UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Uplift Cost Allocation and Transparency in Markets Operated by Regional Transmission Organizations and Independent System Operators	**))))**	**Docket No. RM17-2-000**

COMMENTS OF THE ELECTRIC POWER SUPPLY ASSOCIATION, THE PJM POWER PROVIDERS GROUP AND THE WESTERN POWER TRADING FORUM.

The Electric Power Supply Association ("EPSA"),[1] the PJM Power Providers Group ("P3")[2] and Western Power Trading Forum (WPTF")[3] (collectively, "Competitive Suppliers") respectfully submit these comments in response to the Federal Energy Regulatory Commission's ("FERC" or "Commission") Notice of Proposed Rulemaking ("NOPR") on *Uplift Cost Allocation and Transparency in Markets Operated by Regional Transmission Organizations ("RTOs") and Independent System Operators ("ISOs"),* issued on January 19, 2017.[4] The NOPR proposes to revise the Commission's

[1] Celebrating its 20th anniversary in 2017, EPSA is the national trade association representing leading independent power producers and marketers. EPSA members provide reliable and competitively priced electricity from environmentally responsible facilities using a diverse mix of fuels and technologies. Power supplied on a competitive basis collectively accounts for 40 percent of the U.S. installed generating capacity. EPSA seeks to bring the benefits of competition to all power customers. This pleading represents the position of EPSA as an organization, but not necessarily the views of any particular member with respect to any issue.

[2] P3 is a non-profit organization dedicated to advancing federal, state and regional policies that promote properly designed and well-functioning electricity markets in the PJM Interconnection, L.L.C. ("PJM") region. Combined, P3 members own over 84,000 MWs of generation assets, produce enough power to supply over 20 million homes and employ over 40,000 people in the PJM region covering 13 states and the District of Columbia. The comments contained in this filing represent the position of P3 as an organization, but not necessarily the views of any particular member with respect to any issue. For more information on P3, visit www.p3powergroup.com.

[3] WPTF is a California nonprofit, public benefit corporation. It is a broad-based membership organization dedicated to enhancing competition in Western electric markets while maintaining the current high level of system reliability. WPTF supports development of competitive markets throughout the West and the development of uniform rules to facilitate transactions among market participants.

[4] *Uplift Cost Allocation and Transparency in Markets Operated by Regional Transmission Organizations and Independent System Operators,* Notice of Proposed Rulemaking, 158 FERC ¶ 61, 047 (2017) ("NOPR").

regulations to require each ISO/RTO to address its approach to real-time uplift cost allocation and associated transparency provisions. The goal of the requirements is to better define uplift and its causes, and therefore offer ISOs/RTOs tools which allow them to rely far less on out of markets actions, which will lower uplift costs, improve price signals, and support more efficient investment. The NOPR also seeks comment on key market transparency requirements. Competitive Suppliers strongly support a final rule in this proceeding that would require each ISO/RTO to establish requirements for the allocation of costs of real-time uplift due to deviations based on cost-causation principles. Additionally, Competitive Suppliers support the proposed transparency requirements including tariff requirements for transmission constraint penalty factors and operator-initiated commitments.

Getting energy market prices right in the ISOs and RTOs has been, is, and should remain a very high priority for the Commission and the organized wholesale power market operators. Ensuring that the wholesale energy market price reflects the costs and value to the system of each MW provided is fundamental to robust, competitive wholesale markets, particularly in light of the rapidly changing power supply resource mix and external pressures on these markets.

Hence, Competitive Suppliers have provided extensive, comprehensive comments on the array of energy and operating reserve price formation issues that have been subject to Commission analysis and public comment proceedings over the past several years, including technical conferences,[5] FERC staff reports, and two rounds of

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[5] *Notice Inviting Post-Technical Workshop Comments*, Docket No. AD14-14-000 (Jan. 16, 2015); *Order Directing Reports*, 153 FERC ¶ 61,221).

responsive reports from all federally regulated ISOs/RTOs.[6][7] In each of these proceedings, Competitive Suppliers have highlighted that the best way to address uplift, including uplift allocation, is to fix pricing mechanisms and market design issues first, as doing so minimizes uplift occurrences. Importantly, the Commission has included transparency requirements in the instant NOPR, which highlights the underlying causes of uplift. In addition, greater transparency will further address out of market operator actions and deficient market information, shedding light on the resultant uplift costs. Competitive Suppliers see a critical need for these improvements and therefore support the instant NOPR and urge expeditious issuance of a final rule so that individual markets can begin the implementation process as soon as possible.

