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FERC Implements Price Formation Fixes for Organized Markets

The Federal Energy Regulatory Commission (FERC) today took the next step in advancing its electric power price formation goals with a final rule establishing settlement interval and shortage pricing requirements for organized markets. These requirements will help ensure that rates for energy and operating reserves are just and reasonable, and will align prices with resource dispatch instructions and operating needs, provide appropriate incentives for resource performance and maintain reliability.

FERC initiated its price formation proceeding in 2014, with staff convening workshops and issuing reports. FERC took comments on specific questions that arose from the workshops. A September 2015 Notice of Proposed Rulemaking (NOPR) addressed 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 in the organized markets.

Today's final rule largely adopts the NOPR by requiring that each organized market:

- Align settlement and dispatch intervals by settling real-time energy, operating reserves and intertie transactions financially at the same time interval that it dispatches energy, prices operating reserves and schedules intertie transactions.
- Trigger shortage pricing for any dispatch interval during which a shortage of energy or operating reserves occurs.

The final rule clarifies that the settlement interval applies to all supply resources, including demand response, but not to load. However, it does not prohibit settling load on a five-minute interval, and FERC will consider any such proposals on a case-by-case basis in separate proceedings under section 205 of the Federal Power Act.

The final rule takes effect 75 days after publication in the *Federal Register*, and each organized market must make a compliance filing 120 days after that. The settlement interval requirements must be implemented 12 months from the compliance filing date and the shortage pricing reforms within 120 days of that date.

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