of valuation.

2 That is just one general observation and I have
3 been very vocal to say that I think the market needs to
4 value these very important resources like our nuclear
5 resources in New Jersey. For the reason I mentioned which
6 is they are valuable, they continue to help to provide for
7 the long-term a diverse energy mix.

8 And that is one aspect that is not quantified
9 within the marketplace. It's one now that I think for both
10 reliability purposes as well as long-term pricing we do need
11 to give thought to it.

12 And the reliability aspect is one that hits home
13 for me. As the President of the Board I not only have a
14 responsibility being the Chairman but also the Chief Energy
15 Officer of the state and the reliability aspects are ones
16 that hit home if there are outages just like Mr. Erwin said.

17

18 The Maryland Commission would be equally as put
19 upon to answer the questions if the lights go out. So
20 resource adequacy is important to us but I look at it in
21 terms of the practical aspects of it. What if there is
22 impingement to fuel sources?

23 In New Jersey we had a looming threat of that
24 this last year, the first order of a contingency for ramp
25 down of gas supply would be to natural gas generation in New

1 Jersey which I was very concerned about.

2 So I look at the situation of whether we can
3 maintain orderly markets to ensure this diverse portfolio of
4 energy markets across the PJM, whether we are valuing them
5 appropriately and in fact going one step further and I want
6 to thank PJM for the work they have done in the last couple
7 of weeks particularly.

8 To start a conversation about what goes behind
9 just the generation sources and this does widen the
10 conversation admittedly. To consider what the additional
11 costs are associated with the bulk power systems delivery of
12 that energy transmission, pipelines and other associated
13 infrastructure.

14 I think about it in that respect also from a
15 consumer's standpoint. In New Jersey there's infrastructure
16 which is being built in and around nuclear plants and I
17 think to myself if those plants were to go away and those
18 assets -- those transmission assets had to be upgraded and
19 residents of PJM, consumers of PJM continue to have to pay
20 for those we end up with stranded costs.

21 So there are aspects I believe to what the market
22 really should start to consider beyond what we have already
23 talked about from a reliability standpoint as well as a more
24 holistic view of the way we value this bulk power system.

25 So I know that probably broadens the

1 conversation, maybe even complicates it further from what we
2 started to talk about but I do believe that there are many
3 aspects that the marketplace can and should value less as we
4 are seeing states do go and on a state by state basis begin
5 to value those themselves.

6 Now New Jersey has not spoken, our legislature
7 has not taken a position on these issues, my Governor has
8 not and I certainly respect them and any future policy
9 statements they may make on these issues.

10 But for the time being the New Jersey Board will
11 continue to look at this as a reliability issue, continue to
12 support the markets and also to advocate for the marketplace
13 to value in all of these externalities, thank you for having
14 me.

15 MR. QUINN: Thank you, Vice Chairman Place?

16 MR. PLACE: Thank you very much. It's a great
17 pleasure to be here, thank you for the opportunity. I'd
18 also note that my opinions are solely my own. It's I think
19 a valuable progression here moving from Maryland to New
20 Jersey to Pennsylvania.

21 The markets have served us well. It doesn't
22 guarantee that they will always serve us well. There are
23 clearly tweaks to the capacity market that we would favor
24 however if you are looking and thinking about the
25 conversations this morning and into this afternoon the

1 issues in New England and New York that's our future likely
2 if we are not thinking about these issues today.

3 I am fuel agnostic. I would argue -- I'd be
4 careful of thinking that Pennsylvania should go further than
5 we already have or much further than we already have in
6 selecting resources, bilateral contracts. We have a
7 successful APS, we have a successful energy efficiency
8 however they would be largely on the margins and the impacts
9 to the markets functioning as being arguably minimal to
10 date.

11 But given the conversation about what we do in
12 nuclear we have 10.3 gigawatts of nuclear within the
13 Commonwealth. These are substantive suddenly -- substantive
14 conversations whether it is today or next year or the year
15 after.

16 So that gets us to what can we continue to
17 function well if we select for example ZEC and I would argue
18 that I would rather -- much rather see an integrated carbon
19 price that's fuel agnostic and I don't think it will create
20 issues for reliability and I think you can do that within
21 the energy market and I think you can deal on the border
22 issues and do it well.

23 I question whether we can do it on the RTO level
24 preferably of course it is more efficient to do it that way,
25 it's cleaner to do it that way, it's more elegant to do it

1 that way but I don't write off the possibility within the
2 Commonwealth. We could conceivably do it and manage the
3 complexities within a broader RTO without disturbing the
4 market.

5 And if we do it by doing a carbon market you are
6 getting better price signals and even if you want to do a
7 hybrid approach the state wants to do for example off-shore
8 wind, you can layer that on to the underlying carbon price
9 and at least the carbon price has mitigated much of the
10 impact of introducing that state attributed to that state
11 resource of the market.

12 So for those reasons I do think that that's
13 hopefully our future. I do not -- I'm not in the
14 legislature, I'm not at the Governor's Office, they have not
15 opined on this but I would argue that if looking at the
16 future that is before us with a crystal ball these are
17 doable, they don't infringe on FERC's responsibilities.

18 It is within the market, it doesn't impede not
19 necessarily market power so with that I will continue on.

20 MR. QUINN: Thank you, Chairman Sheahan?

21 MR. SHEAHAN: Thank you I appreciate the
22 opportunity to be here. When I was thinking about it I knew
23 I would be on the hot seat but not quite literally the hot
24 seat. It's warm in here.

25 Illinois has a long history of progressive with a

1 small "p" leadership in environmental energy policy. The
2 Illinois Renewable Portfolio Standard and Energy Efficiency
3 Portfolio standards were enacted in 2008. In 2011 the state
4 enacted EMA which was primarily directed at Illinois energy
5 infrastructure but also to enable a broader array of energy
6 efficiency and demand response programs.

7 More recently of course the General Assembly
8 enacted the Future Energy Jobs Act which among other things
9 created ZEC. Adoption of FIJA and the zero emissions
10 standard provisions in particular are a continuation of
11 Illinois long history of addressing climate change and the
12 environmental impact of in-state generation by taking into
13 account events and circumstances affecting the state's
14 electric industry.

15 The ZEC program promotes the environmental
16 benefits of carbon free nuclear generation by unbundling the
17 negative externalities associated with carbon based
18 generation given them economic value and allowing
19 carbon-free generation to receive that value.

20 In terms of the RTO's role they play an important
21 role and they will continue to play an important role.
22 Apart from providing and operating markets the RTO's as you
23 know currently have processes to identify future capacity
24 needs.

25 But markets are not synchro-synced. They exist

1 to serve state purposes. And it is important for this
2 discussion I think to recognize and respect that states like
3 Illinois that have legitimate environmental concerns have
4 the legal authority to require and encourage those markets
5 to reflect those priorities, thank you.

6 MR. QUINN: Thank you. So I think we heard and
7 this actually was a nice kind of progression of you know how
8 much of what we are attempting -- what the states are
9 attempting to accomplish with their policy objectives can be
10 accomplished within the markets and how much of it has to
11 take place outside of the market.

12 Or even I think what Mr. Erwin said some of the
13 things that the market is attempting to accomplish itself
14 whether the states want to accomplish those things as well
15 or provide some sort of compliment.

16 One of the pre-Conference statements talked about
17 the fact that because of the integrated nature of the PJM
18 market any one state's decision necessarily flows into the
19 market outcomes that the other states are going to
20 experience.

21 And that there can either be conflict -- direct
22 conflict between, what one State is pursuing and what
23 another State is pursuing or simply just a side effect that
24 one State is pursuing a set of policy objectives that will
25 influence the market outcomes of another set of resources.

1 You know I think I heard from both New Jersey and
2 Pennsylvania a sense that within the market the more of
3 those things that can take place within the market the less
4 the potential conflict is.

5 But I guess I would like to hear from all of you
6 what role you think the RTO plays in resolving any potential
7 conflicts among states. If the PJM market isn't the place
8 where those conflicts will be resolved, what's the other
9 forum for resolution?

10 MR. MROZ: Well let me start because I've given
11 that issue some real serious thought and I think that's
12 something many of us in the PJM states are grappling with.
13 First is regulators and looking at both the generation and
14 resource adequacy mix as well as what the structure could be
15 to work through those issues.

16 As the President of the New Jersey Board when I
17 came to the position 3 years ago I was struck by the fact
18 that we really no longer have the apparatus to evaluate the
19 broader set of questions that was available to Commissions
20 in PJM before de-regulation when we had IRP. We just don't
21 have the resources, we don't have the bandwidth, we don't
22 have the staff, we don't have the structures in place to
23 inform us as state regulators at this point in time.

24 It actually points out to me what I think is
25 largely and I don't mean it in a regulatory sense -- a gap

1 in terms of the work that should be going on. I have had
2 many conversations with the representatives of PJM about how
3 PJM can and should fill part of that void. I think a lot of
4 work they have done recently helps.

5 At the same time I think it is incumbent upon us
6 as state regulators, individually and collectively along
7 with FERC, along with PJM to think about how to fill that
8 void and to manage those issues in a better way.

9 I'm reminded and I mentioned this many times when
10 I have spoken about these issues that our colleague from
11 Ohio Chairman Hock had talked about an enhanced planning
12 collaborative in the context of time about transmission
13 issues.

14 It seems to me that that concept is equally as
15 applicable to both transmission as well as it is to
16 generation mix and it may be that there should be some
17 consideration how we can have a vehicle like that in the
18 region to better inform and to give us collectively the
19 tools to work through these issues in the future.

20 MR. ERWIN: Certainly Maryland would prefer that
21 the states work out these issues with the other states. The
22 collaborative process certainly we have been very active
23 participants in OPC that's the level, but our preference
24 would be to find solutions to those.

25 Now because we have been active in OPC we also

1 realize that's a hard group to get to come together.

2 President Mroz working for OPC is kind of like herding the
3 ants I suspect. And we do understand that.

4 The second place we would like to see those kinds
5 of things all go in the stakeholder processes at PJM. What
6 we don't want to see is either FERC or PJM becoming if you
7 will a court in which the various states fight out their
8 various policy -- that's not the way it ought to be done.

9 MR. PLACE: Yeah and in the course I would
10 reinforce what was just said by both speakers and I clearly
11 don't see a role for PJM or FERC to really be an arbiter or
12 a judge as pointed out in this. There should be a path
13 through the models in which we built -- the markets had
14 built.

15 But for lack of a better way to phrase it there
16 is always going to be tension between the states and this
17 isn't the only venue in which we have tension they go back
18 to the dawn of time. So perhaps I would caution my own
19 thoughts on this so that there will be bruises and dings in
20 this process and that is unavoidable.

21 MR. SHEAHAN: Yeah Brien Sheahan. I think that
22 you know my colleague's suggestions are good. I think you
23 know regulators across states work well together. We are
24 often in the same region or national associations and I
25 think we can definitely work through these.

1 But I don't know that the conflict will
2 necessarily be between states. It seems to me it is really
3 sort of a business competition between generators. With
4 respect to Illinois' situation if a state desires cleaner
5 generation to support the health of its citizens as the
6 legislature has chosen to do in Illinois and that has an
7 effect of reducing costs borne by its neighbors. That's a
8 benefit not a conflict it seems to me.

9 But I think you know whether it is the states or
10 PJM or a FERC convened group I think it certainly would be
11 preferable to work out these issues in that way, in a
12 collaborative way.

13 MR. QUINN: Alright I'll ask our Commissioners if
14 they have got any questions at this point.

15 COMMISSIONER HONORABLE: Of course we do Arnie
16 thank you. And my dear colleague Cheryl was kind enough to
17 give me the mic first thank you Cheryl. And good afternoon
18 gentlemen I think all of you were sitting in the room
19 earlier when I said I get where you are.

20 You best hit on particular I think is quite
21 interesting because you are teeing up for us different
22 challenges and certainly with regard to Maryland, Illinois
23 in particular we have had different tensions I would say and
24 I acknowledge Judge Brenner who is sitting out in the room
25 -- I was shocked that he came back to us after that case but

1 we are so glad that Larry did -- he's shaking his head.

2 This it's a new a different time for PJM as well
3 and you all have touched on some of the things I wanted to
4 ask you about but I wanted to ask the questions more broadly
5 so that if others of you have points of view you can raise
6 those as well.

7 One of you teed up the fact that the current
8 wholesale market construct may be sufficient to focus on
9 lowest cost resources in a way that's fuel neutral.
10 However, President Mroz has said we really should be
11 thinking about other attributes and valuing those.

12 And I wanted to ask the other panelists and give
13 the other gentlemen time if you want another bite at the
14 apple, do we need additional valuation of attributes in
15 wholesale markets to meet your needs?