The Commission, with exclusive jurisdiction and responsibility over the wholesale power markets, must ensure that appropriate signals are sent to those who rely on and invest in competitive markets so that flaws will not be allowed to fester and identified improvements will be implemented expeditiously to inform pending investment and retirement decisions. It is FERC's responsibility to act to preserve the benefits of wholesale power markets for consumers that it has spent decades of work to achieve, and addressing allocation of uplift costs based on transparent cost causation is another critical step in that effort.

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[6] *Price Formation in Energy and Ancillary Services Markets Operated by Regional Transmission Organizations and Independent System Operators* 153 FERC ¶ 61,221 ("Order Directing Reports") (2015).

[7] *PJM Interconnection, L.L.C. Report On Price Formation Issues*, Docket No. AD14-14-000 (filed February 17, 2016)("PJM Report"); *Report of the New York Independent System Operator, Inc*., Docket No. AD14-14-000 (filed March 4, 2016), and, New York Independent System Operator, Inc. Submission of Corrected Report, Docket No. AD14-14-000 (filed March 23, 2016) ("NYISO Report"); *Midcontinent Independent System Operator, Inc. Report On Price Formation Issues*, Docket No. AD14-14-000 (filed March 4, 2016) ("MISO Report"); *New England Independent System Operator, Inc*., *Report On Price Formation Issues*, Docket No. AD14-14-000 (filed March 4, 2016) ("ISO-NE Report"); *California Independent System Operator. Report On Price Formation Issues*, Docket No. AD14-14-000 (filed March 4, 2016), ("CAISO Report"); *Southwest Power Pool, Inc. Report On Price Formation Issues*, Docket No. AD14-14-000 (filed March 4, 2016), ("SPP Report").

I. BACKGROUND

Competitive Suppliers cannot overstate the importance of the price formation reform, and commend the Commission for its leadership in examining these technical but critical issues to remedy potentially unjust and unreasonable rates caused by current ISO/RTO rules. The uplift cost allocation and transparency NOPR represents another step forward on crucial and necessary reforms identified by the Commission and market participants to ensure that energy market prices reflect the marginal cost of serving load. These price signals support and promote efficient investment decisions, reliability, and resource adequacy, and help decrease the need for out of market actions by system operators, thereby decreasing distorted market signals, uplift costs, and concerns about uplift cost allocation.

In the NOPR the Commission asserts that the practices of allocating the costs of real-time uplift to market participants who deviate from day-ahead market schedules is inconsistent with cost-causation principles. Competitive Suppliers strongly support this conclusion. The NOPR proposes a four-part remedy to resolve this inconsistency. First, the Commission proposes to require that ISOs/RTOs categorize real-time uplift costs allocated to deviations into at least two categories based on the cause of uplift costs: a system-wide capacity category and a congestion management category. Second, FERC proposes to require ISOs/RTOs to net a market participant's harmful deviations against its helpful deviations within each uplift cost category. Third, the Commission proposes to clarify that a resource responding to an ISO/RTO-initiated real-time dispatch instruction should not be allocated uplift costs. Fourth, FERC proposes that real-time uplift costs allocated to deviations must be settled using hourly uplift rate calculations.[8]

II. COMMENTS

A. Cost Causation and Improving Transparency Around Operator Action

In the NOPR, the Commission seeks comment on whether additional uplift cost categories beyond the two proposed should be recognized, and whether there is a need for regional flexibility on uplift cost categories. FERC also seeks comment as to what, if any, advanced notification requirement should apply to helpful deviations, and how transactions related to real-time economic or reliability-related dispatch instructions should be used to determine a market participant’s net deviations. Additionally, the NOPR seeks comment on whether instructed deviations should be included in any netting calculations. Finally, the Commission seeks comment on an appropriate methodology for dividing costs between uplift cost categories, and the process for netting transactions and deviations.

Competitive Suppliers support the two categories for real-time uplift costs that will be allocated to deviations. Further, Competitive Suppliers appreciate that in the NOPR the Commission also provides ISOs/RTOs with flexibility to establish additional categories. As an initial step, establishing the system-wide capacity and congestion management categories will ensure that real-time uplift costs align with cost causation and that costs are specifically allocated to the market participant that caused the uplift.

Competitive Suppliers underscore the importance that ISOs/RTOs have the flexibility to determine the need for additional categories. Such determinations can best be made by the ISOs/RTOs and their stakeholders on a regional basis. For example,

8 NOPR at P 35.

the NOPR recounts market participants' comments in which there were differing views on virtual transactions, internal bilateral transactions and up-to-congestion transactions. Importantly, the ISOs/RTOs themselves seem to have defined views that require further vetting in regional stakeholder processes. If the ISOs/RTOs and their stakeholders believe that specific transactions have relevance to uplift such that the deviations need to be tracked and allocated costs, then further consideration of such transactions needs to be done as part of compliance with this proceeding so that the Commission can serve as the arbiter of the decisions reached in that process. This should be done in the 90-day compliance period following the issuance of the final rule. This will ensure measurable, comparable and consistent categories are maintained from market to market.

