



**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."