16 MR. ERWIN: Thank you Commissioner. My view
17 would certainly be yes and I think that was reflected in our
18 pre-filed statement. We would not encourage either you or
19 PJM to continue to tweak the RPM or the MOPR. We would
20 agree with Dr. Patton the MOPR originally states we are
21 exempt from the MOPR.

22 Our resources weren't subject to the MOPR and it
23 wasn't until we started doing things that somebody said wait
24 a minute, you need to be subject to the MOPR.

25 Every single year there have been proposals for

1 changing RPM and we don't think that continuing to try to
2 tweak that model is going to be very constructive. We do
3 need to go back to the basics and rethink and say what is it
4 we really want and what do we want the market to value and
5 that's going to be over and above just the cheapest.

6 The other thing I would want to share with you is
7 do you really want to get rid of all the nukes merely
8 because they are uneconomic, is that really a good idea?

9 I'm saying no too. If we do get to a point where
10 renewables are 40-50-60% of our generation you are going to
11 have more and more important of an issue of that resource
12 mix for the base and do you really want it all gas? That
13 makes no sense to me.

14 So you are going to have to have those markets
15 start looking at more than just the cheapest and say too bad
16 nukes you are not efficient goodbye. We don't think that
17 construct is going to be very good going forward.

18 COMMISSIONER HONORABLE: And to your point I
19 appreciated that PJM report that recently issued speaking to
20 not only the value of fuel diversity but a balanced
21 portfolio and I think that's the point you are trying to
22 make, anyone else?

23 MR. SHEAHAN: Yes Brier Sheahan. I would
24 certainly agree with that 100%. I think that states like
25 Illinois have every right to value the environmental

1 attributes of certain generation but wholesale markets
2 certainly could be a mechanism to price it so long as it
3 respects the state's goals.

4 So in other words I think if you did it
5 region-wide and your RTO decided well those attributes maybe
6 you know would be more economic to accumulate somewhere else
7 and you end up with sort of pollution centers in particular
8 areas, then that would be an example where the wholesale
9 market wouldn't be an appropriate mechanism for that.

10 MR. PLACE: Yeah I'm torn. I would probably come
11 down on thinking that I would rather see you tweaking the
12 capacity markets than starting fresh. Although it comes
13 with a lot of baggage, it comes with a little complexity, it
14 comes with a lot of constraints that are challenging to
15 quantify.

16 However, I think in the aggregate it's a pretty
17 fair way to think about it. But that's it if we are talking
18 about big chunks, the nuclear issue deal with it on the
19 energy side and use the capacity markets. We can deal with
20 some of the more marginal issues of state priorities in the
21 capacity markets arguably.

22 But to me the energy market is simply a better
23 mechanism that's why I come down on thinking about
24 incorporate a carbon side, a carbon issue to it. There's a
25 better way to think about it and the rule of Goldberg or

1 that end dimensional complexity of the capacity and space.

2 COMMISSIONER HONORABLE: I'd next like to move to
3 something that a number of you have teed up also and that is
4 the proper role of the RTO or ISO and the proper role of the
5 federal regulator. Really what I have heard from you is
6 that we really should take a more supportive role.

7 I hear you loud and clear, especially Rick about
8 the stakeholder process, the fact that you are challenged as
9 it is too to have the resources and manpower to represent
10 the interest of your respective states and regulators as a
11 whole as you are pursuing the public interest. I appreciate
12 that having been a part of OMS and the Inter-regional State
13 Committee and the Southwest Power Pole Regional State
14 Committee and I understand the investment of time and effort
15 and resources and that it has worked and that there have
16 been times when you have been able to work collaboratively
17 together and I want that too.

18 I want to say that on the record that I think
19 that is a terrific way because it supports the vibrancy and
20 robustness of stakeholder processes which I think lends to a
21 healthier process overall if you are continuing to come here
22 to fight it out or tell on the other one, you will always be
23 ready to shoot first and ask questions later rather than
24 sitting around working through the challenges.

25 So I too want more and better collaboration but

1 this gets to the heart of my concern that you may find with
2 us as well. I want to get to the heart of what you see as
3 tensions as it relates to your interaction with FERC or
4 FERC's oversight of markets. So I walked into that kind of
5 gently but I would like some straight answers.

6 Tell me what you think the problem is and if
7 there is one with regard to our work with regard to markets
8 in the PJM region and what you see as a pathway forward to
9 resolving those?

10 MR. MROZ: Where do you want us to start? Let me
11 first go back to I think Commissioner your first question
12 was the way we view the interaction with PJM or what we
13 would like to see out of that relationship.

14 Let me just in the context of what we are talking
15 about here today which is really about generation. It's
16 multiples I can tell you and report to you from my
17 perspective the relationship with PJM has been very
18 positive. Of course there are aspects of what go on in the
19 process that as you well know as a former state regulator
20 that we don't often know.

21 We as the state regulators because what I said
22 earlier about not really having an apparatus around the
23 planning process anymore, we are the last to find out often
24 times even when a generation facility is being sited in our
25 state.

1 And if we are going to have a more robust
2 discussion about where -- what our responsibilities are, our
3 need to assert ourselves as the responsible parties around
4 resource adequacy we need to be talking about that as well.

5 I will report though as I said that conversation,
6 that even collaboration with PJM from New Jersey's
7 perspective has been very positive in my tenure. In terms
8 of what else we would like to see from my perspective it is
9 first this kind of discussion really asking the questions of
10 what it is that we want and I appreciate you and
11 Commissioner LaFleur even asking the questions that way.

12 What is it that we need or should have? And we
13 will give you direct answers about that so that's the first
14 step. I can heretofore -- I would say the perspective has
15 been almost too hands off and an unwillingness to deal with
16 these issues.

17 We have heard a number of presenters earlier
18 today talk about the fact that these issues need to be dealt
19 with soon and it is incumbent upon all of us I think to do
20 exactly that. To work through and identify what's needed
21 and try to identify solutions and try to implement them for
22 the short-term and long-term but do something relatively
23 quick lest as I said, as other presenters said is happening
24 with at least a place like Illinois where the states are
25 proceeding on their own to deal with those issues.

1 MR. SHEAHAN: Yeah I would say from Illinois'
2 standpoint the markets don't value the externalities that
3 the state values, particularly the environmental attributes.

4

5 But also the other valuable attributes of base
6 load nuclear. In terms of urgency I have had an interesting
7 conversation the other day with a principal and we talked
8 about urgency. This was an urgent conversation of three
9 years ago, this is a crisis today.

10 And just to kind of put a finer point on it given
11 the you know, challenges that Illinois has to pass the
12 legislation it did in the veto session really said
13 something, it should say something.

14 I mean this is really critical for states like
15 Illinois. It's very important and so the time for urgency
16 is sort of past.

17 MR. ERWIN: First for Chairman LaFleur as a
18 battle scarred veteran of the recent legal wars let me say
19 that Maryland certainly prefers the collaborative approach
20 to litigation, both as a loser in Hughes v. Tallon and as a
21 winner in Epsco versus FERC because we came in at the Supreme
22 Court supporting FERC.

23 But in both cases I don't think the litigation
24 world is the best way to go. I think that collaborative
25 processes at the PJM level are where hopefully these kinds

1 of questions can be addressed and I want to publically thank
2 PJM for its recent work in working with Maryland to find
3 aggregation for our demand response resources for the
4 upcoming May DRA and we look forward to continuing to work
5 with PJM to be able to expand that effort.

6 So we have been able to work with PJM. They have
7 been responsible and responsive and we look forward to
8 continuing that.

9 The one thing I would caution for FERC is I think
10 it is important for you to encourage diversity. This should
11 not be a top down one size fits all solution to all of these
12 problems. Different RTO's and ISO's can and should be
13 encouraged to find different solutions so that we can
14 experiment at that level rather than say okay here's the
15 solution.

16 MR. MROZ: And let me make one further comment
17 Commissioner and this goes to maybe a suggestion that you
18 want to further explore with the industry and even with the
19 RTO's.

20 One of the continuing concerns with multiple
21 issues around an RTO like PJM because of so many interests
22 that are part of that process, and by the way the first to
23 be obviously to defend a process for all the voices and all
24 the interests are accounted for and have their voice heard.
25 But it is that process in an RTO like PJM that has 14

1 separate jurisdictions that the process itself can be
2 weighing down any solution and you will hear that from
3 others that that's where I think at least from FERC's role
4 we can see, ask for the leadership that helps to move that
5 solution through that process.

6 MR. PLACE: I'll try not to belie the point at
7 the risk of stating the obvious. The heterogeneity in these
8 questions is only going to increase and you think about the
9 conversations we have had here, think about what California
10 has done -- there are, unlike any time before there is a
11 need for both bilateral going from the states within the
12 RTO's to FERC and reverse.

13 If we don't do that successfully bridge under
14 what President Mroz said that's where the rubber is going to
15 hit the road. If we could do this in a timely manner --
16 again stating the obvious in a way but that back and forth
17 process, the collaborative we understand -- we need to
18 understand your constraints as you understand the creative
19 ways that we bring our state issues through this process.

20 COMMISSIONER HONORABLE: Thank you gentlemen.
21 This is very helpful and I appreciate it that you thought
22 before you rattled off a list of 20 things that we do
23 horribly wrong but more importantly I appreciate the fact
24 that you thought about how you are interacting and how
25 stakeholders are interacting with PJM and how you are

1 interacting with us and how we can do so in a way that
2 allows us all to keep our eyes on the prize and reducing
3 litigation -- additional years Brien of waiting around for a
4 solution, thank you so much.

5 CHAIRMAN LA FLEUR: Thank you Colette -- well
6 here we are in PJM the largest RTO, certainly
7 extraordinarily diverse in the different political
8 eco-systems with states as different as Maryland and West
9 Virginia even though they touch each other, different
10 political economies.

11 And another difference in PJM is I think it is
12 fair to say you are a little earlier in the process of
13 discussing this certainly than New England which has been at
14 it for some months and even then New York.

15 So I guess -- I just want to ask we talked a lot
16 this morning and I know you were all here about different
17 ways for RTO's to look at working state policies into the
18 markets and the two basic bottles, one was people were
19 calling it achieve to kind of define an attribute and have
20 the market price it.

21 And I know President Mroz talked about
22 resilience, something that PJM has been talking about. I
23 know they did some of that in capacity performance but
24 talking more about pricing resilience and certainly we know
25 the market can price carbon if it is asked to and so forth

1 while finding an attribute and pricing it.

2 And the other is to just let the states all have
3 different goals and find an accommodate solution like
4 multi-tier pricing or other solutions that let the states go
5 in different directions.

6 I am interested in your thought of what might
7 work. And what strikes me is that we have just heard two
8 states with Chairman Sheahan talk about valuing nuclear
9 units for their environmental externalities first and
10 foremost or for their lack of environmental externalities
11 and you, President Mroz talk about valuing them for other
12 attributes.

13 You know, do you think we can agree on
14 attributes? Do you think we should go an accommodate
15 solution? I mean because we are a little earlier and can go
16 different paths here.

17 MR. MROZ: I'll answer first since I'm the one
18 that sort of went at this issue directly. I do think that
19 we can value the other attributes. The question is whether
20 we all agree about what those valuations are or what the
21 attributes are.

22 But I do think that we need to start to have that
23 conversation. First is fuel diversity. Other industries
24 undertake, other businesses they undertake concentration
25 analyses all the time whether they are in their -- if it is

1 a financial institution and there are investments, if it is
2 a manufacturing facility who they sell to one client or just
3 a small number.

4 Those are classic business decisions that are
5 made on risk analysis every day in all industries and we are
6 not doing it. You can start there. We can begin to also
7 look at the issues I mentioned of other related
8 infrastructure investments that are attended to existing
9 generation that otherwise would either have to be stranded
10 or if there is replacement generation, what the relative
11 cost of those other investments might be. Those are
12 conversations that we don't have like I said without ROP,
13 without even a semblance of it.

14 We no longer are even able to identify what they
15 might be. However it is the beginnings of the work that PJM
16 has started to undertake where we have had those
17 conversations I think are the kinds of questions we have to
18 ask and the kinds of issues we need to consider about
19 whether they should be attributes to value.

20 CHAIRMAN LA FLEUR: I just want to say I've seen
21 some work that actually shows -- even though it seems
22 contrarian that since we went to the competitive markets
23 some regions are more diverse because they used to be
24 extremely heavily coal and now with gas and some of the coal
25 still left and nuclear there is some evidence that there is

1 more diversity.

2 Is it the type of diversity you are getting? Do
3 you think the dependence on gas is that what scares you?

4 MR. MROZ: Yes, in a word yes. And I come back
5 to without getting too specific you know in New Jersey where
6 we saw last year the potential for impingement on supply
7 into the state which would mean the first order or
8 curtailment was generation. Those are the things that scare
9 me.

