FERC Proposes Allowing Higher Priced Energy Offers in Organized Markets

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Specifically, FERC is proposing that each RTO/ISO change its currently existing cap on a generation resource's incremental offer into the energy markets to the **higher** of each resource's specific cost-based incremental energy offer **or** $1,000/MWh (the current cap in most RTO/ISOs). If this change is implemented, cost-based energy offers above $1,000/MWh would be eligible to set the Locational Marginal Price (LMP) received by all generators that clear the market. However, the Market Monitoring Unit (MMU) or the RTO/ISO would be required to verify the costs comprising such a cost-based incremental energy offer before that offer could be used to calculate LMPs.

In the NOPR, the Commission preliminarily finds, pursuant to Section 206 of the Federal Power Act,[1] that the hard cap on incremental energy offers of $1,000/MWh that currently exists in all of the RTOs/ISOs, except PJM Interconnection, L.L.C., (PJM) (which recently revised its hard cap to $2,000/MWh), may no longer be just and reasonable. The Commission voiced a number of concerns with the status quo, driven largely by multiple requests for waivers of the cap that were submitted by PJM, the New York Independent System Operator (NYISO) and the Midwest Independent Transmission System Operator in the past few years to address concerns that generators facing high gas prices during cold weather events would fail to recover their actual costs due to the offer cap. However, FERC is clear that its proposal would apply to any resource facing short-run marginal costs in excess of $1,000/MWh, and not only gas-fired generators.

The Commission's concerns are not confined to a potential that generators with must-offer obligations will be unable to recoup their costs during extreme weather events, however. The Commission is also concerned that the offer cap will encourage generators that lack a must-offer commitment to choose not to run when they are most needed. FERC also expressed concerns that the cap can affect price formation by suppressing LMPs. LMPs suppressed below the marginal cost of production send an inaccurate signal to load as to the actual cost of electricity, and to resources regarding the value of the next increment of supply. Finally, the cap can result in inaccurate signals to the RTO/ISO itself, since the RTO/ISO cannot observe the cost differences among resources that are bidding at $1,000/MWh and thus may not dispatch those resources most efficiently.

Although FERC has concluded that a hard cap of $1,000/MWh may be unjust and unreasonable, it also concluded that it is unwise to lift the cap altogether, because of the role that it plays as a backstop to protect consumers if market power mitigation measures fail.

The Commission has asked for comments on a number of issues related to the proposal, including:

- whether there should be a hard cap on cost-based energy offers for the purposes of calculating LMPs, and whether that cap should equal $2,000/MWh (as it currently does in PJM) or some other number
- whether RTOs/ISOs have the ability to verify the costs embedded in cost-based incremental offers prior to the day-ahead and real-time market clearing process, and whether it is also necessary to verify physical cost components
- whether the RTO/ISO or its MMU may need additional information to ensure that costs that are difficult to quantify, such as opportunity costs, are accurately reflected in a cost-based energy offer, and whether the use of an adder is appropriate for cost-based offers of more than $1000/MWh
- whether the RTO/ISO or its MMU may need additional information or new authority to require currents to a cost-based energy offer to ensure that that offer accurately reflects the resource's short-run marginal costs
- whether excluding virtual transactions above $1,000/MWh could have undesirable consequences
- the impact of the proposal on RTO/ISO seams.

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[1] 16 U.S.C. § 824e.

Categories

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