



Federal Energy Regulatory Commission
November 19, 2015
Open Commission Meeting
Staff Presentation
Item E-2

"Good morning Mr. Chairman and Commissioners.

"Item E-2 is a draft Order Directing Reports. This is another step in the Commission's price formation initiative. The draft order would require each Regional Transmission Organization and Independent System Operator to submit a report on five price formation topics, all of which are associated at a high level with out-of-market actions and the associated uplift costs. The five topics are: pricing of fast-start resources; commitments to manage multiple contingencies; look-ahead modeling; uplift allocation; and transparency. In the reports, each RTO and ISO would provide an update on current practices in those five areas and on the status of efforts (if any) to address each of those five areas. Also, each RTO and ISO would respond to the questions on each topic.

"Today's draft order focuses on these five price formation topics because they have the potential to improve price formation. With the information from the reports, the Commission would have a record sufficient to consider potential reforms consistent with the goals of the price formation initiative. These goals include providing incentives to maintain reliability, to facilitate accurate and transparent pricing, to reduce uplift, and for market participants to operate consistent with dispatch signals. By obtaining information on these five areas, the Commission, RTOs and ISOs, and stakeholders will also be able to compare practices across markets. Such comparisons will illustrate the benefits and drawbacks of any particular practice as well as identify unintended consequences from any potential reforms. The information requested in this draft order would not only answer technical questions on each topic, but also help explain the reasons why each market has made its set of policy choices.

"The first three areas of potential reform — pricing of fast-start resources, commitments to manage multiple contingencies, and look-ahead modeling —should assist in meeting several price formation goals. Improvements in these three areas would facilitate prices that accurately reflect the cost of committing resources to maintain reliable operations. First, making block-loaded fast-start units eligible to set market-clearing prices could yield prices that are more representative of the cost of the marginal resource. Second, including multiple contingency planning in the market model, either as a modeled constraint or through a special reserve product, could allow more resources to be committed within the market-clearing process rather than through out-of-market actions. And, third, improving the use of look-ahead modeling could improve operational and market efficiency by better anticipating ramping and other system needs.

"The last two areas of potential reform — uplift allocation and transparency —affect the incentives for market participants to take actions that reduce uplift costs. Allocating uplift costs to market participants whose transactions cause those costs could improve incentives to to change bidding and operational behavior in ways that potentially reduce uplift. Improved transparency and understanding of the drivers of uplift costs could help limit market uncertainty and could elicit a market response to address system needs when a price signal fails to do so. Improved transparency could also facilitate stakeholder discussion about market rule reform. Information on the tradeoffs between different uplift allocation rules, as well as on concerns about the feasibility of improving transparency, would help to evaluate potential reforms in these areas.

The draft order directs each RTO and ISO to file a report within 75 days. After that, the public will have 30 days to comment on the reports. Again, with the information from the reports and comments, the Commission would have a record sufficient to consider potential reforms consistent with the goals of its price formation initiative.

"Thank you. This concludes our presentation. We are happy to answer any questions you may have."