10 And we just don't know enough about what might be
11 the risks associated with that oversupply in natural gas.

12 MR. SHEAHAN: Brien Sheahan. PJM tolerates a lot
13 of out of market you know rate base generation and you know
14 REC's of course in various states. I think it really kind
15 of remains to be seen whether the market has to do anything
16 to adjust or accommodate the state's support for the
17 environmental aspects of nuclear generation.

18 And if resource adequacy does become a problem
19 PJM certainly has a lot of tools to deal with that which
20 they could apply across all generating types. So I don't
21 know that it's necessarily that that's the problem today.

22 CHAIRMAN LA FLEUR: And some of those other --
23 I'm forgetting the acronym that FRR where people can go
24 entirely find their own generation. It's part of an
25 organized structure but yes there's more critical mass in

1 PJM. Anyone else?

2 MR. PLACE: If I may I would caution again I go
3 back and find that legislature has blown up my car. But I
4 would caution states to be careful. I think if we try to
5 monetize every attribute that we see a value we put at risk
6 the transparency and the simplicity and the cost efficiency
7 of the market we have.

8 That brings absolute benefits, certainly in
9 Pennsylvania and certainly across PJM. This is an
10 enormously valuable market for us and trying to get it to
11 solve all of our problems may be in an ethereal way or a
12 theoretical way admirable.

13 But I caution that it could end up with
14 inadvertent consequences of dragging down the values we see
15 here, the transparency and the simplicity. It doesn't mean
16 that I won't go home tonight and say man we need to do this
17 but I would just caution myself and perhaps others in my
18 state to think through that carefully.

19 MR. ERWIN: Certainly Chairman, Maryland does not
20 see an adequacy problem in PJM. They've got what 22% over
21 and above when their resource is supposed to be 15. So we
22 are already paying for an awful lot of generation out there
23 that potentially isn't used at all.

24 And certainly Maryland is and I'm sure these
25 other guys are too. There's only one source of revenue for

1 all of this and that's your neighbors and my neighbors. We
2 can talk about markets and all of this kind of stuff but the
3 bottom line is rate payers and we need to be cognizant of
4 that.

5 For PJM I think what they need to think about is
6 the resource mix, not adequacy. And I'm not convinced
7 necessarily that the changes in the marketplace are totally
8 due to PJM's "signals". I think a lot of them are just
9 market fundamentals -- cost of gas, cost of coal, those
10 kinds of basic market driven things are causing at least PJM
11 to diversity and it is not really because we have this
12 elegant signal coming out of the capacity market.

13 CHAIRMAN LA FLEUR: And I didn't mean to say that
14 it was. It's just I think there is diversity. It wasn't a
15 direct consequence because it was run as a fuel neutral
16 commodity market. I guess I'll shut up and keep us on time,
17 thank you very much gentlemen.

18 MR. QUINN: Alright thank you very much. We are
19 going to ask our State representatives to move off the hot
20 seat and into the warm seats. We really want to stay on
21 time as much as possible so I would love to get the next
22 session going by five minutes to so I know people want to
23 get up and stretch your legs a little bit but we would
24 really love to have this going again in about five minutes.

25 Panel 2

1 MR. QUINN: I would remind you all that it is 4
2 p.m. If we go for an hour and a half that's 5:30, you will
3 all be tired. I know I will be tired. So we are pleased to
4 start the last session or the last panel of the day.

5 I'm thankful for our panelists to have waited
6 around all day to get your turn to answer what we hope will
7 be you know, not the same set of questions that we have been
8 asking all day -- at least have a different kind of
9 conversation than we have been having all day.

10 I'll start by introducing and thanking our
11 panelists. We have Andrew Ott the President and Chief
12 Executive Officer of PJM.

13 We have Joseph Bowring who is the President of
14 Monitoring Analytics. We have at some point Paul Bailey the
15 President and Chief Executive Officer of American Coalition
16 for Clean Coal Electricity.

17 We have Jennifer Chen who is from the Sustainable
18 FERC Project at the Natural Resources Defense Council. We
19 have Michael Cocco, your names are all in a slightly
20 different order than my list -- from Old Dominion and
21 representing NRECA.

22 We have Craig Lathrop from PSEG Energy Resources,
23 Robert Flexon from Dynegy, Gregory Poulos the Consumer
24 Advocate of the PJM states and finally Raja Sundararajan
25 from American Electric Power.

1 So we will basically follow the same format we
2 have been following for the earlier sessions. We are going
3 to go to the Commissioners a little earlier because acting
4 Chairman LaFleur needs to leave the meeting by about 4:45 so
5 we will kind of forward order the Commissioner camp and then
6 maybe pitch it back over here if we still have some time
7 remaining.

8 So I would maybe start this panel discussion off
9 slightly differently than we have started the other panels,
10 just mostly to mix it up a bit. I had a sense from some of
11 the pre-Conference statements that, especially in the PJM
12 states potentially because you are a little earlier on in
13 the process but maybe just because of the history that we
14 have had with the PJM markets.

15 A certain affinity for the hybrid approach that
16 we referenced in some of the questions where to some extent
17 for some state policies and state objectives stakeholders
18 believe the commission should provide more deference, not
19 attempt to interfere and feel no real need to come.

20 Accommodate only in the sense of try to let those
21 policies move through the market with as little impediment
22 as possible. But then another set of policies that
23 stakeholders felt really needed to be addressed within --
24 either addressed completely within the wholesale market so
25 flow through the wholesale market or be subject to something

1 like the minimum offer price rule where at least the effect
2 of that state policy is connected to the market outcomes.

3 So I wondered if -- and that's what we were
4 thinking about a hybrid where again some state policies --
5 we try to be very differential to the states -- another set
6 of state policies and objectives we try to integrate them
7 into the market or at least make sure that the market
8 signals aren't distorted by them.

9 If there is any principle we could use to decide
10 between those two sets of state policies and objectives. Is
11 it the kind of policy, whether it is environmental so
12 inherently not part of our market rather than seeing
13 something like resource adequacy is clearly a goal that the
14 markets were designed to do.

15 Is it the size of the state intervention? Small
16 things are okay to kind of ignore, big things are things
17 that we need to bring into the market. So that's where I
18 would like to start the discussion with this panel so I
19 picked something you all have a point of view on that,
20 Michael?

21 MR. COCCO: Good morning I'm Michael Cocco
22 representing Old Dominion Electric Cooperative and in that
23 capacity as a member of NRECA. I would like to thank the
24 Commission and the staff for inviting me to share my views.
25 I'm a first timer at these types of proceedings so I'm

1 especially looking forward to it I think.

2 So first ODEC is one of the --maybe the only
3 co-op on these panels I would like to address one particular
4 issue to particularly this sector. ODEC serves 11 electric
5 distribution companies for 4 requirement service. And as
6 such we receive a payment from those LSE's -- from those
7 EDC's for payment for the services that are provided that
8 flow outside of the PJM market settlement system.

9 Now just because it flows outside the market
10 settlement system we don't consider that to be an out of
11 market payment. It's a voluntary contract among the LSE's
12 when done at arm's length. And while this point may be
13 somewhat intuitive to most of you it is certainly a topic
14 that comes up in other forums so I just wanted to address
15 that particular point now.

16 To -- specifically to your question ODEC believes
17 that state sponsored programs can work in harmony with
18 wholesale competitive markets. Commissioner LaFleur asked
19 the question -- I think it was to the NEPOOL panel and I
20 believe I jotted down the question correctly.
21 Unfortunately, I may not be able to read my handwriting but
22 I think the question she asked was, "Should the Commission
23 let the states run with market incentive programs and
24 therefore only worry about protecting the price of
25 everything else."

1 The way I view the PJM capacity market let's say
2 commoditized market. They basically have a stated product
3 and a price that is tied to the location. What happens when
4 states look to procure different attributes -- they are
5 paying for something that isn't valued in the PJM market and
6 that's okay.

7 I think what then happens is those generator
8 entities are left to compete for the remaining money inside
9 that commoditized capacity market. So to the question you
10 know should there be any action needed to adjust that price
11 I would say no. I think the market functions fine. I think
12 investment is attracted to the market, you know people are
13 going to put capital at risk are going to not only look at
14 the markets and going to evaluate the government driven
15 platform and make their business decisions accordingly.

16 I think the problem is when these state policies
17 are targeted as a very unique beneficiary that is not
18 generally tied to some public policy objective. Those types
19 of distortions in the markets can create problems. And if
20 you are an investor, those types of uncertainties are the
21 ones that you would like to stay away from, so that's how I
22 distinguish those two sets of attributes.

23 MR. QUINN: Thank you. So I think we'll go -- I
24 saw Andy, Raja, Lathrop and then Robert.

25 MR. OTT: So does that mean I'm on? Thank you.

1 I appreciate again thank you so much to the Commissioners
2 and staff for putting this on and inviting us to attend. I
3 think -- first I would just like to differentiate --
4 obviously within PJM we have vertically integrated states,
5 states that are doing resource planning.

6 Then we have states that are depending upon the
7 market for competitive investment. So first just in
8 differentiating the issues that we see here are where you
9 have conflict if you will. So certainly a state that has
10 taken responsibility for 100% of the resource adequacy in
11 their state through integrated resource plans to cover 100%
12 of the load, really see no conflict with state policies
13 related to generation there because they have existed you
14 know for many years within the wholesale market.

15 And certainly, PJM covers both of those types of
16 vertically integrated states and competitive states so we
17 don't see a real conflict there. I think when you start to
18 look at where we get into difficulty it is where states are
19 taking targeted actions, if you will, to you know change
20 outcomes if you will, for certain generation.

21 And I think certain materiality I think does
22 factor in into how big of a distortion is it and is it
23 something that is material enough that we would see you know
24 a harm to the market. And let's face it PJM has gone
25 through a significant transition. We have lost probably at

1 least 20,000 megawatts of only -- my notes on this in front
2 of me of coal-fired plants and the market essentially has
3 replaced that with competitive investment.

4 We depend upon that market integrity in order to
5 preserve the liability. We will be sitting here in a much
6 different spot had all of those investors not come in, put
7 their capital at risk, taken on that risk for themselves on
8 behalf of PJM and all customers if you will to put forth
9 that investment and then essentially replaced with very
10 little fanfare, a significant amount of retiring generation.

11 That's what we are trying to make sure we can
12 preserve, that confidence that the investors have the market
13 will in fact be equitable in the fair shot. So anything
14 that would distract from that or put that in harm's way is
15 what we have to address and I would think first materiality,
16 second I think is the issue of how targeted is the action.
17 In other words if it is a broad action where there is a lot
18 of players who could come in and compete you know that would
19 be a different method.

20 But again where we are at on this and we have
21 tried to address this proactively in the past few months,
22 put forth -- you probably saw my testimony we have a couple
23 of different tracks of activity. First and foremost this
24 issue of continuing to fight and have litigation is again,
25 as others have said, not a great strategic plan.

1 The better strategic plan I think is to harmonize
2 if you will, and find ways to take action. Figure ways to
3 set aside that impact, if you will, and have a competitive
4 side of the market continue forth without major impacts. So
5 for the opening comments we will leave it at that, thank
6 you.

7 MR. QUINN: So I think I have Raja next.

8 MR. SUNDARARAJAN: Yes thank you Chairman LaFleur
9 and Commissioner Honorable for allowing us to participate in
10 the panel. AEP obviously as you know have been operating
11 companies in 11 states across the United States and 7 of
12 them are in PJM.

13 And if you ask any of our 7 states what is the
14 most important issue that you care about you get 7 different
15 answers. And I can clearly say environmental attributes are
16 probably not the top ones. If you asked them what they are
17 worried about fuel diversity and long-term pricing is what
18 they care about so that they can be assured as I think some
19 of the state Commissions and PJM were talking about that.
20 The lights go out they are on the hook for the customers to
21 call.

22 And I think an important distinction because I
23 think you get lost into the fact that these are out of
24 market or in market. At the end of the day if you asked our
25 states who is on the hook for these things the other states

1 would say they are on the hook for making sure, not only
2 resource adequacy is an issue that is shared with PJM member
3 states.

4 There are other attributes that are beyond
5 resource adequacy that are currently not compensated in the
6 markets would particularly belong fully in the states
7 control. And states are doing what it takes to pursue
8 those.

9 If you go to West Virginia or Kentucky they have
10 lost 20% of the loads over the last 5 years. Environmental
11 attributes are the last thing that comes to their mind.
12 They are trying to make sure they have jobs in the state,
13 they are trying to promote jobs, get load growth in the
14 state. Even without doing anything the retail rate there is
15 I have seen a 20% rate increase because of load loss within
16 the last 5 years.

