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FEDERAL ENERGY REGULATORY COMMISSION NEWS

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FERC Proposes Reforms to Uplift Cost Allocation and Transparency

The Federal Energy Regulatory Commission (FERC) today proposed to further advance price formation goals for organized wholesale power markets by enhancing transparency and improving uplift allocation to deviations.

The Commission issued a Notice of Proposed Rulemaking (NOPR) that addresses uplift cost allocation practices that FERC believes are inconsistent with cost causation and may distort market outcomes, resulting in rates that are not just and reasonable. Uplift refers to payments that a regional grid operator makes to a resource whose commitment and dispatch result in a shortfall between the costs in the resource's offer and the revenue earned through market clearing prices.

Under the proposed reforms, grid operators that allocate real-time uplift costs to deviations would be required to allocate them only to market participants whose transactions are reasonably expected to have caused the costs. The NOPR also requires each grid operator to post uplift costs paid and operator-initiated commitments on its website, and to define in its tariff its transmission-constraint penalty factors, including the circumstances under which the penalty factors can set locational marginal prices, and any procedure for temporarily changing the factors.

FERC and the grid operators have taken steps to reduce the amount of uplift in the energy and ancillary services markets, but the complexity of the electric system and limitations in the tools available to maintain reliable operations can lead to system operators taking out-of-market actions to manage reliability. Further, a lack of transparency can hinder a market participant's ability to evaluate the need for and value of additional investment, such as transmission upgrades or new generation.

Because uplift costs are unlikely to be completely eliminated, their allocation should encourage behavior that reduces the need for uplift-creating actions and avoids discouraging market participant behavior that lowers production costs.

Today's NOPR is designed to achieve those objectives. First, the proposed reforms to uplift cost allocations should improve market participants' incentives to perform in real-time consistent with operator instructions and bid into the day-ahead market and submit day-ahead schedules consistent with expected real-time system conditions. Second, the proposed transparency reforms will help market participants understand the operational constraints on the system, plan and efficiently respond to system needs, and evaluate the need for and value of additional investment.

FERC has been working on price formation matters since 2014. The goals are to:

- Maximize market surplus for consumers and suppliers;
- Provide correct incentives for market participants to follow commitment and dispatch instructions, make efficient investments in facilities and equipment, and maintain reliability;
- Provide transparency so that market participants understand how prices reflect the actual marginal cost of serving load and the operational constraints of reliably operating the system; and
- Ensure that all suppliers have an opportunity to recover their costs.

Comments on the NOPR are due 60 days after publication in the *Federal Register*.

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