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News Media Contact

Craig Cano | 202-502-8680

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## FERC Requires Reports on Price Formation in Regional Electric Markets

The Federal Energy Regulatory Commission (FERC) took another step today to address price formation by directing regional grid operators to submit reports on price formation in their energy and ancillary services markets.

Price formation is a key element of well-functioning regional wholesale power markets. In June 2014, FERC initiated proceedings into price formation for energy and ancillary services in the regional wholesale markets to promote reliability, facilitate accurate and transparent pricing, and ensure that rates are just and reasonable.

Today's order requires that each regional market operator file a report addressing five price formation issues: pricing of fast-start resources, commitments to manage multiple contingencies, look-ahead modeling, uplift allocation, and transparency. In addition to providing an update on the operators' current practices, including the status of any efforts to address each of the five issues, the reports must respond to specific questions contained in today's order.

The reports are due within 75 days, and the public will have 30 days to comment on them. FERC will use the reports and comments to determine what further action is appropriate.

Identifying best practices for these five areas should provide incentives to maintain reliability, to facilitate accurate and transparent pricing, to reduce uplift, and for market participants to operate consistent with dispatch signals. The Commission seeks this information not only to answer technical questions regarding how each grid operator addresses these topics, but also to understand the reasons why each grid operator has made its set of policy choices.

The goals of proper price formation are to: maximize market surplus for consumers and suppliers; provide correct incentives for market participants to follow commitment and dispatch instructions, make efficient investments in facilities and equipment, and maintain reliability; 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; and ensure that all suppliers have an opportunity to recover their costs.

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