17 And that's why you see various diversity within
18 the PJM states in terms of what the view is. What is the
19 burning issue that they are trying to solve from a
20 generation resource adequacy point of view? And getting
21 agreement with all the states, about 13 states - I guess 14
22 states is not going to be an easy task. So figuring out a
23 solution we are not supportive of if these solutions can be
24 solved by market changes, market reforms -- we are fully
25 onboard with that.

1 The probability of that happening is a little bit
2 more so we still think there needs to be a construct where
3 utilities are at low servicing entities can enter into
4 bilateral negotiations and enter into a long-term contract
5 so that they can solve the issue that the state is
6 immediately worried about.

7 And this is prevalent in other RPO's, so I think
8 we would support some kind of a bilateral contract that the
9 LSE's can enter into for capacity and resource obligation
10 needs so that they can incorporate these externalities as we
11 call it, does not capture the capacity markets.

12 MR. QUINN: Thank you, Lathrop.

13 MR. CRAIG: Thanks very much. And I'll just
14 reiterate thanks to Chairman LaFleur and thanks to
15 Commissioner Honorable for organizing this and inviting us
16 to come and speak today. I'll probably reiterate a lot of
17 positions that have already been stated but the question was
18 essentially how do we draw the boundaries around what's
19 acceptable and what isn't acceptable.

20 I'll tell you that's certainly something that we
21 have struggled internally at PSEG in trying to help draw
22 those lines so I think it's not surprising that that
23 question you know, it still exists and hasn't been answered
24 yet. And I think where we have come out on this is it is
25 probably always going to be very difficult to draw the line

1 or draw the box ahead of time to know exactly where
2 everything fits but that said I think we can start to place
3 certain things on each side of the line.

4 And maybe that's the best we can do for now but
5 we should do that and move forward appropriately. I think
6 we both have sort of learned a lesson that things are
7 clearly just targeted at changing -- I'll use that word the
8 price in the market are not appropriate and I don't know to
9 what extent we will see something that blatant going on the
10 future.

11 But clearly I think we have learned that that is
12 not acceptable. And on the other side I think that a lot of
13 things that we have heard talked about today, you know it
14 kind of fits broadly into our minds into two categories --
15 environmental goals that have not be internalized in the
16 market.

17 And then with whatever wording we want to use
18 whether it is enhanced resource adequacy or it is fuel
19 diversity or we like to call it resiliency -- after some of
20 the experiences that our companies had in things like super
21 storm Sandy and then the little bit of the scare we had this
22 summer as you have heard Commissioner Mroz refer to with a
23 potential real gas supply issue that was fortunately fixed
24 before the winter came about.

25 You know I think those things are states clearly

1 expressing their concerns over what are essentially public
2 health and safety and welfare issues. We have not yet
3 figured out how to or at least agreed on how to internalize
4 in the market are entirely appropriate and need to be
5 accommodated so that those very valid public policy goals
6 are not thwarted while we go through the process of figuring
7 out hopefully how to internalize them in the markets which
8 we would actually agree is a better way to pursue that in
9 the long-term.

10 MR. QUINN: Robert?

11 MR. FLEXON: Thank you and thank you to the
12 Commission for organizing -- this is a fantastic event and I
13 appreciate having the opportunity here on the state
14 perspectives. I often don't get that and particularly
15 getting them all at once certainly helps shape the thinking.

16 I'm with Dynegy we have over 30,000 megawatts of
17 generation, 13,000 or so which is in PJM. I just want to
18 re-emphasize that being an independent power producer and
19 not a utility we rely on being the most economic person out
20 there. We focus on our cost structure and we want to
21 compete on a level playing field.

22 We are neutral as to technology and it just comes
23 down to what's the cheapest megawatt we can get to the
24 customers. And if we think about a term that creates fear
25 in our supply when we hear, "hybrid."

1 Hybrid is the worst market. You are doomed to
2 failure if you go down the hybrid road. Most of Zone 4 is
3 hybrid. All of the generation in central and southern
4 Illinois will vanish with the latest subsidy given to
5 Excelon and capacity clearing at 5 cents for KW month, those
6 plants were just put in the uneconomic category.

7 So having a model that starts blending cost of
8 service, starts blending other things into it that bleeds
9 into the competitive price formation is in fact going to
10 unravel the market. In the session today you know I hear the
11 terms that we are looking to accommodate are work in harmony
12 or work in partnership.

13 It's kind of like we are looking now to fix the
14 barn door when the horse has already ran out. The problem
15 exists, these subsidies that are in the market are having a
16 material effect on price formation. And when you think
17 about the motto, "The bend don't break," it's kind of where
18 we have been today.

19 I think Arnie in your question, your comment was
20 the little things you kind of let go. And really I think
21 that's essentially what has happened. But I think as David
22 Patton pointed out earlier today the subsidies coming from
23 nuclear is a whole different ballgame and that has a
24 significant material effect on our portfolio.

25 And if you look at the market cap of the

1 independent producers, what it's done in the past year it's
2 collapsed. Investors have lost confidence in the states and
3 the very thing that the states are worried about in terms of
4 creating instability, the state policies that are bleeding
5 into the competitive price markets are in fact going to
6 cause the instability that they are worried about and that's
7 why we need to fix it.

8 You know it is great to talk about other
9 solutions but it would be great to talk about the solutions
10 before the problem exists. Kind of back when I was
11 listening to the panel earlier it kind of reminded me about
12 basketball in the 1980's when Princeton would get a 2 point
13 lead and they would give it a 4 corners and never get the
14 ball back right?

15 The other team -- you know the clock would run
16 out and that's what's happening in the IPP. Excelon has
17 their 10 billion dollars in subsidies so now they are
18 interested in having a discussion about to see if there is
19 another way.

20 In the meantime that's bleeding into the market
21 and impacting us. I think the final thing that I would like
22 to point out is you take Ohio as an example -- we are the
23 largest generator in Ohio, we're also one of the largest
24 retail providers in the state of Ohio.

25 Last year there was a battle with two of the

1 incumbent utilities where they wanted to fix the purchase
2 price contracts with coal plants two of which we had
3 ownership stakes in but would not have covered our portion
4 of the ownership stake.

5 And the argument at that time was we are going to
6 eliminate price volatility as we heard earlier today. And
7 eliminating price volatility by putting at all time high
8 prices and promising never to move it is a necessary
9 solution for the consumer.

10 I thought the comments from Sierra were very well
11 on point that the consumer needs to be brought into the
12 discussion as well to think what's the appropriate way to do
13 it? So two of those plants that PPA's were going to -- that
14 were being fought for before FERC stepped in last year, we
15 have just announced that we are retiring them.

16 So 3,000 megawatts of coal plants in Ohio are
17 going to be retired in June of 2018 at just a year ago we
18 are going to purchase a power agreement that's significantly
19 above market rates so when the comment that we heard a
20 moment ago that there's excess reserves in PJM that's
21 because it's been a really competitive market and people are
22 grabbing to anything they possibly can.

23 But those assets will exit the market if you
24 allow the proper price formation to occur and the proper
25 price signal. So my one message to leave with FERC -- their

1 involvement with Ohio was welcome. We got the right
2 decision and to these other things we can't stand and sit
3 back and see what's going to happen.

4 We have got to take the leadership role before
5 the instability starts really bleeding to the market because
6 again the independent power producers -- we rely on the
7 capital markets. And the capital markets are not being kind
8 to us now because of their lack of confidence in what's
9 going on in the design of the marketplace, thank you.

10 MR. QUINN: Joseph?

11 MR. BOWRING: Thanks to the Commission and staff
12 for inviting me to speak here today. The PJM markets have
13 worked so it is a little surprising to me that we are having
14 such long conversations about how to intervene in them and
15 change them. Progress is good so it is good to keep
16 thinking about new ideas.

17 But let's not forget they have worked since 1999,
18 worked very effectively. Are they perfect? Well you know
19 we write 700 pages once a year and every quarter to indicate
20 why we think they are not perfect but they are pretty close.
21 They are doing their job as Andy said they managed to
22 successfully deal with the retirement of more than 20,000
23 megawatts of coal, replace it with gas.

24 And the point of markets after all -- and they
25 have been doing this, is to provide power to customers at

1 the lowest possible cost. That's what markets do and they
2 have been doing it very successful.

3 Are energy prices too low? I don't think so. 10
4 years ago load would tell me that they thought prices were
5 too high and I would explain to them that markets pass
6 through the costs of inputs and there was some reflected in
7 the cost of coal and gas. And now I say the same thing,
8 the markets pass through the cost of inputs, the cost of gas
9 is low, prices are low -- are they too low?

10 Of course they are not too low. Ask customers if
11 they think that the price is too low. Does that then mean
12 we should step in and intervene and subsidize uneconomic
13 units? Again I don't think so. We have seen a series of
14 cases in Ohio, Illinois and elsewhere where units will have
15 to be subsidized simply because they are now an economic.

16 And to pretend that does not have a significant
17 impact in the markets would be incorrect. We showed when we
18 did analyses in New Jersey and Maryland just a few thousand
19 megawatts of uneconomic capacity in the capacity markets has
20 a very substantial precedent on the market and effects
21 everybody, even if it is in one state.

22 So to actually directly answer your question
23 where do we draw the line? We draw the line where there are
24 significant impacts on price, significant courses and
25 decisions that ultimately the Commission has to make passing

1 off the difficult question to you.

2 But where there is an impact on price that
3 affects price formation, it affects uncertainty, it affects
4 incentives, it affects the ability of the market to function
5 to provide incentives for new entry and appropriate
6 incentives for exit.

7 So any such subsidy whether it's technology
8 specific, whether it is unit specific, whether it is for
9 some other particular social goal -- all should have that
10 same line drawn. That's the line where I believe that FERC
11 is responsible for maintaining the integrity of prices.

12 You want to make sure there's not price
13 discrimination in favor of specific technologies, thanks.

14 MR. QUINN: I think we will do Jennifer and
15 Gregory, I don't think you have had a chance to talk yet.
16 Then I want to make sure that we get to acting Chairman
17 LaFleur before she has to leave.

18 MS. CHEN: Hi thank you this is Jenny Chen with
19 the Sustainable FERC Projects. Thank you to Chairman
20 LaFleur and to Commissioner Honorable for having us and
21 staff as well. It's great to see you all.

22 The question that you asked Arnie is a good one
23 because it does -- it is a common theme amongst the
24 comments. But the problem is the question that you asked
25 assumes a certain problem and that problem has not been

1 well-defined and the question you asked is leading us down a
2 path that we don't think particularly solves and particular
3 problem.

4 So you are asking what is the distinction between
5 some of these various so-called subsidies and I want to tell
6 you that look if we keep going down that path the proposals
7 on the table that are supposed to solve that problem -- the
8 MOPR expansion and the two-tiered market, proposals that
9 stakeholders have discussed so far.

10 I'm not sure where that is going to get us. The
11 bigger questions that really need more attention right now
12 that could potentially solve what these questions that you
13 brought up might be trying to get at -- mainly supposed
14 price suppression in the capacity market I think are these.

15 There is vast over-supply in the capacity market
16 in PJM. As folks have mentioned earlier today PJM cleared
17 22.4% capacity -- excess capacity and flask capacity option.
18 5.5 gigawatts of that was new gas so despite the over-supply
19 and relatively lower than expected clearing prices 5.5
20 gigawatts of new gas came on.

21 That, according to ICF brought the prices down by
22 15 to 25 dollars per megawatt day. So if you look at the
23 clearing price of 100 megawatts per megawatt day that's a
24 significant impact.

25 So if the question is what is so-called -- you

1 know what is supposedly suppressing the prices I would say
2 it is over-capacity. Whatever is driving all of this new
3 gas to come on despite the fact that we have plenty of
4 capacity on the system.

5 So that's a significant driver that we have not
6 been looking at. The other question that I think is a
7 bigger question along with the over-supply question is --
8 really the question is how can you better accommodate some
9 of these state preferred resources in the capacity market?

10 So for example we look at poll after poll from
11 customers from voters, we know they want clean energy. We
12 know that even amongst Trump supporters that at least 75%
13 want accelerated -- want the acceleration of clean energy
14 adoption.

15 All of the PJM states, the vast majority of
16 people polled want at least 20% -- this is the question
17 asked, they want at least 20%, the utilities to procure at
18 least 20% wind and solar. So when you look at the capacity
19 market and PJM today you have a capacity market that
20 procures 167,000 megawatts of capacity and only about a
21 gigawatt, 1.3 gigawatts of that unforced capacity is wind
22 and solar, that's less than 1%.

23 So there's a vast disparity between what
24 consumers and what states want as shown by their RPS's and
25 what's actually clearing the capacity market. So those are

1 the two main questions that I would love to see more
2 emphasis on but I can answer your question Arnie.

3 The distinction is push comes to shove is that
4 there are a lot of environmental policies that are
5 attempting to address the fact that the market does not
6 internalize externalities associated with pollution. Carbon
7 is one of them but there are many other forms of pollution.

