FERC Orders ISOs/RTOs to Report on Additional Price Formation Issues

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Reading Time : **2 min**

The price formation issues identified in the most recent order fall into five relatively technical categories:

(1) Pricing of fast-start resources – Under what circumstances do RTOs/ISOs allow resources that can start quickly to set market clearing prices?

(2) Resource commitments to manage multiple contingencies – To what extent do RTOs/ISOs include the need to commit resources to address reliability needs in market models, as opposed to making such commitments out-of-market (thus generating uplift payment)?

(3) Look-ahead modeling – Closer to real time, how do RTOs/ISOs use look-ahead modeling tools to address system needs (for example, positioning resources to address near-term system ramping needs) and set market clearing prices?

(4) Uplift allocation – What particular methods do RTOs/ISOs use to allocate uplift costs among market participants?

(5) Transparency – Do RTOs/ISOs provide market participants with sufficiently transparent information about the drivers of uplift costs, how uplift charges are incurred and the actions system operators take outside of the market?

FERC identified these specific issues as ripe for further review based on information obtained in its technical workshops. Several RTOs/ISOs already have experience in these areas, FERC said, and the reports it is requiring them to submit will help the agency discern whether best practices have been developed. FERC also hopes that the reports will identify any potential unintended consequences of changing market rules to address these issues. FERC directed the RTOs/ISOs to respond in their reports to several specific and detailed technical questions within each of the five categories identified.

The RTO/ISO reports are due 75 days from the date of the order (February 3, 2016). FERC will allow for public comment on the RTO/ISO reports within 30 days of their filing (March 4, 2016) and will then determine, based on the reports and comments filed, whether any further action is appropriate.

Given the highly technical nature of the issues FERC tees up in this order, and the sheer volume of questions directed to the RTOs/ISOs, FERC will likely take several months – and potentially much longer – to sift through the information it receives and determine whether any specific reforms may be warranted. If the agency concludes that market reforms are necessary, it will likely engage in notice and comment rulemaking procedures to implement those changes. Thus, any market reforms to address the price formation issues identified are probably over a year away.

Categories

Energy Regulation, Markets & Enforcement