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The Secretary of Energy

Washington, DC 20585



April 14, 2017 Arizona Corporation Commission

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MEMORANDUM TO THE CHIEF OF STAFF

APR 20 2017

FROM: RICK PERRY *RICK PERRY*
SECRETARY OF ENERGY

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SUBJECT: STUDY EXAMINING ELECTRICITY MARKETS AND RELIABILITY

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At the most recent G7 Energy Ministerial, my colleagues discussed the need for an energy transition utilizing greater efficiency and fuel diversity. There was also notable concern about how certain policies are affecting, and potentially putting at risk, energy security and reliability. It impressed upon me that the United States should take heed of the policy choices our allies have made, and take stock of their consequences.

A reliable and resilient electric system is essential to protecting public health and fostering economic growth and job creation. The U.S. electric system is the most sophisticated and technologically advanced in the world. Consumers utilize heating, air conditioning, computers, and appliances with few disruptions. Nonetheless, there are significant changes occurring within the electric system that could profoundly affect the economy and even national security, and as such, these changes require further study and investigation.

Baseload power is necessary to a well-functioning electric grid. We are blessed as a nation to have an abundance of domestic energy resources, such as coal, natural gas, nuclear, and hydroelectric, all of which provide affordable baseload power and contribute to a stable, reliable, and resilient grid. Over the last few years, however, grid experts have expressed concerns about the erosion of critical baseload resources.

Specifically, many have questioned the manner in which baseload power is dispatched and compensated. Still others have highlighted the diminishing diversity of our nation's electric generation mix, and what that could mean for baseload power and grid resilience. This has resulted in part from regulatory burdens introduced by previous administrations that were designed to decrease coal-fired power generation. Such policies have destroyed jobs and economic growth, and they threaten to undercut the performance of the grid well into the future. Finally, analysts have thoroughly documented the market-distorting effects of federal subsidies that boost one form of energy at the expense of others. Those subsidies create acute and chronic problems for maintaining adequate baseload generation and have impacted reliable generators of all types.

Each of these and other related issues must be rigorously studied and analyzed, and the Department of Energy is uniquely qualified for the task. The results of this analysis will help the federal government formulate sound policies to protect the nation's electric grid. In establishing these policies, the Trump Administration will be guided by the principles of reliability, resiliency, affordability, and fuel assurance—principles that underpin a thriving economy.

I am directing you today to initiate a study to explore critical issues central to protecting the long-term reliability of the electric grid, using the full resources and relationships available to the Department. By Wednesday, April 19, 2017, present to me an implementation plan to complete this study 60-days from that date, that will explore the following issues:

- The evolution of wholesale electricity markets, including the extent to which federal policy interventions and the changing nature of the electricity fuel mix are challenging the original policy assumptions that shaped the creation of those markets;
- Whether wholesale energy and capacity markets are adequately compensating attributes such as on-site fuel supply and other factors that strengthen grid resilience and, if not, the extent to which this could affect grid reliability and resilience in the future; and
- The extent to which continued regulatory burdens, as well as mandates and tax and subsidy policies, are responsible for forcing the premature retirement of baseload power plants.

I have committed to the President that this report will not only analyze problems but also provide concrete policy recommendations and solutions. I also committed to the President that I will do everything within my legal authority to ensure that we provide American families and businesses an electric power system that is technologically advanced, resilient, reliable, and second to none.