UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Offer Caps in Markets Operated by Regional Transmission Organizations and Independent System Operators	Docket No. RM16-5-000

I. Summary of FERC Notice of Proposed Rulemaking

On January 21, 2016, the FERC issued a notice of proposed rulemaking (NOPR) to revise the current cap on incremental energy offers ($1000 per megawatt-hour (MWh) except for the FERC's recent approval of PJM's proposal to increase the offer cap on cost-based offers in PJM to $2,000 per MWh) on supply offered in day-ahead and real-time markets run by ISOs/RTOs markets, that are under FERC jurisdiction. Under the NOPR, the ISOs/RTOs would be required to cap each resource's incremental energy offer to the higher of $1000/MWh or that resource's verified cost-based incremental energy offer.

II. Industrial Energy Consumers of America

The Industrial Energy Consumers of America is a nonpartisan association of leading energy-intensive trade-exposed (EITE) manufacturing companies with $1.0 trillion in annual sales, over 2,900 facilities nationwide, and with more than 1.4 million employees worldwide. IECA membership represents a diverse set of industries including: chemical, plastics, steel, iron ore, aluminum, paper, food processing, fertilizer, insulation, glass, industrial gases, pharmaceutical, automotive, building products, automotive, brewing, independent oil refining, and cement.

The manufacturing sector consumes approximately 26 percent of U.S. electricity. EITE industries are energy price sensitive. Relatively small changes to the price of electicity and natural gas can have relatively large impacts to competitiveness, investment, job retention, and job creation.

III. Comments on the FERC Notice of Proposed Rulemaking

There is no economic, legal, or practical justification to raise the "offer caps" given the inelasticity of electric demand and the need to instantaneously balance supply and demand. Offer caps are necessary to protect retail customers from paying excessive prices during times when supply resources are limited. The offer caps are essential for consumer confidence that rate structures are fair and nondiscriminatory.

Allowing higher cost-based rates in scarcity periods and, more importantly, allowing those cost-based rates to set the locational marginal price (LMP) in those time periods, would be a significant transfer of money from ratepayers to generators, especially those that are based-loaded generators.

The FERC has good intentions in that the NOPR is in response to the 2013-2014 Polar Vortex and the reliability and price issues challenges that occurred. However, the FERC adequately addressed this isolated event by granting temporary, limited waivers, and "uplift payments" to properly compensate the generators. These "make-whole" payments to the specific resources do effectively balance the market. This approach adequately addresses these rare occurrences, it compensates the resources, and it sends the right price signal for investments in those resources. IECA supports this approach.

We are concerned that the NOPR could lead markets to become more complicated and opaque, potentially leading to unintended consequences, and the increased potential for different offer caps in nearby markets, which could create potential for seam issues, among other problems.

Sincerely,

Paul N. Cicio
Industrial Energy Consumers of America
1776 K Street, NW, Suite 720
Washington, DC 20006
202-223-1661
pcicio@ieca-us.org