

Sponsors: Northeast Public Power Association; New York Association of Public Power; American Municipal Power; Ohio Municipal Electric Association

In Support of Electric Power Capacity Choice

1 Electric power utilities must have the amount and types of resources necessary to provide power to their
2 customers at peak load. Traditionally, not-for-profit public power utilities have met their long-term
3 reliability obligations by building their own generation or by entering over-the-counter contracts with
4 third-part suppliers, i.e., by “self-supply.” Such self-supply is also often achieved through joint action
5 agency supply procurement. Self-supply allows states and utilities to select generation and other
6 resources that meet their needs and policy goals, such as promoting reliability, minimizing costs to
7 consumers, ensuring generation resource diversity, and reducing emissions of greenhouse gases. Under
8 self-supply, customers benefit from lower negotiated prices and reliability is maintained.

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10 A competitive, free-market approach to resource procurement is not possible, or at least is functionally
11 impaired, in regions where electric power utilities and other load-serving entities must meet their
12 reliability obligations by paying for capacity based on mandatory capacity “markets,” a construct for
13 allocating payments to generators and other suppliers of capacity developed and implemented by several
14 regional transmission organizations (RTOs) with approval from the Federal Energy Regulatory
15 Commission (FERC).

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17 RTO-run capacity markets largely generate windfall profits to incumbent generators, increasing costs to
18 utilities and their customers. More than \$100 billion has been committed in mandatory capacity auctions
19 in the PJM Interconnection and ISO New England in the last eight years—more still has been committed
20 in the New York ISO—with relatively little new generation built in those regions.

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22 The American Public Power Association (APPA), representing public power utilities, has sought for years
23 to reform these administrative constructs. In 2006, APPA created the Electric Market Reform Initiative.
24 In 2009, APPA presented a carefully crafted Competitive Market Plan to FERC and in 2013, adopted a
25 policy resolution urging FERC to revise capacity market rules that impair their ability to self-supply.
26 APPA also adopted in 2014, a policy resolution urging FERC to revise capacity market rules that impair
27 state and local authority over resource allocation decisions.

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29 While there have been some modest victories in the last year, the blind eye that RTO operators and FERC
30 have turned to concerns about cost to customers and the ability of state and local governments to make
31 resource allocation decisions indicate that they will not truly change course unless forced to do so by

32 statute. Congress needs to consider and approve legislation requiring FERC and RTOs to reform capacity
33 markets so they enable self-supply and take cost into account.

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35 **NOW, THEREFORE, BE IT RESOLVED:** That the American Public Power Association (APPA)
36 believes that the ability of public power utilities and other load serving entities to self-supply capacity
37 should not be impaired and states that do not currently have a mandatory capacity market should not be
38 forced to accept one; and

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40 **BE IT FURTHER RESOLVED:** That APPA urges Congress to enact legislation prohibiting regional
41 transmission organizations (RTOs) from impairing the ability of public power utilities and other load-
42 serving entities to self-supply and requiring any RTO seeking to adopt a mandatory capacity market to
43 first obtain consensus from all states in that region.

**As adopted June 14, 2016, by the membership of the American Public Power Association at its
annual meeting in Phoenix, Arizona.**