

FERC Initiates Proceeding to Evaluate Price Formation

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In theory, clearing prices in the FERC jurisdictional energy markets should reflect the marginal cost of producing power. FERC acknowledged that, for a number of operational reasons, some of which are inherent in energy markets and more or less unavoidable, the actual clearing prices often fall short of this ideal. Nevertheless, FERC is hoping to improve price formation to the extent possible through this initiative so that clearing prices can more accurately reflect the value of the underlying product. For example, while some amount of uplift (or out-of-market “make-whole”) payments may be inevitable, FERC plans to examine “sustained patterns” of specific resources receiving large uplift payments. FERC stated that these types of patterns indicate that a resource is “providing a service that should be priced in the market or opened to competition.” FERC also appears interested in examining, among other things, the extent to which administratively determined offer cap and shortage pricing rules are appropriately valuing energy and reserves during shortage conditions.

Any changes to market rules resulting from this initiative likely will not be in place before next winter, however. In the meantime, and in response to an April technical conference held to assess performance during the winter season, FERC has encouraged regional transmission organizations (RTOs) to examine short-term solutions to these problems as well.

Categories

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