Congress of the United States
Washington, DC 20515

August 12, 2011

Gene Dodaro
Comptroller General
United States Government Accountability Office
441 G Street, NW
Washington, DC, 20548

Dear Mr. Dodaro:

As New Englanders, we come from a region not only committed to investing in renewable energy resources, but to frugality. The New England ISO has the second highest demand response component of all Regional Transmission Organization (RTO) capacity markets, and a significant portion of our electricity portfolio derives from sustainable resources. Our experience has demonstrated that the most affordable source of electricity is the kind you don't buy. We believe there may be a significant opportunity to tap efficiency and demand side management in markets across the country - all to the benefit of the consumer. To do this, however, may require a more balanced approach to system planning and an expanded set of tools to support longer-term investments.

Significant changes have occurred in the regulation of the wholesale and retail electricity markets over the past fifteen years. The impetus for both retail and wholesale restructuring was to spur competition that would lower prices for consumers, and shift the risks associated with major generation projects onto the generators and off consumers, all the while continuing to ensure that reliability needs are met. The extent to which these goals have been met has been a source of significant debate.

In addition to the question of what impact restructured wholesale electricity markets have had on prices and on risk allocation, another important measure of the successes and failures of restructuring has been the extent to which RTO markets are ensuring a reliable supply of power – through effective and efficient system planning, the construction of new facilities and the use of demand response and efficiency.

Electricity providers across the country are now facing key decisions regarding how to meet the future needs of electricity consumers in their regions. These providers face higher fuel prices, the regulation of carbon and other emissions, and uncertainties about new additions to the power system, such as plug-in electric hybrid vehicles and small-scale photovoltaic systems. In this light, weighing the options for ensuring grid reliability - (i) new power plants, (ii) new transmission lines and (iii) increased demand response and efficiency - are particularly important.

Several RTOs have sought to ensure that there is sufficient generation and demand response by creating centralized capacity markets. The intent of these capacity markets is to cover a portion of the fixed costs of constructing power plants and/or to provide financial incentives for end-users willing to commit to curtailment of load (demand response) or invest in energy conservation. These markets, however, do not yet provide long-term commitments, and only set prices for a single year at a time, typically three years in advance. This may not be adequate to ensure that sufficient resources are developed and may skew the development of resources in favor of those that are less capital intensive rather than those having the lowest overall costs.

Demand response programs are operated not only within RTO capacity markets, but also through RTO energy markets, and by individual retail utilities and non-profit entities in both RTO and non-RTO regions. While it is not clear whether all electricity providers are fully considering the potential value of demand response and efficiency in their decisions, it is also not certain whether the structures in place to compensate demand response and efficiency are optimal, or whether these elements are being accounted for sufficiently in system planning.

We have been pleased to see that some capacity markets have recently begun to pay for energy efficiency improvements as they do for supply and demand response resources. This is a new development for RTO markets – energy efficiency has typically been in the purview of the local retail utility or other state or local entity. The effectiveness of capacity markets to spur energy efficiency in addition to that provided under existing utility and other programs, however, has not yet been determined.

For building new generation, some market observers and independent companies argue that the optimal means to ensure a supply of new cleaner energy to meet future needs is to arrange long-term contracts (at least 10 years). Experiences with obtaining financing for new power plants and renewable energy facilities demonstrate that a long-term contract with a stable revenue stream is frequently a prerequisite for securing financing for these projects.

Despite the importance of long-term contracts, some generation developers in the RTO-operated markets have argued that there is limited opportunity for long-term stable bilateral contracting in the RTO markets that are sufficient to support bank financing to enable new generation to get developed. Several states, including Connecticut, New Jersey, and Maryland, have initiated procedures to require their electric utilities to sign long-term contracts. On the other hand, some market participants and policy makers raise the concern that requiring long term contracts imposes significant financial risks on the customers who will be bearing the cost of those contracts, thereby undercutting one of the objectives of electricity restructuring.

In order to help the Congress consider the appropriate federal policy and tools to aid in our oversight of the federal agencies involved, we request assistance from the GAO in conducting a body of work examining the impacts of RTO-operated markets on (1) the use of sustainable demand response tools and energy efficiency investments to reduce the amount of energy needed and reduce costs to consumers; and (2) the availability and use of bilateral electricity contracts, particularly long-term contracts, to support the development of new generation capacity, including and especially renewable energy, demand response resources and energy efficiency.

Thank you for your consideration of our request. Should you need additional information, please contact Garrett Eucalitto in Senator Lieberman's office (202-224-4041), Ken Altman in Senator Collins' office (202-224-2972) or Mary Sprayregen (202-225-4115) in Congressman Welch's office.

Sincerely,

Susan Collins

JOSEPH LIEBERMAN	SUSAN M. COLLINS	PETER WELCH
U.S. Senator	U.S. Senator	Member of Congress