

Federal Energy Regulatory Commission April 19, 2018 Open Commission Meeting Staff Presentation

Items: E-1

"Good morning Mr. Chairman and Commissioners,

"Item E-1 is a draft Final Rule addressing transparency in markets operated by Regional Transmission Organizations (RTOs) and Independent System Operators (ISOs). This draft final rule adopts, with certain modifications and clarifications, the transparency proposals in the Commission's Notice of Proposed Rulemaking (NOPR) issued in January 2017. This draft Final Rule is another step in the Commission's ongoing price formation initiative. The reforms in this draft Final Rule address several of the Commission's price formation goals, and will help ensure that rates for energy and ancillary services in RTO and ISO markets are just and reasonable.

"In the NOPR, the Commission also proposed reforms related to uplift cost allocation. Ideally, uplift costs should be allocated to those market participants whose transactions caused the uplift. However, commenters raised substantial concerns about the application of the proposed uplift cost allocation reforms to certain RTOs and ISOs in light of the reasons for uplift in those markets. Commenters also questioned whether certain RTOs and ISOs could reasonably implement the proposed uplift cost allocation reforms. The draft Final Rule finds these concerns to be sufficiently persuasive to decline to take generic action on this issue at this time and therefore withdraws the uplift cost allocation proposal.

"With respect to transparency, the draft Final Rule requires RTOs and ISOs to report information about uplift payments and operator-initiated commitments. Uplift refers to payments made by RTOs and ISOs to resources when market revenues are insufficient to cover the resources' operating costs. Operator-initiated commitments occur because market software is sometimes unable to incorporate all reliability considerations, thereby requiring RTOs and ISOs to commit resources that are not economic but are needed to ensure reliability. Operator-initiated commitments can result in market prices that fail to reflect the full cost of serving load and are among the factors that give rise to uplift payments.

"A lack of transparency regarding uplift payments and operator-initiated commitments can mask system conditions, particularly in times of system stress. The result is that market participants may not fully understand the needs of the system or recognize the resource attributes that are required to meet those needs. The draft Final Rule finds that information currently reported by RTOs and ISOs is not consistent across markets and lacks detail regarding the locations and causes of uplift and operator-initiated commitments. Therefore, current reporting practices may not provide sufficient transparency for market participants to plan for and respond to system needs in a cost-effective manner, resulting in rates that are unjust and unreasonable.

"The draft Final Rule also requires RTOs and ISOs to include in their tariffs information about transmission constraint penalty factors. Transmission constraint penalty factors are the values at which an RTO's or 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. Although these penalty factors can have significant impacts on prices, some RTOs and ISOs do not set forth the penalty factors in their tariffs or make public any temporary changes to them. This lack of transparency may make it difficult for market participants to understand how energy prices are formed.

"To remedy these deficiencies and ensure just and reasonable rates, this draft Final Rule requires each RTO and ISO to publicly post three monthly reports: (1) a Zonal Uplift Report of all uplift payments categorized by transmission zone, day, and uplift category that must be posted within 20 calendar days

of the end of each month; (2) a Resource-Specific Report of the total amount of uplift paid to each resource, aggregated across the month, that must be posted within 90 calendar days of the end of each month; and (3) an Operator-Initiated Commitment Report listing the commitment size, transmission zone, commitment reason, and commitment start time of each operator-initiated commitment that must be posted within 30 calendar days of the end of each month. In addition to these reporting requirements, each RTO and ISO must include in its tariff the transmission constraint penalty factors used in its market software, as well as any circumstances under which those penalty factors can set locational marginal prices, and any process by which the penalty factors can be temporarily changed.

"The reporting requirements will provide information to help market participants invest more efficiently in new resources and transmission facilities. The reporting requirements also may facilitate more informed stakeholder discussions that support capacity or transmission planning to address future reliability and resilience issues. Finally, increased transparency into uplift payments, operator-initiated commitments, and transmission constraint penalty factors will allow market participants to assess and advocate for improvements to RTO and ISO practices in these areas.

"With respect to compliance, the draft Final Rule requires that each RTO and ISO file compliance filings within 135 days of the Final Rule's publication in the Federal Register. The draft Final Rule allows each RTO or ISO a further 120 days from the compliance filing due date to implement the Final Rule.

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