



The Secretary of Energy
Washington, DC 20585

September 28, 2017

Neil Chatterjee, Chairman
Cheryl A. LaFleur, Commissioner
Robert F. Powelson, Commissioner
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Re: *Secretary of Energy's Direction that the Federal Energy Regulatory Commission Issue Grid Resiliency Rules Pursuant to the Secretary's Authority Under Section 403 of the Department of Energy Organization Act*

Dear Mr. Chairman and Commissioners:

America's greatness depends on a reliable, resilient electric grid powered by an "all of the above" mix of generation resources. This diverse mix of resources must include traditional baseload generation with on-site fuel storage that can withstand major fuel supply disruptions caused by natural and man-made disasters. But the resiliency of the electric grid is threatened by the premature retirements of these fuel-secure traditional baseload resources.

As the agency responsible for regulation of the organized power markets operated by the Commission-approved regional transmission organizations (RTOs) and independent system operators (ISOs), it is time for the Federal Energy Regulatory Commission ("Commission" or "FERC") to issue rules to protect the American people from the threat of energy outages that could result from the loss of traditional baseload capacity. In the wake of the devastation wrought by the Polar Vortex, Superstorm Sandy, and Hurricanes Harvey, Irma, and Maria, much more work needs to be done to preserve these fuel-secure generation resources that have the essential reliability and resiliency attributes needed to keep the lights on for all Americans in times of crisis—including on-site fuel supplies and the ability to provide voltage support, frequency services, operating reserves, and reactive power. As a first step, it is especially urgent to prevent premature retirements of the resources that have these critical attributes.

To this end, pursuant to section 403 of the Department of Energy Organization Act, I am making the enclosed rulemaking proposal for consideration and final action by the Commission pursuant to its authority under sections 205 and 206 of the Federal Power Act. Distorted price signals in the Commission-approved organized markets have resulted in under-valuation of grid reliability and resiliency benefits provided by traditional baseload resources, such as coal and nuclear. The rule will ensure that each eligible reliability and resiliency resource will recover its fully allocated costs and thereby continue to provide the energy security on which our nation relies. The Commission is required to take final action on this proposal in an expeditious manner in accordance with the reasonable time limits specified in the enclosed Notice of Proposed Rulemaking (NOPR).



The Resiliency of the Electric Grid—and Our National Security—is In Jeopardy

Ensuring that American families and their businesses have access to reliable, resilient and affordable electricity is vital to the economy, national security and quality of life. From heating homes in the winter to cooling them in the summer, providing lighted streets so people can walk safely at night, powering machines and technology that create jobs, and connecting us through smart phones and the internet—electricity is a key driver of America’s economic prosperity and the basic necessities of life. Our economy, government and national defense all depend on electricity. Therefore, ensuring a reliable and resilient electric supply and corresponding supply chain are vital to national security.

There Have Been Significant Retirements of Traditional Baseload Generation

Market changes are resulting in a significant loss of traditional baseload generation. According to the Department of Energy’s January 2017 *Quadrennial Energy Review* (January 2017 QER):

Currently, the changing electricity sector is causing the closure of many coal and nuclear plants in a shift from recent trends. From 2000 through 2009, power plant retirements were dominated by natural gas steam turbines. Over the past 6 years (2010–2015), power plant retirements were dominated by coal plants (37 GW), which accounted for over 52 percent of recently retired power plant capacity. Over the next 5 years (between 2016 and 2020), 34.4 GW of summer capacity is planned to be retired, and 79 percent of this planned retirement capacity are coal and natural gas plants (49 percent and 30 percent, respectively). The next largest set of planned retirements are nuclear plants (15 percent).¹

The Department of Energy’s *Staff Report to the Secretary on Electricity Markets and Reliability* (DOE Staff Report)² also discusses the large number of traditional baseload units that have retired or are scheduled to retire:

- Between 2002 and 2016, 531 coal generating units representing approximately 59,000 MW of generation capacity retired from the U.S. generation fleet.³
- EIA reported that coal-fired power plants made up more than 80 percent of the 18,000 MW of electric generating capacity that retired in 2015.⁴
- It is anticipated that approximately 12,700 MW of coal will retire through 2020.⁵

¹ *Transforming the Nation’s Electricity System: the Second Installment of the Quadrennial Energy Review*, January 6, 2017 (2017 QER), at 3-73.

² U.S. Department of Energy, *Staff Report to the Secretary on Electricity Markets and Reliability*, August 2017 (DOE Staff Report).

³ DOE Staff Report at 22.

⁴ DOE Staff Report at 22, citing U.S. Energy Information Administration, *Today in Energy*, March 8, 2016. More recent EIA data shows an overall larger amount of 2015 generation capacity retirements (25,400 MW), of which coal-fired power plants made up 72%. EIA, *Monthly Update to the Annual Electric Generator Report*, Form EIA-860m, March 2017.

⁵ U.S. Energy Information Administration (EIA), *Monthly Update to the Annual Electric Generator Report*, Form EIA-860m, June 2017, <https://www.eia.gov/electricity/data/eia860m/>.

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