8 So there could be a set of policies that aim to
9 procure newer resources, technologies that are still scaling
10 up, that are still seeing cost declines -- these are not
11 unit by unit, these are not targeted at existing units that
12 have been shown to be uneconomic over time, these are newer
13 resources that typically do as we have seen in the past,
14 have a legitimate -- why do I want to use the word
15 legitimate, but we have seen governments intervene to help
16 scale up these types of resources.

17 If you have a large unit and I think Joe covered
18 this pretty well that might significantly impact the
19 clearing prices depending on whether it clears. I mean that
20 might have a bigger impact. But again I'm not sure it's
21 taking us in the right direction and it is a very fuzzy
22 distinction so with that.

23 MR. QUINN: Gregory then we will go to
24 Commissioner -- acting Chairman LaFleur.

25 MR. POULOS: Thank you. I appreciate the

1 opportunity Chairman LaFleur, Commissioner Honorable and
2 Commission staff. I appreciate the opportunity to be here.
3 Just to make clear I am here today on behalf of the Joint
4 Consumer Advocates which is 5 of the 13 Consumer Advocate
5 offices within the PJM region those being Delaware Division
6 of Public Advocate, Illinois Citizen Utility Board, New
7 Jersey Division of Rates Council, the Pennsylvania Office of
8 Consumer Advocate and West Virginia Consumer Advocate
9 Division.

10 To be very clear I had to make that point because
11 there are many of the Consumer Advocate Offices that have
12 already taken positions. For example the Ohio Consumer
13 Council has taken positions at FERC in proceedings on this
14 which is mentioned in my footnote in my comments.

15 So the Joint Consumer Advocates were the ones
16 that made the comments -- these 5. And they are a very
17 diverse group and I think to your point that you made with
18 the Commissioners that they are a very diverse group, I have
19 a subset of all of those.

20 And the diversity range is completely on both
21 ends of the spectrum where they see state actions, where
22 they see the market running and I can tell you that you hit
23 the issue right where I did as I'm getting off and running
24 as the Executive Director for the PJM Consumer Advocates.

25 It certainly hit a high note of where that

1 distinction comes, where's that line and I think what we
2 tried to do is tried to get down to those basic principles
3 first. What do we look at first for PJM?

4 PJM we looked at it first and saw this is a very
5 competitive market. It's getting us reasonable rates for
6 the most part, reliability is there and probably most
7 important -- at least for me, for my opinion is the new
8 entry. We have natural gas which came kind of out of
9 nowhere in some respects and in substantial amounts and
10 really brought this discussion to a head which is so
11 important to have that opportunity for new resources to
12 enter the market and to compete.

13 That's a key factor for what we looked at and
14 thought is a very big part. Now where do we go from here?
15 Because one thing we are concerned with is -- while it is a
16 reliable market there hasn't been sort of administrative
17 fixes put in place with the capacity performance for
18 example.

19 And how that has impacted resources like the
20 demand response and your energy efficiency and their ability
21 to participate along with new resources -- and those have
22 really been a concern particularly the impact on consumers
23 to participate in the market and consumers are the ones who
24 bear the costs of this market.

25 So the fact that we are reducing their ability to

1 impact their own pricing is of great concern too. So when
2 you put administrative fixes in if you do too much you are
3 going to impact new entry and consumers to affect their own
4 prices.

5 So those are some things that we really have a
6 concern about. Again, the whole spectrum probably PJM and
7 the IMM are probably the two best to give us information and
8 to keep us getting involved and that dialogue is so critical
9 for us to know what's going on and what's the best chance.

10 And in the end this issue where the line is drawn
11 it really depends on the circumstance because states each
12 have their own interest. Every state is going to have their
13 own interest from all the way over to Illinois all the way
14 to New Jersey they all have different interests. And it is
15 hard to tell specifically how that interest is impacted and
16 where that line should be drawn without knowing the specific
17 circumstances, thank you.

18 MR. QUINN: Thank you, Chairman?

19 CHAIRMAN LA FLEUR: Well thank you Arnie and
20 thank you to everyone today. About the only thing that
21 could make me leave is being summoned to the hill so that's
22 why I'm leaving, but I will be back tomorrow morning.

23 First a comment and then a question -- as I was
24 listening to Bob Flexon talk about the IPP model and where
25 it falls out I felt like it is like hearing a mirror image

1 or you know how people used to play the Beatle's albums
2 backwards to see if there were codes.

3 In like the late '80's and early
4 '90's and all the years leading up to the beginning of the
5 markets and all it was the IPP's having been created after
6 -- wanted to come in and compete with the utilities that
7 were buying things at the direction of the state regulators.

8 And now we are hearing sort of a flip side of
9 like state regulators are wanting to buy things to come in
10 and compete with the utilities. And if I had any question
11 on that there are gears you know, changing here it's been
12 removed.

13 To Arnie's question I just want to say I don't
14 have any interest in trying to figure out if state policies
15 are right or state policies are wrong. I'm pretty sure
16 that's not my job. I look at the prism from the other end
17 -- is the price that the market that we are in charge of
18 just reasonable and non-discriminatory and that gives me a
19 preference if we can get there for pricing an attribute --
20 like if you are looking for more environmental externalities
21 to be priced in Jennifer pricing that, rather than just you
22 know, giving money to specific units.

23 And in Andy Ott's pre-filed testimony I believe
24 he said that even if the whole region could agree on an
25 attribute as long as you got critical masses of states to

1 come together. If a bunch wanted to price carbon and
2 another bunch wanted to price this resilience if we can
3 figure out what it is and so forth -- that might work.

4 And I guess I just wanted to push on that a
5 little bit more. Do you think there are groups of states
6 that can gel like that because how much critical mass does
7 it take to hold the PJM market together? Because I happen
8 to agree in large measure with Joe and whoever said the
9 Hippocratic Oath earlier -- we don't want to mess up what
10 has worked.

11 So I mean how do you see that? It intrigued me
12 so -- and I know Mr. Bailey has a question.

13 MR. OTT: I think there are two -- so part of my
14 desire within PJM is for us to take action where
15 appropriate. And again I don't have -- like I can't wait 3
16 years to do this, we need to do things now. So one of the
17 things that we are hoping for from the Commission is give us
18 a time frame -- put a time frame on us to deal with this
19 issue of figure out a way to -- you know we call it
20 harmonize but rationalize if you will these issues and
21 capacity market and make sure the capacity market is
22 protected.

23 Second is we haven't spent a lot -- we spent a
24 lot of time on capacity performance and capacity markets and
25 PJM, we haven't spent as much time looking at how the energy

1 market needs to adapt.

2 I think there's two fundamental adaptations.
3 One as you said Chairman LaFleur, is to look at can we price
4 -- for example public policy attribute like carbon within
5 the PJM market and very quickly as Roger had indicated. We
6 aren't going to have agreement across all 14 jurisdictions.

7

8 However, the competitive states certainly may
9 have a chance to do that. And I think having some type of
10 pricing mechanism available to them and protect the other
11 states by having some kind of transfer price at the border
12 of that I think will work and we have thought about that.

13 CHAIRMAN LA FLEUR: California?

14 MR. OTT: Right. So the point is I can't answer
15 your question how many is it going to take but what we can
16 is start the dialogue how that would work and work through
17 the details with folks.

18 But more importantly there is a fundamental
19 inconsistency within our energy market that we need to be
20 resolved and I need your help to give us basically a time
21 frame to get that done.

22 And again, it's got to be relatively short. And
23 this comes back to we have negative prices in our market, we
24 have some environmental attributes priced into our energy
25 market, some are not. It's causing a de-valuation frankly

1 and it's already causing distortion in our energy market.

2 We have tried to politely ignore these things but
3 they are no longer ignorable. We really need to address
4 this in the energy market. We try to move 4 or 500
5 megawatts of wind and we have negative prices for a
6 substantial number of hours, it's not sustainable.

7 And it de-values assets that are inflexible and
8 can't move because they have to be on-line anyway, that's
9 one issue. Another is the fundamental notion that the way
10 the electricity prices are formed -- and I think I will
11 commend the Commission for having an open docket on energy
12 price formation but I think we need to go deeper there we
13 need to look more broadly at what's necessary.

14 Because I think that the attributes of those big
15 inflexible resources in the energy market goes beyond just
16 these other prices. So I do believe we can attempt -- also
17 the resiliency thing is not a myth -- there is an issue of
18 resilience and it comes back to you are not pricing an
19 attribute.

20 What you are doing is changing the definition of
21 reserves. You are changing the definition of contingencies
22 and that will pass through the energy market and the reserve
23 fund. We don't need to create a new market.

24 So for example today in PJM there are certain
25 circumstances under certain breaker configurations where we

1 are going to lose two nuclear units during that maintenance
2 period. We operate with instead of 2,000 megawatts a spin
3 we might operate 3,000 for example.

4 What I am saying is we should extend that same
5 mindset to say if we have a common mode risk, operational
6 risk where we could have a pipeline event and lose 4 or 5
7 gas units at once, we should operate with that much in the
8 reserve. And so it's changing the definitions of reserves
9 which would enhance the value then of those resources that
10 provide those resources, do you see what I mean?

11 CHAIRMAN LA FLEUR: I don't say that that
12 resilience is -- and I tried to say resilience rather than
13 resiliency but that's a battle I'll never win resiliency has
14 taken over. But I don't value that resilience is a thing.
15 I just get suspicious when there is a word that means
16 different things to so many people who use it.

17 Like a few years ago it was back to basics but a
18 lot of different -- and so I just think anytime you price
19 something like we found with capacity performance there are
20 going to be winners and losers.

21 MR. OTT: Right.

22 CHAIRMAN LA FLEUR: And whatever it is you are
23 pricing we better be sharp about it to make sure that we
24 don't have inadvertent consequences and need another
25 correction.

1 MR. OTT: And the way I think about resilience to
2 try to put it maybe in English is it is really looking at --
3 is the N minus 1 criteria we are offering to -- is it still
4 sufficient?

5 Are we seeing more operational risk than we are
6 willing to tolerate and in certain circumstances should we
7 be pricing into the energy market and reserves markets a
8 higher standard of margin if you will. I don't see this as
9 a huge state change, it's really saying let's be more direct
10 about the operational risks that we see emerging because of
11 these other threats and let's price them accordingly --
12 that's how you should think resilience.
13 It's not a brand new product, now the by-product of that
14 though --

15 CHAIRMAN LA FLEUR: It's almost like reserve is
16 an ancillary services market or an energy reserve?

17 MR. OTT: It would enhance the ancillary it is
18 not defining a new one. But let's think about if you have a
19 risk on a loss of 4 or 5 gas plants in a certain area in the
20 system that would enhance the value of the other plants that
21 don't have that dependency for that period.

22 So from a point of view that would put value on
23 fuel assurance but it doesn't create a fuel assurance
24 ancillary service, it just puts value on the attribute
25 because it's inherent in preserving reliability -- that's

1 the point and today we ignore it.

2 CHAIRMAN LA FLEUR: Thank you. I am going to say
3 thank you to everyone and while I have this audience of
4 maybe hundreds of people on the computer or whatever I want
5 to say we have heard an awful lot of people say the
6 Commission has to do this immediately.

7 We have been waiting for this. The Commission
8 has to give this -- time is of the essence, we need more
9 Commissioners to be able to address some of these things.
10 So whoever is listening out there in cyberspace that would
11 be our hope.

12 COMMISSIONER HONORABLE: I'll tweet your message
13 out.

14 CHAIRMAN LA FLEUR: At POTUS.

15 COMMISSIONER HONORABLE: Arnie if you don't mind
16 I want to yield to Mr. Bailey and any other of your
17 questions and I'll jump back in, thank you.

18 MR. BAILEY: I wanted to connect two or three
19 dots and hope this is somewhat on point to your question.
20 One I heard about what the public wants. Two -- I have
21 heard about affordable electricity prices and three I have
22 heard about coal retirements in PJM.

23 My organization represents Coal Fleet. I'm not
24 here advocating that people burn more coal but I am here
25 advocating that we do need a certain amount of coal for our

1 generation whether it is PJM or MYSO or anywhere else.

2 We view the Coal Fleet as more of an insurance
3 policy. You can call it a hedge, you can call it any number
4 of things. PJM at one point in time Mr. Ott I think it was
5 80,000 megawatts of coal. 20,000 megawatts have gone away.

6 Let's just say for the sake of argument those are
7 small or inefficient or uneconomic units just for the sake
8 of argument. So we are facing another 8 or 9,000 megawatts
9 of coal retirement over the next 2 or 3 years. There are
10 out of market upstate renewables.