The remaining Commission questions posed in the NOPR on uplift cost categories should also be addressed by each ISO/RTO in compliance with the final rule to allow for Commission determinations on regional proposals which ensure that the transparency provisions to be implemented are sufficiently comparable such that uplift cost allocation is just and reasonable in each market.

B. Virtual and External Transactions

In the NOPR the Commission notes that allocation of uplift costs to virtual transactions is a "contentious issue, and commenters hold disparate opinions."[9] Consequently, it appears that the complexity of virtual transactions causes the Commission not to include them as deviations that would be allocated uplift costs. Similarly, the NOPR does not include external coordinated transaction scheduling ("CTS") transactions or up-to-congestion ("UTC") transactions in deviations that would be considered uplift for purposes of the NOPR. Much as EPSA expressed in its April 2016

[9] NOPR at P 27.

comments, Competitive Suppliers believe the debate on these transactions highlights their importance to the market, and the need for specific consideration of these transactions with respect to uplift cost allocation.

The recent decision in the PJM case on the Financial Transmission Rights ("FTR") forfeiture rule[10] further called attention to the debate around UTCs and virtual transactions with respect to uplift cost allocation. While the Commission looks to this proceeding to specifically further develop the record on treatment of INCs and DECs for UTCs and virtual transactions, Competitive Suppliers believe the PJM case demonstrated the need for guidance from the Commission on these issues.

Generally, Competitive Suppliers believe that – as asserted by PJM – CTS, UTC, and virtual transactions impact scheduling, dispatch and pricing in the day-ahead and real-time markets and as such should be allocated uplift costs under cost causation principles. Further, the records established in individual regions, such as the PJM case cited above, along with comments on the NOPR provide the Commission with a sufficient basis to provide guidance to the regional stakeholder processes that will ensue to comply with the final rule. In fact, this proceeding provides the Commission with the important opportunity to offer guidance on transparency requirements for virtual, CTS, and UTC transactions and uplift allocation.

While Competitive Suppliers believe that virtual, external, and UTC transactions influence uplift, we do not want the instant NOPR to be stalled due to extensive deliberation over the treatment of these transactions. A reasonable path forward may be to require in the final rule the information necessary for the Commission to best act on these transactions by a date certain going forward.

[10] *Order on Section 206 Investigation*, 158 FERC ¶ 61,038 (2017) (PJM FTR Forfeiture Rule).

Much as Competitive Suppliers asserted in earlier comments, the New York Independent System Operator ("NYISO") and its overall reporting approach regarding dispatch and uplift transparency offers a best practice for markets.[11] The NYISO approach provides information about out of market decisions on a close to real-time basis with greater granularity than other ISOs/RTOs. To the extent that uplift charges on external and virtual transactions are impeding price convergence between the regions or driving up uplift costs in one region, Competitive Suppliers would support further examinations of the underlying causes and consideration of solutions on a definitive, timely basis.

C. Transparency

In the NOPR the Commission proposes that ISOs/RTOs (1) report uplift payments for each transmission zone by day and uplift category; (2) report, on a monthly basis, total uplift payments for each resource; and, (3) report the megawatts of operator-initiated commitments in (or near) real-time and after the close of the day-ahead market, with commitments broken out both by transmission zone and by the purposes for which the commitments were undertaken. Additionally, the Commission proposes to require that ISOs/RTOs define in their tariffs any Transmission-Constraint Penalty Factors ("TCPFs"), including providing the circumstances under which penalty factors can set locational marginal prices and the procedures for temporarily changing them. The NOPR asserts that the transparency provided by these reforms will improve market efficiency and enhance the ability of market participants to assess ISO/RTO practices.[12]

[11] EPSA comments on Price Formation ISO/RTO Reports, Docket No. AD14-14-000 (April 6, 2016).

[12] NOPR at P 82.

Competitive Suppliers strongly support the proposed transparency provisions because they will aid the Commission and the ISOs/RTOs in determining uplift cost causation and allocation. Competitive Suppliers believe that increased transparency will produce more uniformity to examine scope, frequency and source of out of market action, and help system operators to minimize actions and provide necessary incentives to lower uplift. Moreover, Competitive Suppliers believe that common reporting and transparency will ensure consistency among ISOs/RTOs because of their use of common benchmarks for metrics, timelines and protocols for disclosures of uplift and causes of uplift.

