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FERC Proposes Initial Price Formation Fixes for Organized Markets

The Federal Energy Regulatory Commission (FERC) took the first step in advancing the goals of its electric power price formation proceeding today. The Commission initiated its price formation proceeding last year, with staff convening workshops and issuing reports, and invited comments on specific questions that arose from the workshops. Today, the Commission proposes to address two practices that fail to provide appropriate signals for resources to respond to the actual operating needs and properly reflect system conditions and costs to serve consumers when compensating resources within organized markets.

Specifically, today's NOPR proposes to address these matters by:

- Requiring that each organized market align settlement and dispatch intervals by settling real-time energy and operating reserves transactions financially at the same time interval that it dispatches energy and prices operating reserves, and
- Requiring that each organized market trigger shortage pricing for any dispatch interval during which a shortage of energy or operating reserves occurs.

One problem, FERC said, is that while all markets dispatch resources sub hourly, some settle those transactions based on an hourly integrated price – a price that equals the average price for all individual dispatch intervals across an hour. The proposed settlement interval reform provides enhanced incentives for market participants to follow commitment and dispatch instructions, make efficient investments in facilities and equipment and maintain reliability.

Also, in some markets a shortage is required to last a minimum time period before shortage pricing is triggered. As a result, there is a delay between the time when a system experiences a shortage of energy and operating reserves and the time when prices reflect those shortages. The proposed shortage pricing trigger reform will require a shortage of any duration to be reflected in prices, and will thus compensate resources for the value of the services they provide when the system needs energy or operating reserves. This reform is also intended to provide transparency and consistency so that market participants understand how prices reflect the actual marginal cost of serving load and the operational constraints of reliably operating the system.

Comments on today's NOPR are due 60 days from publication in the *Federal Register*.

R-15-41

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