



**Federal Energy Regulatory Commission**  
**June 19, 2014**  
**Open Commission Meeting**  
**Staff Presentation**  
**Item A-3**

"Good morning Acting Chairman and Commissioners. We are pleased to have the opportunity today to discuss a staff initiative regarding price formation in the energy and ancillary services markets operated by Regional Transmission Organizations (RTOs) and Independent System Operators (ISOs).

"Ideally, the locational prices in the energy and ancillary services markets would reflect the true marginal cost of production, taking into account all system constraints. In reality, however, a number of technical and operational considerations make price formation in RTOs and ISOs challenging. For example, technical limitations in the market software prevent RTOs and ISOs from fully modeling and pricing all of the system's physical constraints, such as voltage constraints and individual generator operational constraints. While these limitations are to some extent inherent in the complexity of the electric system, staff believes it is worth exploring whether there may be opportunities for RTOs and ISOs to improve their energy and ancillary services price formation processes. At the September 25, 2013 technical conference on capacity markets and more recently at the April 1, 2014 technical conference on market performance during the past winter, some market participants expressed concerns about price formation, and suggested that the Commission evaluate whether the RTOs and ISOs operate the energy and ancillary services markets in a way that produces accurate price signals.

"Thus, the Commission will be issuing a notice initiating a proceeding in Docket No. AD14-14-000 and notice of staff workshops as necessary to facilitate a discussion with RTOs and ISOs, and their stakeholders, on the existing market rules and operational practices related to the following topics:

- use of uplift payments,
- offer price mitigation,
- scarcity and shortage pricing, and
- unpriced operator actions.

"We anticipate that the first workshop, in September, will explore the topic of uplift in detail, while also providing an opportunity to begin a discussion on the scope of remaining topics. Additional workshops will be announced in the coming months on the other price formation topics. To the extent practicable, staff papers and/or analysis related to these topics to help guide the workshop discussions may be released. The focus of these workshops will be a fact and experience-based exploration of the economic and operational nature of any price formation concern. We will provide the Commission with status reports.

"Thank you. We are available to answer any questions you have."



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**News Release: June 19, 2014**  
**Docket No. AD14-14-000**  
**Item No. A-3**  
Presentation [PDF](#)



### **FERC to Explore Regional Market Price Formation Issues**

The Federal Energy Regulatory Commission (FERC) today initiated a proceeding to evaluate issues regarding price formation in the energy and ancillary services markets operated by Regional Transmission Organizations and Independent System Operators.

The need for energy and ancillary services markets to produce accurate price signals was raised at the Commission's September 2013 capacity markets technical conference and the April 2014 technical conference on the performance of electricity markets during the winter of 2013-2014.

FERC will issue a notice today announcing a series of staff workshops to facilitate a discussion with market operators and their stakeholders on the existing market rules and operational practices related to use of uplift payments, offer price mitigation, scarcity and shortage pricing, and unpriced operator actions.

The first workshop, which staff plans to hold by early September, will explore uplift in detail, while also providing an opportunity to begin a discussion on the scope of remaining topics. Additional workshops will be announced in the coming months on the other price formation topics.

"At a time when the nation is undergoing significant changes in its resource mix, it is crucial that energy and ancillary services markets send the appropriate signals to attract investments needed to sustain reliability. I appreciate staff's work on this important issue and look forward to the workshops," Acting Chairman Cheryl LaFleur said.

FERC has created a web page at [www.FERC.gov](http://www.FERC.gov) for this issue:  
<http://www.ferc.gov/industries/electric/indus-act/rto/energy-price-formation.asp>

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**FERC**  
FEDERAL ENERGY REGULATORY COMMISSION

#### Energy Price Formation

**June 19, 2014** - FERC to Explore Regional Market Price Formation Issues News Release | Presentation [\[2\]](#)

FERC is evaluating issues regarding price formation in the energy and ancillary services markets operated by Regional Transmission Organizations (RTOs) and Independent System Operators (ISOs). FERC staff has been directed to convene workshops as necessary to commence a discussion with industry on the existing market rules and operational practices related to the following topics:

- **Use of uplift payments:** Use of uplift payments can undermine the market's ability to send actionable price signals. Sustained patterns of specific resources receiving a large proportion of uplift payments over long periods of time raise additional concerns that those resources are providing a service that should be priced in the market or opened to competition.
- **Offer price mitigation and offer price caps:** All RTOs/ISOs have protocols that endeavor to identify resources with market power and ensure that such resources bid in a manner consistent with their marginal cost. As a backstop to offer price mitigation, RTOs/ISOs also employ offer price caps that are designed to be consistent with scarcity and shortage pricing rules. These protocols require that the RTO/ISO's measure of marginal cost be accurate and allow a resource to fully reflect its marginal cost in its bid. To the extent existing rules on marginal cost bidding do not provide for this, bids and resulting energy and ancillary service prices may be artificially low.
- **Scarcity and shortage pricing:** All RTOs/ISOs have tariff provisions governing operational actions (e.g., dispatching emergency demand response, voltage reductions, etc.) to manage operating reserves as they approach a reserve deficiency. These actions often are tied to administrative pricing rules designed to reflect degrees of scarcity in the energy and ancillary services markets. In addition, in the event of an operating reserve shortage, all RTOs/ISOs have adopted separate administrative pricing mechanisms designed to set prices that reflect the economic value of scarcity. To the extent that actions taken to avoid reserve deficiencies are not priced appropriately or not priced in a manner consistent with the prices set during a reserve deficiency, the price signals sent when the system is tight will not incent appropriate short- and long-term actions by resources and loads.
- **Operator actions that affect prices:** RTO/ISO operators regularly commit resources that are not economic to address reliability issues or un-modeled system constraints. Some activity may be necessary to maintain system reliability and security. However, to the extent RTOs/ISOs regularly commit excess resources, such actions may artificially suppress energy and ancillary service prices or otherwise interfere with price formation.

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#### RTO/ISO

Major Orders  
RTO/ISO Performance Metrics  
Energy Price Formation

#### RTO/ISO Regions

CAISO  
ERCOT  
SPP  
MISO  
PJM  
NYISO  
ISO-NE

#### Prior Conferences

**April 1, 2014** - Winter 2013-2014 Operations and Market Performance in RTOs/ISOs (AD14-8-000) - Event Details

**September 25, 2013** - Centralized Capacity Markets in RTOs/ISOs (AD13-7-000) - Event Details