



October 23, 2017

Submitted Electronically Via: www.ferc.gov

The Honorable Neil Chatterjee
Chairman
Federal Energy Regulatory Commission
888 First Street NE
Washington, DC 20426

Re: Docket No. RM18-1-000, Grid Reliability and Resilience Pricing

Dear Chairman Chatterjee:

Basin Electric Power Cooperative (Basin Electric) appreciates this opportunity to submit our comments in response to the proposed Department of Energy (DOE) Grid Resiliency Pricing Rule that was noticed on September 28, 2017. Basin Electric is a generation and transmission cooperative based in Bismarck, North Dakota, serving approximately three million consumers through 141 rural electric cooperatives across nine states. Currently, about 45 percent of Basin Electric's 6,031-megawatt generation capacity is coal-based and more than 20 percent comes from renewable sources, most of which is wind generation. Basin Electric generates and purchases electric power and energy from a diverse supply of generation sources, including wind, hydro, recovered energy, natural gas, coal and nuclear. Basin Electric has generation resources that participate in both the Midwest Independent System Operator and the Southwest Power Pool markets.

Basin Electric's baseload and intermediate generation units have been and continue to be impacted by market forces that fail to adequately compensate baseload resources for their role in providing essential electric service in the wholesale power markets. As such, we support efforts to address this critical flaw in the current wholesale market structure. Further, Basin Electric supports the role of the Federal Energy Regulatory Commission (Commission) as the lead authority to initiate meaningful public comment and fully develop a record to support a final rule that can effectively compensate baseload generation for the essential service it provides to the stability of the electric grid and the "always on" electricity it provides to all Americans.

The electric industry has become increasingly diverse and complex since the formation of the organized wholesale markets. Diversity in generation, as well as utility business models and regional differences, have created a situation in which nearly each utility is unique in how it is impacted by the market in which it participates. As such, any new rules pertaining to market compensation must be done carefully or else the Commission might unintentionally pick winners and losers rather than creating a more level playing field for all generation sources.

Wholesale Market Issues

When Secretary Perry initiated the DOE's recent grid study, we identified several areas where the wholesale power markets could be improved to fairly compensate baseload generation for

the essential service it provides. For example, while some ancillary services (such as assets in reserve) are currently compensated, the value of “ramping up” is not. With the volatility of wind generation, there is uncertainty for daily resource operation in the marketplace. Unlike natural gas generation, coal units cannot cycle on and off and potentially need days of notice to come on and offline. So when loads are moderate or low and wind is significantly high on a given day (resulting in very low or negative market prices for energy), coal units are backed down to their minimum generation levels (which may still be a relatively high rate of production) and incur financial losses.

These units, however, cannot be taken off line because they may be needed to supply energy in the market the very next day when wind drops to very low levels or loads increase. While wind is subsidized through tax incentives, the market provides no compensation for coal generation to remain on stand-by as an offset to the losses incurred when the wind blows. Additionally, wind levels can change abruptly throughout the day, forcing other generation, primarily fossil fuel-based, to start up or “ramp up” from lower generation levels.

To respond to these unique challenges, Basin Electric believes there should be a fair and equitable market structure for all generation types to include the following:

- Equivalent market rules and penalties for all types of generating assets.
- New “baseload stand-by” product compensation for assets that cannot come online and offline quickly, but are required to stay online to handle the day-to-day volatility of wind, and, as a result, incur financial losses.
- New “ramp” product compensation for assets that can provide the needed energy-ramp capability to handle the abrupt changes in wind levels.

The “baseload stand-by” product would essentially allow those economic assets that must operate in subsequent days when wind generation is not available to receive a make-whole payment for their variable/incremental cost of production. Currently, these units incur hourly financial losses due to oversupply of wind energy in the market. The baseload units are penalized despite needing to operate in subsequent days. The make-whole payments would only be paid to the volume of baseload assets that must be online to support the net change in wind over the next several days. Funding for the make-whole payments should be allocated to the wind asset owners that are the root cause of the energy supply imbalance. Basin Electric encourages the Commission to explore this baseload stand-by concept as a more appropriate measure of market compensation, rather than the scope of cost recovery outlined in the DOE’s proposed rule.

The rule proposed by DOE would provide limited benefits to the market by excluding potentially thousands of megawatts of baseload capacity. Our proposal would fairly ensure baseload generation is compensated for the benefits it supplies the grid and the market. Any final rule should account for regional differences in electrical markets based on the current regional transmission organization (RTO)/independent system operator (ISO) model. Preferably, in lieu of significantly modifying the proposed DOE rule to address these issues, the Commission should undertake a new rulemaking under the premise of the rule proposed by Secretary Perry, but without any preconceived limitations with respect to eligibility and scope of cost recovery.

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The Commission is well-positioned to provide the necessary guidance through its rulemaking authority to ensure all of the nation's RTOs and ISOs, and their members, are able to realize the benefits of the proposed market changes. However, we believe that the RTO/ISOs are best equipped to craft plans that work best for their market participants based on unique market challenges, resource pools and costs. We urge the Commission to develop a final rule that will ensure flexibility and viability of any changes the RTOs and ISOs may consider in their respective markets.

Again, Basin Electric appreciates the efforts of Secretary Perry, the DOE and the Commission as they explore options for addressing this critically important issue and your consideration of our comments. We look forward to working with the Commission as this process moves forward.

Very truly yours,

A handwritten signature in blue ink that reads "Paul M. Sukut" with "MDF" written in smaller letters below it.

Paul M. Sukut
CEO & General Manager

pms/mw