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News Media Contact

Craig Cano | 202-502-8680

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FEDERAL ENERGY REGULATORY COMMISSION NEWS

FERC Proposes to Revise Offer Caps in Regional Wholesale Electric Markets

The Federal Energy Regulatory Commission (FERC) today took another step to ensure that price formation in competitive wholesale electricity markets produces just and reasonable rates with a proposal to revise the $1,000 per megawatt-hour (MWh) cap on supply offered in day-ahead and real-time markets run by regional transmission organizations and independent system operators.

Under the Notice of Proposed Rulemaking (NOPR), the Commission-jurisdictional grid operators would cap each resource's incremental energy offer at the higher of $1,000/MWh or that resource's verified cost-based offer.

Extreme weather during the 2013-14 winter, dubbed the "Polar Vortex," led to a significant rise in the price of natural gas that may have caused some resources with must-run requirements to operate at a loss because their short-run marginal costs exceeded the $1,000/MWh offer cap in place at the time. FERC has granted limited waivers of the offer cap rules in some regions to ensure that resources could recover costs above the cap.

The current offer caps may impair price formation in several ways. They may suppress locational marginal prices (LMP) to a level below the marginal cost of production. If this occurs, resources may lack an economic incentive to supply power during times when the electric system may need it most. Additionally, if resources cannot reflect their short-run marginal costs in incremental energy offers due to the cap, the grid operator cannot dispatch the most efficient set of resources.

Before accepting a cost-based incremental energy offer above $1,000/MWh, a grid operator or the market monitor would be required to verify the offer's underlying costs. If those costs cannot be verified before the market-clearing process begins, that resource's offer may not be used to calculate the LMP. However, the resource would be eligible for a make-whole payment if it clears the energy market and its costs are verified after the fact. The NOPR states that all resources — regardless of fuel type — would be eligible to submit cost-based offers above $1,000/MWh. All supply offers would remain subject to market power mitigation provisions.

FERC proposes to make a generic change to avoid issues that could arise if one region has an offer cap that materially differs from a neighboring region. Different caps in neighboring regions could result in inefficient power flows.

FERC seeks comment on several aspects of the proposal, including whether to adopt a hard cap on cost-based incremental energy offers used for purposes of calculating LMPs and, if so, what the hard cap level should be.

Comments on the NOPR are due 60 days after publication in the *Federal Register*.

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