Federal Energy Regulatory Commission
September 17, 2015
Open Commission Meeting
Staff Presentation
Item E-1

"Good morning Mr. Chairman and Commissioners,

"Item E-1 is a draft Notice of Proposed Rulemaking addressing settlement intervals and shortage pricing triggers. This draft NOPR is a first step in advancing the goals of the Commission's price formation proceeding in Docket No. AD14-14. The NOPR states that the Commission expects to undertake further action addressing various price formation topics, including offer caps, mitigation, uplift transparency, and uplift drivers.

"The proposed reforms in this draft NOPR advance several of the Commission's price formation goals. Specifically, in the short-term, the proposed reforms will help provide correct incentives for market participants to follow commitment and dispatch instructions and to maintain reliability. The proposed reforms will also help provide transparency so that market participants understand how prices reflect the actual marginal cost of serving load and the operational constraints of reliably operating the system. In the long-term, the draft NOPR explains, appropriate price signals would produce prices that consistently reflect operating needs and system conditions which, in turn, would help to encourage efficient investments in facilities and equipment, enabling reliable service.

"Specifically, the draft NOPR addresses the two existing practices in organized wholesale electricity markets that may fail to compensate resources at prices that reflect the value of the service resources provide to the system, thereby distorting price signals.

"First, the draft NOPR addresses existing practices related to settlement intervals. The draft NOPR proposes to align settlement intervals with dispatch intervals. The draft NOPR would require each regional transmission organization (RTO) and independent system operator (ISO) to settle real-time energy transactions financially at the same time interval it dispatches energy. The draft NOPR would also require each RTO and ISO to settle operating reserve transactions at the same time interval it prices operating reserves. Currently, several RTOs and ISOs have a misalignment between dispatch intervals and settlement intervals. They dispatch resources every five minutes but settle transactions for these dispatches based on an hourly integrated price – that is, based on the average price of all the dispatch intervals across an hour. This misalignment may distort price signals because compensation is based on average prices across an hour rather than prices that apply during each dispatch interval during the hour. In certain instances, these distorted price signals create a disincentive for resources to respond to dispatch signals. Aligning settlement intervals to dispatch intervals – as proposed in the draft NOPR – would provide better incentives to follow dispatch instructions. It would also compensate resources in a way that better reflects the value of the service they provide. In addition, the proposed settlement interval reform should reduce uplift payments, thereby increasing system transparency and the ability of market participants to hedge their transactions financially.

"Second, the draft NOPR addresses existing practices related to shortage pricing triggers. The draft NOPR proposes to require that each RTO and ISO trigger shortage pricing for any dispatch interval during which a shortage of energy or operating reserves occurs. In contrast, currently, on the systems of some RTOs and ISOs, a shortage is required to last a minimum time period before shortage pricing is triggered. As a result, there is a delay between the time when a system first experiences a shortage of energy or operating reserves and the time when prices reflect the shortage condition. In instances when a shortage lasts less than the minimum time period, energy and operating reserves prices never reflect the shortage condition. Due to such delays, short-term prices may fail to reflect potential reliability costs, as well as fail to reflect the value of both internal and external market resources responding to a dispatch signal. The proposed shortage pricing reform should help ensure that resources have price signals that reflect the value of their services, and the value of system operating needs at each dispatch interval.

“The draft NOPR proposes that each RTO and ISO submit a compliance filing within four months of the effective date of a final rule. The draft NOPR proposes that full implementation of the settlement reform be effective within twelve months from the date of the compliance filing. Implementation of the proposed shortage pricing reform is not expected to be as complex. Thus, the draft NOPR proposes that full implementation of the shortage pricing reform be effective within four months from the date of the compliance filing.

“The draft NOPR seeks comment on these proposed reforms within sixty days after the NOPR’s publication in the Federal Register. The draft NOPR specifically seeks comment on several substantive issues with the proposed reforms, including whether the proposed settlement interval reform is appropriate for intertie transactions and whether the Commission should require RTOs and ISOs to settle all real-time operating reserves transactions at the same interval as real-time energy dispatch. In addition, the draft NOPR requests comment on several aspects of implementation, including the proposed implementation schedule.

“Thank you. This concludes our presentation. We would be happy to address any questions you may have.”