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Item Nos. E-2, E-3, E-4, E-5

FERC to Investigate Pricing of Fast-Start Resources by Three Grid Operators

The Federal Energy Regulatory Commission (FERC) today opened investigations into the pricing of fast-start resources in three regional power markets after finding their current practices may be unjust and unreasonable because those practices do not allow prices to accurately reflect the marginal cost of serving load. The investigations under Federal Power Act section 206 will examine whether tariff revisions are required for New York Independent System Operator (NYISO), PJM Interconnection (PJM) and Southwest Power Pool (SPP).

Fast-start resources typically are committed in real-time, very close to the interval when needed, and can respond quickly to unforeseen system needs. However, without some form of fast-start pricing, some fast-start resources are ineligible to set prices, often due to inflexible operating limits. Even when fast-start resources can set prices, they may not be able to recover their commitment costs, such as start-up and no-load costs, through prices. As a result, prices may not reflect the marginal cost of serving load, muting price signals for efficient investments. To address these issues, several RTOs and ISOs have already developed pricing that is generally designed to address these issues and this class of resources.

As part of its continuing initiative to improve price formation to support efficient investments in wholesale power markets, FERC in December 2016 issued a Notice of Proposed Rulemaking (NOPR) to require each regional competitive electric power market to adopt market rules meeting certain requirements for pricing fast-start resources. Many comments filed in response to the NOPR questioned whether the proposed reforms would bring sufficient value in all regions, and argued for regional flexibility. Based on those comments, FERC is persuaded not to require a uniform set of fast-start pricing requirements across all regional power markets, and today's action terminates the rulemaking.

FERC continues to believe that improved fast-start pricing practices have the potential to achieve the goals outlined in the NOPR, so it is initiating proceedings under Federal Power Act section 206 to focus on the fast-start pricing practices in NYISO, PJM and SPP. The investigations will examine whether:

- NYISO should revise its tariff to: (1) modify its pricing logic to allow the start-up costs of fast-start resources to be reflected in its pricing logic; and (2) allow the relaxation of all dispatchable fast-start resources' economic operating limits by up to 100 percent for the purpose of setting price;
- PJM should revise its tariff to, among other things: (1) allow relaxation of fast-start resources economic minimum operating limits by up to 100 percent; (2) consider fast-start resources within dispatch in a way that is consistent with minimizing production costs, subject to appropriate operational and reliability constraints; and (3) modify its pricing logic to allow the commitment costs of fast-start resources to be reflected in prices; and
- SPP should revise its tariff to, among other things: (1) modify its dispatch process to respect physical parameters of resources while minimizing production costs; (2) modify its pricing logic to allow the commitment costs of fast-start resources to be reflected in prices; and (3) allow all quick-start resources, including block-loaded quick-start resources, to set price.

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