While Competitive Suppliers can appreciate the ISO/RTO concern with respect to confidentiality, additional information on the drivers of uplift and out of market dispatch can be made public by each ISO/RTO. This is being done in an acceptable manner in the NYISO without raising confidentiality concerns. Moreover, Competitive Suppliers concur with the reasons enumerated by the Commission in the NOPR on why confidentiality will not be compromised by the proposed requirements.[13] Importantly, the proposed transmission zone reporting and associated protections should sufficiently ensure confidentiality concerns.

The NOPR seeks clarity on EPSA's April 2016 comments associated with confidentiality and how information should be presented. EPSA and Competitive Suppliers believe that uplift information should be provided on a megawatt ("MW") basis, rather than on a unit basis, which is consistent with the Commission's proposal and provides adequate confidentiality to market participants. Further, transparency can be improved by also including total cost in dollars, as it relates to the MWs impacted.

[13] NOPR P 88.

Reporting the MWs and dollars on a zonal basis will ensure that all market participants will have an opportunity to consider investments that respond to these signals.

Competitive Suppliers also strongly support the Commission's proposed requirements for the inclusion of Transmission Constraint Penalty Factors in ISO/RTO tariffs. The TCPFs can impact market clearing prices, and in turn can significantly impact uplift. Much as the NOPR details, the MISO Market Monitor appropriately noted that increasing TCPFs may demonstrate that constraints have been potentially undervalued and that lowering TCPFs may indicate an effort on the part of the ISO/RTO to manually reduce congestion costs. Therefore, there is a need for greater TCPF transparency so that market participants can understand their impact on the market. Importantly, the NOPR will require better transparency for the different TCPFs an ISO/RTO uses and when they change. Of particular importance is the requirement in the NOPR that tariff language specifies when TCPFs can be used to set LMPs.

D. Reporting Operator-Initiated Commitments

The Commission proposes to require ISOs/RTOs to post all operator-initiated commitments on their websites to provide a level of transparency that market participants need to avoid actions which cause uplift where possible. The proposed definition in the NOPR for operator-initiated commitments is a commitment that is not associated with a resource clearing the day-ahead or real-time market based on economics and that is not self-scheduled.

The Competitive Suppliers support an expanded definition that includes not only direct operator-initiated commitments, but also other operator-initiated actions that lead to commitments and ultimately uplift. Operators, for example, in some ISOs/RTOs can bias load in the day-ahead and real-time markets. Specifically, when operators bias load in the day-ahead market during the Reliability Unit Commitment ("RUC") process this may cause resources to be committed online for reliability and then run uneconomically in the real-time market. The resultant uplift can be directly attributed to operator actions, yet may not technically be identified as an "operator-initiated commitment." Even more so than operator-initiated commitments, these out of market actions lack transparency and ultimately impact the LMP in ways unknown to market participants.

By excluding self-scheduled units, in some regions this requirement may be missing units that are potentially impacting uplift and therefore providing only a partial picture of how uplift is created. If the self-scheduled unit is called to alleviate an issue that would have resulted in some uplift payment had the unit not been self-scheduled (economically operated), then the ISO/RTO should report that information as MWs of uplift. While there may not be dollars paid to a self-scheduled unit, there is still a need for the transparency regarding the MWs to fully understand the uplift that has occurred. In addition, it would be helpful if ISOs/RTOs could develop and provide a shadow price for self-scheduled units impacting uplift. The shadow price for real-time self-schedules should be based on cleared day-ahead and reliability must-run commitments plus net interchange.

This example highlights that the definition for operator-initiated commitments might not fully capture all commitments made after the day-ahead market that impact uplift. A recent PJM presentation[14] on the PJM dispatch process lists the types of

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[14] http://pjm.com/~/media/committees-groups/committees/mic/20170328-special/20170328-item-03-pjm-dispatch-process-mic-special-session.ashx

automated and manual operator-initiated commitments along with unit commitment details that should be part of the reports submitted to the Commission.

Real-time commitments should be posted as soon as is practical after they occur, not later than four hours after the commitment, in the format proposed in the NOPR. Such posting will enhance transparency and provide market participants with the sufficient information needed to best understand uplift.

III. CONCLUSION

WHEREFORE, Competitive Suppliers support a final rule in the proceeding that would require each ISO/RTO to allocate the costs of real-time uplift due to deviations based on cost causation principles. Additionally, Competitive Suppliers support the proposed transparency requirements including tariff requirements for transmission constraint penalty factors and operator-initiated actions that result in uplift. The collective transparency requirements will ensure uniform approaches to uplift reporting that will improve market operations on several fronts and in every region. The final rule would benefit from the Commission providing guidance to consider and monitor virtual, external CTS, and UTC transactions.

Respectfully Submitted,

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