11 We have talked about New York and Illinois we are
12 all familiar with that. There are arguably out of market
13 penalties, you can call those market penalties or out of
14 market penalties it doesn't make any difference, they are
15 penalties on the Coal Fleet.

16 We are guesstimating that the Coal Fleet and PJM
17 face another maybe 15 billion dollars-worth of environmental
18 compliance expenditures. Those are round numbers somewhere
19 in the order of magnitude number unless the markets allow
20 those electricity generators to recover those compliance
21 costs in some fashion there will be more coal retirements.

22 And at that point we think to use this term
23 "resilience" which we are all wrestling with right now -- it
24 kind of sounds good. It looks to us the resilience of the
25 grid is threatened at that point.

1 Our bottom line on this is whatever action can be
2 taken to reduce the number of coal retirements whether it is
3 taken by the Commission or by PJM or by MISO or by the
4 states, we are all for that, thank you.

5 MS. CHEN: Thank you, so I want to address those
6 points and also the point that Paul made. So on resilience
7 you know PJM did try to address the resilience point with
8 what happened after the polar vortex. That was an event
9 that was not anticipated and I do want to remind everyone
10 that resilience isn't just about fuel assurance, it's not
11 about fuel security necessarily because flexibility of the
12 system can help ensure resilience as much as actual fuel --
13 having fuel on the premises.

14 So in the 2014 polar vortex we learned that
15 actually it was demand response and fuel resources that came
16 to the rescue to ensure that the grid could continue
17 functioning. It was the coal, the coal piles had frozen
18 coal deliver was interrupted and 13.7 gigawatts of coal
19 worth of capacity was not able to perform.

20 So we do need to be careful if resilience is the
21 goal that we are not singling out fuel security as a means
22 of ensuring resilience -- flexible demand, storage, ensuring
23 that we have enough transmission -- all of these things go
24 together.

25 On the coal the statistics that Mr. Bailey

1 provided I do want to say that it's not the environmental
2 rules that are driving the retirement of coal plants. If
3 you look at the recent Columbia and Rhodium group study the
4 retirements due to coal are probably about 5% due to
5 environmental rules.

6 50% of the retirements is driven by low gas, low
7 gas prices and the abundance of natural gas and that is a
8 study that just came out in April, 2017.

9 Another 26% is due to declining demand so you
10 know I mean do -- do a broader study before you claim
11 environmental rules for that. I think that might be it for
12 now but you know I might have something later, thank you.

13 MR. QUINN: Michael?

14 MR. COCCO: Thank you. I just want to reiterate
15 one earlier point that the market distress right now isn't
16 being primarily driven by subsidies, its being driven by the
17 market itself. We had tremendous advancements in shale gas
18 drilling technologies and you couple that with highly
19 efficient combined cycle units and you create very low
20 prices and that by itself is creating distress in the
21 market.

22 So the units that are primarily impacted by these
23 are the traditional to raise the term base load being an old
24 IRP guy, the solid fuel plants in the market. And so the
25 issue then turns to -- these are the ones that maybe on the

1 economic bubble and the issue turns to two terms that I
2 haven't quite grafted the meaning -- fuel diversity and
3 resiliency.

4 I just want to caution the Commission and staff
5 about going too quickly to address fuel diversity. I
6 believe that you know that's something that's an old IRP
7 plan or something we used to consider to cover if one fuel
8 went out you had a different fuel source.

9 But in a merging market if you are not protecting
10 the people who are paying for that diversity may not be the
11 ones receiving the benefits. If gas prices go up and we are
12 subsidizing the solid fuel units the people that get the
13 advantages are the merchant players themselves, so that's
14 point one.

15 I think there is a legitimate issue around
16 security and diversity but I think -- I don't think we need
17 to rush to the answer to that is to look at trying to favor
18 certain types of issues. I mean one thing we could
19 potentially be looking at if we are concerned about gas is
20 changes to the gas planning process or to maintain gas as a
21 secure fuel source -- secured fuel option for resources.

22 I would just like to maybe just close with this.
23 I would ask the Commission to focus on a course out of
24 principles. One is that as an LSE at the table here
25 maintain a focus on reliable service at a just and

1 reasonable rate for end users, ensure that LSE's can enter
2 into long-term investments in generation and these
3 transactions are not only honored but encouraged.

4 Avoid the volatility of repeated reactionary
5 revisions to market designs. I personally don't see the
6 urgency to do something. I think it should be a well
7 thought out process and I think it is something that can be
8 addressed regionally at each RTO.

9 And adopt pulsar market policies which can
10 encourage resource diversity and accommodate -- I hate using
11 the word legitimate state policy objectives, thank you.

12 MR. QUINN: Thank you, Lathrop?

13 MR. CRAIG: Thanks. I just wanted to respond to
14 a couple of things that Andy said actually. So Andy spoke
15 about some things that PJM is looking at to try to improve
16 pricing in the energy market which we are absolutely in
17 favor of you know starting with looking at ways to add
18 carbon value into the energy market.

19 But then also you referenced a number of
20 additional price formation concepts that we would agree
21 should be evaluated. The one thing and you know, we have
22 just started to hear this coming from PJM's -- it's very
23 early, I haven't seen the real details of how any of this
24 would be implemented which is obviously very important but
25 just one cautionary note that I have asked everyone to think

1 about is we kind of go forward on that journey which I hope
2 starts soon and moves quickly -- is that one of the things I
3 hear in that so far is this idea that because we maybe
4 haven't been identifying the right contingencies to plan to,
5 the response is to add additional reserves whether that's in
6 the capacity market or the energy market.

7 And I'm very cautious when I hear that because
8 one of the things that we have been hearing continually
9 through this is one of the biggest problems in the markets
10 right now is frankly over-supply and that's true both in the
11 capacity markets and in the energy markets.

12 And what I think is more important as we do this
13 is we figure out you know to put definitions and more
14 specific definitions around resilience about a change to
15 that word or that form of the word.

16 That what we are targeting is scheduling the
17 right resources, not necessarily just scheduling more
18 resources. I have been here a number of times trying to
19 show the impact of scheduling what we see as too many
20 resources and not allowing those to set price. What we need
21 to get right particularly if we want the signals to be
22 correct in the energy market is to schedule the right
23 resources and make sure that they do set price.

24 MR. QUINN: Thank you, Robert?

25 MR. FLEXON: Arnie I wanted to follow-up on just

1 a couple comments on the coal, coal plants and retirement.
2 I would say that we have I guess approximately 12,000 -
3 13,000 megawatts of coal generation and we have pro-actively
4 have retired I'd say over 2,000 megawatts to date.

5 And a lot of those retirements and whether you
6 call it natural gas or environmental policy the two kind of
7 come together. Kind of the war on coal has always been you
8 know essentially driven by the underlying economics of
9 low-cost natural gas.

10 We have some of our coal plants next to combined
11 cycle plants that we run by gas sometime to 35 cents per
12 million BTU and there is nothing that can compete with that.

13 And those plants end up, you know, retiring. But
14 today it is different that whittling away at the market has
15 happened and those that aren't strong enough to survive this
16 environment with low prices have fallen to the wayside.

17 And the ones that are still standing it is
18 because they can and as a competitive generator we don't
19 keep any plant around that can't earn a positive cash flow
20 so the ones that we have right now do generate positive
21 returns.

22 But the new war on coal is subsidies. Coal
23 cannot compete with nuclear subsidies right? And the reason
24 that nuclear is looking for subsidies, because as everyone
25 has said and acknowledged it is uneconomic.

1 And I thing I would pair with a wind asset is a
2 nuclear asset. I mean the wind assets need flexible
3 resources and if you are going to pair it up with nuclear
4 you are not going to accomplish what you want.

5 My view on competitive markets is if anybody that
6 owns a nuclear unit wants to run them have at it. I mean
7 it's their right to run them, they run them very, very well
8 they do a good job with all of that and go ahead and run it.
9 But don't lean on out of market subsidies to make it work.

10 You know if you want to run it, run it to your
11 own balance sheet. Run it to your own investors and if
12 that's what your investors want you to do then do it. If
13 you are losing a ton of money you can do that, you can
14 answer to your shareholders if you want to do that otherwise
15 you have to make the same tough decisions that we have to
16 make that have coal plants.

17 MR. QUINN: Thank you Gregory?

18 MR. POULOS: Just two comments from some of the
19 Joint Consumer Advocates that I heard during their
20 discussions. One about resiliency -- Mr. Erwin I think you
21 pointed out this first on the previous panel that if there
22 was an issue with resiliency or reliability the consumers
23 would look at their Commissions first -- consumer advocates
24 too but their Commissions first.

25 So I do think that that goes more to speak to

1 state's interest and their state interest in making sure
2 that they have the adequate mix and the ability to make sure
3 they have a reliable -- that's one of their key priorities
4 that they have the right mix of resources going forward.

5 I also -- one of the things that has become a
6 little more recently for the Consumer Advocates and the
7 Joint Consumer Advocate group is the gas line pipeline
8 infrastructure. And you know as we go more and more towards
9 gas we have this electric grid that's pretty well regulated
10 and pretty well documented and a number of controls on it.

11 How does a natural gas line pipeline
12 infrastructure of the same quality as we throw more to rely
13 on it where does that come into the picture? And I think
14 that is something where we as the Joint Consumer Advocates
15 feel very strongly that it helps to have PJM as a group who
16 is out there looking at this issue and working with us to
17 make sure we have the information to take back to our
18 consumers to give them the confidence going forward.

19 That is certainly an issue that we are looking
20 more and more at.

21 MR. QUINN: Thank you, Raja?

22 MR. SUNDARARAJAN: Yes a couple of comments. One
23 is on the price formation side that Andy had mentioned AEP
24 would be fully supportive of changes on the energy markets
25 in addition to capacity markets.

1 Because I think as you all know the price
2 suppression is not just in capacity but in energy markets
3 also and that needs to be addressed in order to fully value
4 these assets in a proper manner.

5 The second thing is responding to Chairman
6 LaFleur's issue on state subsidies -- which ones can be
7 centralized, you know which ones can be incorporated inside
8 the market. A word of caution that we would throw is let's
9 say you go on the path of incorporating environmental
10 attributes into the markets.

11 Now yeah you can probably create a construct
12 where states that don't value a number of environmental
13 attributes are effectively not paying for them. And first
14 of all we still need to see evidence how that can happen.

15 Secondly, which also you understand that now you
16 set once you go into the centralized market now everything
17 else follows. The transmission planning process follows
18 what's at the RPA and what assumptions RPM markets make.

19 Let's say the environmental attributes are
20 incorporated into the wholesale markets -- now you have say
21 how do I modify the conventional planning process to make
22 sure that states that don't value environmental attributes
23 are suddenly not paying for transmission assets that have
24 been coming out as a result of incorporation of these price
25 signals into the wholesale markets.

1 And as you all know when Order 1000 started the
2 Commission issued a mandate on public policy requirements to
3 be incorporated in the transmission filing process. And PJM
4 clearly responded along with the stakeholders that the best
5 way to solve that issue is I can decide which states are
6 going to incorporate -- what assumptions they were going to
7 make in the transmission planning process so they let each
8 state come up with an assumption and what would effectively
9 create a state agreement approach and those costs being
10 allocated to those states that effectively sponsored those
11 projects.

12 So now you have -- let's say you go on the
13 construct of incorporating these price signals into the
14 centralized market -- how does it change the transmission
15 planning process? How does that result in effectively not
16 opening the state agreement that was effectively blessed by
17 the Commission and was agreed by the states, how does it
18 impact that?

19 Now just a word of caution so that you understand
20 the downstream ramification of incorporating certain
21 subsidies -- certain price attributes into the centralized
22 market which is none. And that's why we actually believe if
23 states -- if you believe states are going to do whatever
24 they believe is a long-term solution to pricing attributes I
25 think you can't get away from the fact that you need a

1 bilateral market that is co-existing with the RPM market so
2 that A -- that provides clear stability to the costs that
3 are being allocated for those attributes not to permeate to
4 the other states that don't.

5 And the second thing it has little or no
6 ramifications on other aspects of the RPO which includes
7 transmission planning and everything else that the RPO
8 supposedly incorporates. And nothing says that bilateral
9 contracts can be compared to any provider like Dynegy or
10 anybody else all it provides are better long-term price
11 signals that the LLC is currently looking for as opposed to
12 relying on the spot market RPM.

13 MR. QUINN: Joe?

14 MR. BOWRING: So just a couple of small points to
15 begin with. First of all not all nuclear units are
16 uneconomic and secondly not all coal units are uneconomic
17 just as a basic fact since we seem to be missing that.

18 To address Commissioner LaFleur's question about
19 a partial carbon price -- so if we are right about everyone
20 liking it and all the polls show everyone liking it there
21 shouldn't be a problem getting all 13 plus 1 political
22 entities on board, so maybe that's true maybe it's not.

