



Federal Energy Regulatory Commission
January 19, 2019
Open Commission Meeting
Staff Presentation
Item E-1

"Good morning Mr. Chairman and Commissioners,

"Item E-1 is a draft Notice of Proposed Rulemaking, or NOPR, in Docket Number RM17-2-000. This item addresses real-time uplift cost allocation and market transparency in regional transmission organizations and independent system operators (or RTOs and ISOs). The draft NOPR is the fourth in the Commission's ongoing price formation initiative. In advancing the Commission's price formation goals, the reforms in the draft NOPR will help ensure that rates for energy and ancillary services in RTO and ISO markets are just and reasonable.

"The draft NOPR addresses certain types of uplift allocation practices. Uplift occurs in RTO and ISO markets because units occasionally need to recover operating costs outside of the market. The draft NOPR proposes that, if an RTO or ISO allocates real-time uplift to deviations from day-ahead schedules, it must do so based on cost causation. Otherwise, allocating costs to deviations that did not cause the costs to be incurred may inappropriately penalize certain types of transactions that are beneficial to price formation.

"Consistent with cost causation, the draft NOPR proposes to require RTOs and ISOs to allocate deviation-related real-time uplift costs only to those market participants whose transactions are reasonably expected to have caused the uplift costs. It does so first by proposing that RTOs and ISOs separate real-time uplift costs allocated to deviations into at least two categories based on the reason uplift costs were incurred: a system-wide capacity category and a congestion management category. Then, the draft NOPR proposes to require each RTO and ISO to distinguish between two classes of deviations – those that "help" address system needs and those that "harm" system needs. Those two classes are then netted against each other. Finally, the draft NOPR proposes that deviations resulting from a resource responding to an RTO- or ISO-initiated real-time dispatch instruction should not be allocated real-time uplift costs as a deviation.

"Again, the uplift allocation proposal only requires that, if an RTO/ISO allocates real-time uplift costs to deviations, it must do so based on cost causation. If an RTO/ISO does not currently allocate real-time uplift costs to deviations, this NOPR would not impose a requirement on those RTOs/ISOs to allocate real-time uplift costs to deviations.

"In addition, the draft NOPR responds to the current lack of transparency into the causes of costs allocated to market participants. This lack of transparency may hinder the ability of market participants to assess the effectiveness of operational practices and to evaluate the need for additional investment, such as transmission upgrades or new generation.

"Similarly, the draft NOPR addresses the lack of transparency with respect to transmission constraint penalty factors. Transmission constraint penalty factors are the values at which an RTO's/ISO's market software will relax the flow-based limit on a transmission element to relieve a constraint caused by that limit, rather than re-dispatch resources to relieve the constraint. A lack of transparency concerning transmission constraint penalty factors may hinder a market participant's ability to effectively understand how an RTO's/ISO's actions to manage constraints affect energy prices and, thus, may hinder its ability to hedge energy market transactions.

"The NOPR proposes to increase transparency by revising the Commission's regulations to require that each RTO/ISO: (1) report total uplift payments for each transmission zone on a monthly basis, broken out by day and uplift category; (2) report on a monthly basis uplift payments for each unit (3) report megawatts of operator-initiated commitments in or near real-time and after the close of the day-ahead market, broken out by transmission zone and commitment reason; and (4) set forth in its tariff: its transmission constraint penalty factors, the circumstances under which those factors can set locational marginal prices, and the process by which they can be temporarily changed.

"The draft NOPR also seeks comment on whether additional reporting of transmission outages should be required, as well as on whether certain classes of market participants are prohibited from obtaining the network model from any RTO or ISO.

"Comments on the draft NOPR will be due 60 days after it is published in the Federal Register.

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