A Market Design Choice Is Contributing to High Electricity Costs In ISO/RTO Regions. Paper Urges FERC Action

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Grid Transition At Risk

WASHINGTON, Aug. 24, 2022 /PRNewswire/ - A **paper** released today by **Travis Fisher**, president and CEO of the Electricity Consumers Resource Council (ELCON), and **Vincent Duane**, a former senior vice president with PJM Interconnection and now a principal at Copper Monarch, LLC, attributed skyrocketing wholesale electricity costs in part to the design of wholesale electricity markets in place across two-thirds of the United States.

This design, which prices all electricity the same whether generated by fossil, nuclear or renewable generators, denies consumers the economic advantage of zero-marginal cost wind and solar generation.

Moreover, this market design deployed in independent system operators and regional transmission organizations may no longer meet the "just and reasonable" requirement of the Federal Power Act, the paper noted. The authors call on the Federal Energy Regulatory Commission (FERC) to investigate.

ISO/RTOs run complex auctions resulting in a single clearing price paid to all electricity suppliers – a price established by the highest offer taken to meet demand in the market. The marginal supplier, and its offer, sets a price paid to the entire supply stack. What this means in real terms, is that consumers in many peak hours this summer are buying solar and wind electricity that costs little to produce at the price of the most expensive fossil plant operating on the margin.

"Containing electricity costs remains a top priority of ELCON, and greater scrutiny of how these wholesale markets impact the cost of electricity is a critical component of that effort," Fisher said. He noted that, more than a year ago, ELCON sent a letter to Congress urging an independent study to assess the impact on consumers of wholesale markets, especially given new developments such as wholesale market expansion, clean energy goals and electrification. To date, federal oversight and regulatory organizations such as the U.S. Government Accountability Office and FERC have sidestepped ELCON's request.

"In ISO/RTOs, paying all suppliers a single clearing price is grounded in an ideology that treats electricity as a fungible commodity notwithstanding operational and performance attributes that vary widely across generator types. This design choice results in consumers in ISO/RTO regions paying more for wind and solar electricity than they should." Duane said.

Fisher added, "when out-of-market payments to favored resources total $370 billion in a single Congressional action, as in the Inflation Reduction Act, scrutiny of market results becomes even more important. The focus now should be on the best way to mitigate the consumer impact from the kind of high-price havoc seen recently in European and Australian wholesale markets."

Electricity consumers face tremendous cost pressure as economies transition to meet decarbonization goals. As policymakers grapple with electricity affordability in the face of this systemic shock, they should examine the obscure but important rules that establish wholesale electricity prices. In this regard, the essay points to Great Britain, where both lawmakers and environmentalists have questioned whether and how to "uncouple" the price of low-cost renewable electricity from the high natural gas prices that fuel the combined or simple cycle plants of the marginal supplier.

Similarly, in the United States,"FERC and its overseers in Congress should be asking why we persist in paying a single clearing price to all electricity producers in ISO/RTOs," the paper emphasized. "Asking competitive markets to recalibrate given changed circumstances and to develop a pricing regime that is fairer to consumers and producers in ISO/RTO regions – not to mention more reflective of operational realities – is asking to improve these markets, not repudiate them." This inquiry lies at the very core of FERC's statutory duties.

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