23 If it is true then there should be a way to do
24 it. One thing to think about is it is entirely consistent
25 with a rational carbon pricing scheme to return all the

1 dollars to those who pay them. So it does not have to be a
2 hurt to consumers who are paying higher prices because of
3 carbon price and carbon tax, this is point one.

4 And that's entirely consistent with the right
5 incentives. But more broadly I'm skeptical of a partial
6 solution but it would be better to be talking about that at
7 least and seeing if it could work than talking about the
8 kinds of subsidies we are talking about clearly a market
9 based solution with a carbon price is better than
10 subsidies.

11 I'm also skeptical of the ability of the capacity
12 market to have two prices or somehow the term was used
13 "accommodate" subsidies. I think that's a recipe for making
14 the capacity market residual and the capacity market cannot
15 work as a residual market.

16 Finally on resilience reliability I think that
17 resilience as it has been defined -- I mean I thought you
18 did a great job of defining it, it's another attribute,
19 another element of the liability. If after analysis it
20 makes sense to think about adding additional M minus 1 or M
21 minus 1 minus 1 constraints based on the gas system or
22 whatever else it might be then let's do that, but let's do
23 it based on analysis, let's do the dispatch phase again as
24 a market based solution not a technology specific solution
25 but it should be only after the appropriate analysis is

1 done, thanks.

2 MR. QUINN: Just to follow-up. Can you talk
3 about what you mean when you say the capacity market can't
4 be a residual market and how are you defining residual
5 market in that situation?

6 MR. BOWRING: Sure, so right now the capacity
7 market must offer -- everyone must offer, everyone must buy.
8 So the question is if you change that rule can it work? If
9 you say there are going to be two different prices for
10 capacity can it work?

11 If you say that suddenly it is going to be
12 voluntary and can be residual so residual would be some
13 capacity doesn't have to be in it. Now as it is well
14 understood, PJM has FR entities in part of the capacity
15 market but they entirely stand alone, entirely responsible
16 for their own reliability needs.

17 And it is consistent -- not a perfect solution
18 consists and doesn't work very well in parallel with the
19 capacity market. But if a state or an area says that they
20 don't want to be part of capacity market while still not
21 setting up as an FR entity -- then once you break the
22 requirement to buy and the requirement to sell then the
23 price formation simply won't be there.

24 Imagine only trying to buy a third of the
25 capacity or 50% of the capacity in the market. By

1 definition the price will not be a price consistent with
2 long-term reliability in the market. Does that answer your
3 question?

4 MR. QUINN: It does but I think I have heard and
5 maybe I've heard it today the discussion about residual
6 market being slightly different than that and being a market
7 where there are a set of resources that because of the
8 minimum offer price rules won't get through the capacity
9 market.

10 And that you find a way for them to get --
11 perhaps you supply obligation so they still want to move
12 through the capacity market and what's residual then is the
13 price signal for all the rest of the capacity that is not
14 going to have state support.

15 And it's a little bit of the model of the state
16 gets to go first. Their resource will find a way into the
17 capacity market, they are going to get a capacity supply
18 obligation and what the capacity market is doing is getting
19 the rest of the resources that it didn't get procured by the
20 state.

21 MR. BOWRING: And the reason I say that can't
22 work is Commissioner LaFleur asked earlier today -- that is
23 a slippery slope to which the end is all state subsidized
24 resources and all competitive resources because we have also
25 heard that creates uncertainty about the price, it creates

1 price suppression for the remaining fleet.

2 It simply can't work as a stable model. It will
3 end up resulting in ultimately the subsidized units pushing
4 out the unsubsidized ones.

5 MR. QUINN: Jennifer?

6 MS. CHEN: So I just wanted to -- I guess I have
7 a different understanding of the residual market and I don't
8 have a monopoly on not understanding it so thank you for
9 explaining that to me.

10 Well first of all we don't want to you know, we
11 would like to work together with PJM and stakeholders to
12 come up with you know, whatever proposal it is that we are
13 going forward with. But I don't think that's putting
14 subsidized resources or state preferred resources in one
15 bucket and all of the rest of the resources in a separate
16 bucket.

17 It really works out in terms of being a
18 principled non-discriminatory proposal simply because you
19 know we have done some work on this, subsidies are
20 everywhere and they are hidden.

21 If you only select out the most visible
22 subsidizes, like renewable portfolio standards you are
23 likely to select out the subsidies that receive the most
24 public support and you are neglecting all of those tax
25 exemptions, funds like black -- I looked up a whole bunch --

1 of different subsidies that go to fossil fuels but are
2 hidden and they are permanent.

3 They are not up for renewal. So they are not as
4 visible. It's very difficult to get at all subsidies and do
5 it in a principled manner in such a way that you could make
6 that division, that subsidized resource versus
7 non-subsidized and come up with a construct that's not
8 discriminatory. That's one thing that I wanted to react on.
9

10 The other point that I wanted to
11 talk about is that right now as Joe mentioned that capacity
12 market is a market where customers must buy from the
13 capacity market unless there is some sort of exemption.

14 But the demand curve is an administratively set
15 demand curve so you must procure a certain amount of
16 capacity from that market. That market only offers one type
17 of capacity product now. So you have to buy that kind of
18 capacity product.

19 Customers really need a choice. So if you have
20 -- so the kind of residual market that I have in my head is
21 that customers ought to be able to choose to go get the
22 capacity through some sort of bilateral contract or they can
23 go to the market if they prefer that.

24 And so the market needs competition too. The
25 market construct needs that kind of outside competition to

1 attract customers to the market. If you have a market
2 construct that offers what customers want they will come to
3 you and then you can have a robust market and you will have
4 better price formation in that way thank you.

5 MR. QUINN: Thank you, Lathrop?

6 MR. CRAIG: I'm sorry, I just wanted to respond
7 to a couple of the comments particular to nuclear economics.
8 Joe earlier said -- he asked the question if the price is
9 too low, of course not ask the customers you know if you
10 don't believe that.

11 And you know we've talked a lot about attributes
12 and I think what that kind of misses is the attributes that
13 thinks like nuclear generation like nuclear bring to the
14 table. So the other day I hadn't had anything other than
15 water since this morning so I'm thinking about coffee and
16 you know if you go ask the customers at the local coffee
17 shop that the \$1.00 cup of coffee is too expensive they are
18 probably going to tell you no, and a lot of them are still
19 going to walk across the street and buy a big venti mocha
20 caramel frappachino.

21 And that doesn't make the frappachino uneconomic.
22 It means as we have just heard that you know customers want
23 choices and they value other things and that's what we are
24 dealing with here. The prices are right for the inputs that
25 are currently allowed to go into them and they are pretty

1 effective actually at driving behavior based on those
2 things.

3 You know as a company we are responding to those
4 prices and so when I hear things like just say do the
5 markets work I really do -- I agree with that for the
6 limitations that they have for the product that they are
7 currently pricing and trying to get responses for.

8 We are currently investing in three new combined
9 cycle natural gas units, a lot of money 2 billion dollars or
10 so because we saw those price signals making very clear what
11 the market wants, what the market values is that kind of
12 economic efficient flexible generation.

13 And at the same time we are less than a month now
14 from shutting down two of our coal plants in New Jersey
15 about 1200 megawatts responding to exactly those same price
16 signals.

17 But when we look at nuclear we ask ourselves a
18 question and we are starting to engage with our state on
19 asking that same question about whether those market signals
20 are sufficient and whether those prices that are ripe for
21 the inputs that they have been allowed to price out are
22 comprehensive enough, or if they were missing something.

23 And I think our answer is we are clearly missing
24 something. We see customers choosing to value the same kind
25 of attributes that nuclear brings and choosing to pay more

1 for it and that's a good indication that the prices while
2 may be ripe from on perspective are not completely ripe and
3 changes the view on whether something like nuclear is
4 actually economic.

5 MR. QUINN: I know that we want to get to
6 Commissioner Honorable but I see a number of tent cards up
7 so I will kind of run through who we have got but I would
8 ask you to kind of keep your comments brief so that we can
9 make sure that Commissioner Honorable has a chance to ask
10 her questions and everybody can go get coffee.

11 MR. FLEXON: Thank you I just want to first
12 compliment the Sierra and RDC because they are thinking in
13 the context of the customer which sometimes in our positions
14 and industry we sometimes lose sight of that.

15 And I just want to say when you think about
16 environmental attributes we have the retail business as an
17 example the City of Cincinnati came to us as a competitive
18 procurement process. They wanted an all green product. So
19 we went out and we got them an all green product and we are
20 seeing more and more in the marketplace on the retail side
21 that cities or individuals are looking for a green product.

22 We haven't had any consumer yet come to us to say
23 we want 100% nuclear product yet. So I think listen to the
24 customers and they are getting these retail green products
25 at a very cost effective price versus laying a multi-billion

1 dollar levy for just five locations.

2 So I think that's a real issue so those states
3 that have retail choice are accomplishing the goals very
4 efficiently and I just wanted to pass that on, thank you.

5 MR. QUINN: Thank you so I think I've got Paul
6 then Michael then Gregory and Raja.

7 MR. BAILEY: Thank you. I couldn't respect
8 myself if I didn't comment on subsidies for fossil fuels or
9 renewables. The University of Texas Austin study came out
10 in November of last year. It looked at various kinds of
11 federal subsidies for different energy sources.

12 They looked at the year 2010, they looked at the
13 year 2013 that projected the year 2016 that projected the
14 year 2019. The subsidies for wind averaged 4 billion
15 dollars a year. Subsidies for coal averaged 40 million
16 dollars a year, thank you.

17 MR. QUINN: Michael?

18 MR. COCCO: I just wanted to dovetail on a
19 statement Jenny made. That is LSE's do need the ability to
20 buy out a contract to get the kind of products that they
21 need and they need to do so without any risk of having to
22 pay twice.

23 So I do like have concerns when I do hear terms
24 like MOPR and maybe other two settlement solutions that tend
25 to take the only market part out of the capacity mix. You

1 have a supply curve that is determined -- I mean a demand
2 curve that is determined by the RTO.

3 You have all the important constraints are
4 determined by the RTO and when you -- the only market part
5 of it is the supply curve offers and the minute you start
6 substituting something like some type of proxy type pricing
7 to set prices I just begin to express concern that we are
8 moving away from the markets.

9 Again I just advise the Commission taking
10 incremental steps to address this issue so that we don't
11 have any second and third order unintended consequences.

12 MR. QUINN: Thank you, Gregory?

13 MR. POULOS: Thank you just as a point you had
14 made earlier about the line between where state actions that
15 should be paid for or subsidized or not and how that line
16 impacts -- and the nuclear facilities is the one example of
17 an example where there are some that are economic, some that
18 are not as Dr. Bowring mentioned before and that was
19 something the Consumer Advocate Offices and the Joint
20 Consumer Advocates raised that there was some of those that
21 we don't want to pay extra for nuclear facilities that
22 actually are economic and are clearing.

23 And in addition we also don't want to pay for
24 state actions of other states. We don't also want to pay
25 double or a third time for a resource. So as we are looking

1 at these there are going to be situational and it is going
2 to be something that we are going to have to play it one by
3 one as they come down the line to decide where that line
4 fits and those are just some of the examples that have come
5 up and some things that were just mentioned.

6 MR. QUINN: Thank you, Raja?

7 MR. SUNDARARAJAN: Mine is probably a short
8 comment. I know a couple of my colleagues here mentioned
9 about how the residual markets cannot work. On energy space
10 we have become sort of comfortable with it because
11 effectively you have renewables being dispatched and
12 negative pricing effectively to kind of set the price.

13 Everything else is kind of part of the states in
14 a residual manner. So, I find it interesting why it seems
15 to work in energy space whereas not in the capacity space,
16 thanks.

17 MR. QUINN: Commissioner Honorable?

18 COMMISSIONER HONORABLE: Thank you. And I want
19 to thank all of you for your spirited comments and also for
20 being disciplined enough to stop. You'll have enough time
21 to engage in some of that debate I'm sure.

22 And for some of it you are never going to
23 convince the others of your view, I just wanted to tell you
24 that now before you get started. I also appreciate that
25 maybe you guys haven't arrived at the place of urgency that

1 some of our other colleagues have in other regions and so
2 maybe if we spoke with you all in six months.

3 So in a year after you all have teed up some of
4 the things that Andy mentioned in his pre-Conference
5 comments that we may see more of your -- I guess more
6 clarify about your concerns about not only the tensions
7 within PJM but also as it aligns with or butts with your
8 sister regions and particularly because PJM is so diverse
9 and so large that I'm pleased though at the moment that you
10 don't seem to express the same sense of urgency.

11 I have taken to heart though in this comments and
12 I want to ask you all to add to the list about the topic of
13 wholesale energy markets and the development of state
14 policy. Someone tweeted earlier had I opened the door to
15 talk about enforcement and so on -- no I haven't. We are
16 still very focused now.

