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FERC Revises Offer Caps in Regional Wholesale Electricity Markets

The Federal Energy Regulatory Commission (FERC) today adopted a plan to revise the \$1,000 per megawatt-hour (MWh) cap on supply offered in day-ahead and real-time markets run by operators of regional wholesale power markets.

Today's final rule finds that the current offer caps in some regional markets can produce unjust and unreasonable rates, and the situation requires a generic policy to avoid issues that could arise if one market has an offer cap that materially differs from a neighboring market. The final rule modifies the proposal issued in January 2016 by requiring a "hard cap" of \$2,000/MWh on the incremental energy offers used for the purposes of calculating locational marginal prices (LMP).

Extreme weather during the 2013-14 "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.

In 2014, FERC instituted an inquiry to determine how to improve price formation in the energy and ancillary services markets operated by regional wholesale power markets. Today's final rule advances two of the Commission's goals with regard to that effort: LMPs will be more likely to reflect the true marginal cost of production when resources' short-run marginal costs exceed \$1,000/MWh, and resources will have the incentive to participate in RTO and ISO electricity markets when their short-run marginal costs exceed \$1,000/MWh because they have the opportunity to recover these costs. Adequate investment in resources and resource participation in RTO/ISO energy markets ensure adequate and reliable energy for consumers.

The final rule requires that market operators cap each resource's incremental energy offer at the higher of \$1,000/MWh or that resource's verified cost-based incremental energy offer and to cap the verified cost-based incremental energy offers used to calculate LMP at \$2,000/MWh. Any cost-based incremental energy offer above \$1,000/MWh must be verified prior to being used to calculate LMPs to ensure that a resource's cost-based incremental energy offer reasonably reflects that resource's actual or expected costs.

Today's final rule takes effect 75 days after publication in the *Federal Register*.

R-17-07

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