17 So early Andy put on the table what he thought
18 that you all could use from us and that is maybe just a
19 little padding by way of providing a deadline to give you
20 some impetus to begin to rationalize or harmonize these
21 maybe externalities and other forces that you think you need
22 to take a view of and consider whether to incorporate those
23 into your wholesale market processes.

24 And the other thing that Andy mentioned was and I
25 first want to start with Andy to put some meat on the bones

1 of this. He said that we need to go deeper on price
2 formation and I recognize that we still have work to do
3 there and I'm afraid to ask you Andy but I will -- what is
4 still left to be done?

5 And then I want to ask the other panelists in our
6 last few minutes what else can we do to support your work in
7 this area?

8 MR. OTT: Thank you Commissioner Honorable and I
9 will keep this brief. The energy market price formation I
10 think it is effectively I think the issues are similar to
11 what I think has already been discussed in the price
12 formation docket.

13 We have -- there are periods of time and I'll set
14 aside the negative pricing comments I had before because I
15 think that sort of stands alone but this is just pure price
16 formation. There are periods of time where we have
17 generators that are on-line and generating because we need
18 them to meet the current supply/demand balance on the
19 system.

20 So they are on-line running but they are not
21 permitted to set a price because we have rules around you
22 have to have a certain amount of flexibility and be able to
23 move around in order to set pricing. The reason for that of
24 course is that we need to somehow discipline the output of
25 generation in order to meet the supply/demand balance.

1 So the opportunity we have there is I think we
2 can look to price the commodity energy meaning based on the
3 supply/demand curve and where they cross and price
4 flexibility as part of you know a grid service and I think
5 that would create more accurate price signals for what we
6 need to serve the load that hour and reduce uplifts which we
7 all met with sort of the genesis of the price formation
8 docket, et cetera.

9 So I think there's just more we can do there if
10 we broaden the look and say let's not just look at fast
11 start resource, let's look at all resources and make sure
12 that we are not paying for resources we don't need --

13 COMMISSIONER HONORABLE: But we are making sure
14 that the participants are being compensated for the value
15 that they are providing.

16 MR. OTT: Correct and the pricing is accurate.
17 And I think -- so as we look at that opportunity I think now
18 that one because it would be a controversial discussion does
19 need time frames, say do that by this date rather than you
20 all decide for us, tell us to discuss it et cetera but have
21 a time frame.

22 I think what's key here is that the resources
23 that are needed to serve the load should participate in
24 setting price it's as simple as that. This is not a
25 revolutionary concept. As we have grown over time here's

1 what's happened.

2 It used to be all the flexible resources were in
3 the cost curve were the mid-merits were the peaking plants.
4 And today we have inversion.

5 COMMISSIONER HONORABLE: It isn't.

6 MR. OTT: And I think the key is why we need to
7 look at it is because of that fundamental change in the
8 supplies. I think it would also help in areas with high
9 penetration of renewables to look at that type of formation
10 so I'll leave it at that but that's what we meant and that's
11 what I meant in this call to action.

12 Again it's really just looking at what's changed
13 on the system and why do we need to look at energy market
14 reform.

15 COMMISSIONER HONORABLE: I'd welcome that and
16 especially in view of the comment that someone made about
17 the need to have a bottom up approach. So I too want to be
18 disciplined and say okay PJM this is your deadline and this
19 is what we want back from you but to allow the process to
20 work and to really allow the stakeholders to add value.

21 And to inform us and then we can then respond to
22 your proposal.

23 MR. OTT: Thank you.

24 COMMISSIONER HONORABLE: Thank you. Paul are you
25 participating, your tent card is still up, Michael? I

1 wanted to stay in my place Arnie but I was just going to
2 call on Michael.

3 MR. QUINN: I'm happy to take my place back.

4 MR. BOWERING: First of all I think there is
5 urgency in PJM. We have a nuclear unit right now which is
6 receiving subsidy from the state. It is going to affect the
7 capacity market which is happening in May.

8 It is as I have said, contagious. As a result of
9 that a number of other nuclear power plant owners, some of
10 which are economic or actively seeking subsidies from the
11 state so it is urgent and every bit of urgent as elsewhere.
12 It's a different kind of issue in this case.

13 COMMISSIONER HONORABLE: It is and you know I'm
14 aware of that because we have certainly ruled on some
15 dockets here but please continue.

16 MR. BOWERING: Sorry it's urgent. And then the
17 second point is I actually disagree with Andy about the
18 energy price --

19 MR. OTT: Really?

20 MR. BOWERING: Yeah I know shocking.

21 COMMISSIONER HONORABLE: In the last 5 minutes is
22 when the fireworks start, please continue.

23 MR. BOWERING: Just in 30 seconds what I worry
24 about I don't think is as simple as Andy said. I think in
25 fact what we are at risk of is subsidizing the inflexible

1 units giving more incentive to inflexible units.

2 I agree that what we need is more flexible units.
3 Flexible units to set price is the reason LMB works the way
4 it does, it's the reason it has been successful so I would
5 be urging not to rush into a decision on that one.

6 COMMISSIONER HONORABLE: Well what I can commit
7 to is that we would endeavor to develop a complete record
8 which allows for the viewpoints of many diverse stakeholders
9 to be accounted for.

10 MR. BOWERING: Thank you.

11 MR. QUINN: Michael?

12 MR. COCCO: Just to the second part of your
13 question what can the Commission do and this may be a na ve
14 suggestion but I think it would be good if FERC had more of
15 a dialogue with the state Commissions to better understand
16 what type of programs they are coming forth with.

17 And to better understand their plans for how that
18 could be incorporated into the market. I see some smiles on
19 this side. I think that would be helpful. I don't know how
20 that is facilitated maybe it's a report or something that is
21 to the Commission but I think that sort of being proactive
22 with that approach might smooth out some of these issues.

23 COMMISSIONER HONORABLE: Thank you and we
24 certainly have endeavored to continue working with our state
25 colleagues. I'm delighted that so many of them could

1 participate in this Tech Conference and in fact we moved the
2 dates because we had originally considered April dates but
3 so many of them had other conflicts and we certainly
4 couldn't have this discussion without them.

5 And I think that around and during NEHRUC
6 meetings is a prime opportunity -- I would much rather have
7 an in-person dialogue and an in-person debate even about
8 some of these issues versus passing paper back and forth
9 although there's value in that, maybe that could culminate
10 our work together.

11 But I think it's a terrific suggestion, thank
12 you.

13 MR. QUINN: Robert?

14 MR. FLEXON: Yes, quickly just following up from
15 this morning. I think one thing was clear that the various
16 participants identified that the state legislature are going
17 to do things and they have got to carry it out whether that
18 means procuring off-shore wind or even hydro whatever the
19 case may be.

20 These are very expensive types of forms of
21 generation and I think a take-away from today should be the
22 states if they are going to take these actions they must be
23 fully responsible for the cost of those actions.

24 And I think as Greg mentioned it should not bleed
25 into other states and it is very important to protect proper

1 price formation and the help that we need from FERC as well
2 as the various ISO's and RTO's is insuring that that
3 protection is there, that the policy is in place, the time
4 line is set because the market needs to see the confidence
5 that the competitive markets are going to function properly.

6 And without that involvement they are definitely
7 under duress I think as Joe just pointed out. We have got a
8 capacity option coming up this month where it is going to be
9 impacted by subsidies and so time is of the essence
10 particularly in PJM, ISO New England, New York and as
11 everyone has said litigation is the least desired path for
12 all parties.

13 And proactive involvement and the complete
14 welcome of FERC involvement is what we need, thank you.

15 MR. QUINN: Greg?

16 MR. POULOS: Thank you for the question
17 Commissioner Honorable of what can the Commission do. I
18 would just interject here and say that just providing an
19 opportunity for the consumers to have a voice here was a
20 significant step.

21 I think it is showing the value that you place in
22 the consumer voice is very important and it spreads to the
23 other participants as well.

24 As others have reached out to me from Excelon and
25 from AEP just to get our voice as well -- so by you showing

1 the value in the voice it provides us an opportunity to have
2 dialogue with other parties so I really do appreciate this
3 opportunity.

4 MR. SUNDARARAJAN: That's Commissioner Honorable.
5 I think from AEP's point of view it's doable. One is you
6 are afraid that since the urgency is solving the
7 incorporation of environmental attributes in the wholesale
8 market it becomes the sole focus that the broader reforms
9 get sidelined.

10 So that's a big issue for us because now
11 everybody is taking about ZEC's or ZEN's or whatever the
12 formation of the emission credits is and that is one part of
13 the bigger problem that we see and that in our opinion is
14 overtaking all of this conversation without understanding
15 what the full scope of this problem is and how to solve it.

16 And the second thing is there are states in PJM
17 who are not pursuing certain things and the cost shift is a
18 big concern. So I think agreeing on some principles,
19 defining what the problem is and agreeing on what principles
20 that we should adhere to can go a long way in terms of
21 coming up with solutions.

22 Because right now the solutions are being
23 addressed based on their interpretation of principles is and
24 that is leading to a whole lot of confusion within the
25 various parties and the state Commissions in what they are

1 trying to solve and how to solve it. So I think maybe some
2 docket that will open in terms of what the problem is and
3 you know what are we trying to solve and the key principles
4 that we adhere to can go a long way.

5 COMMISSIONER HONORABLE: Thank you and I
6 appreciate your point there needs to be a more comprehensive
7 review of what both action and inaction -- how those two
8 things impact market pricing and market operations.

9 And I think the gentleman from ODEC mentioned
10 some objectives earlier that might be a good starting point
11 for you guys when you take it back to the stakeholder group.

12 MR. QUINN: Lathrop then Jennifer.

13 MR. CRAIG: Thanks. As to what you know would be
14 most helpful coming back from the FERC you know I think you
15 have listened to three panels and a lot of diverse opinions
16 and as you noted we don't agree and we are not likely to.

17 I think what would be very helpful would be some
18 indication from the FERC after having listened to all of
19 this where do you see problems and where do you not see
20 problems. You know where is the action that is being taken
21 or contemplated just a normal and expected impact on the
22 market from a combination of the federally overseen markets
23 and state actions you know resulting in a particular outcome
24 and where is that potentially becoming a problem.

25 So tell us what problems it is we need to solve?

1 And then I would definitely agree that if the next step
2 after that is to go back into a stakeholder process which
3 may be appropriate time lines are always helpful because
4 without that I think we have seen time and time again that
5 they could take a very long time and then I will definitely
6 agree that FERC -- I mean some areas where some of us see
7 that there are problems that need to be solved, there are
8 things that need to be solved soon.

9 COMMISSIONER HONORABLE: Thank you, Jen?

10 MS. CHEN: I'll be super quick thank you. So in
11 terms of what FERC can help with and what stakeholders can
12 get started on right away I think it is the artificial
13 over-supply problem.

14 Over the past 5 years 25,000 megawatts of gas
15 came on-line. I think that's right don't quote me on that
16 but projected going forward about 20,000 megawatts of gas
17 fired power is expected on-line by 2019.

18 Having over-supply is bad for both consumers and
19 generators and could result in surrender costs in the
20 future.

21 MR. BOWRING: Sorry, just real fast. There is no
22 over-supply. There's a downward sloping demand curve, we
23 bought what we bought on purpose. The price was lower than
24 it otherwise would have been and there were benefits on the
25 energy side more capacity to have cheapens the price of

1 energy, thank you.

2 COMMISSIONER HONORABLE: Arnie if I might just
3 jump in and say thank you not only to this panel. I see you
4 will have a lot of future discussions to take up and I want
5 to thank our entire group of panelists today as well as all
6 of you who sat all day long out in the audience.

7 And I especially want to thank our senior staff
8 here at FERC and also the FERC staff who aren't so visible
9 here but who have worked very, very hard. Thank you so much
10 for an excellent day 1 and I look forward to day 2.

11 (Whereupon the meeting was adjourned at 5:34 p.m.
12 to reconvene the next day, May 2, 2017.)

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1 CERTIFICATE OF OFFICIAL REPORTER

2

3 This is to certify that the attached proceeding
4 before the FEDERAL ENERGY REGULATORY COMMISSION in the
5 Matter of:

6 Name of Proceeding:

7

8 State Policies and Wholesale Markets Operated by
9 ISO New England Inc., New York Independent System Operator,
10 Inc., and PJM Interconnection, L.L.C.

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16 Docket No.:

17 Place: Washington, D.C.

18 Date: Monday, May 1, 2017

19 were held as herein appears, and that this is the original
20 transcript thereof for the file of the Federal Energy
21 Regulatory Commission, and is a full correct transcription
22 of the proceedings.

23

24 Gaynell Catherine

25 Official Reporter