UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Price Formation in Energy and Ancillary Services Markets Operated by Regional Transmission Organizations and Independent System Operators	))))	Docket No. AD14-14-000

COMMENTS OF THE ISO/RTO COUNCIL

The ISO/RTO Council ("IRC")[1] submits the following comments in response to the Commission Staff Notice Inviting Post-Technical Workshop Comments issued in this docket on January 16, 2015, setting forth staff questions developed based upon the discussions which occurred during the price formation workshops held by the Commission on September 8, October 28 and December 9, 2014.

I. COMMENTS

Although individual ISO/RTOs will file their own comments in this proceeding, the IRC through this document sets forth certain guiding principles that should be considered by the Commission as it evaluates whether any changes are needed to the existing nationwide $1000 offer cap.

By definition, an offer cap requires the balancing of a number of competing policy issues. Nevertheless, as one guiding principle, the IRC proposes that any offer cap should be structured so that Market Participants are permitted to offer into the market a price that reflects the costs to actually run a particular generating unit. Any offer cap design should allow for the recovery of

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[1] The IRC is comprised of the Alberta Electric System Operator ("AESO"), California Independent System Operator ("CAISO"), Electric Reliability Council of Texas ("ERCOT"), the Independent Electricity System Operator of Ontario, Inc. ("IESO"), ISO New England, Inc. ("ISO-NE"), Midcontinent Independent System Operator, Inc. ("MISO"), New York Independent System Operator, Inc. ("NYISO"), PJM Interconnection, L.L.C. ("PJM"), Southwest Power Pool, Inc. ("SPP"), and New Brunswick System Operator ("NBSO"). The AESO, ERCOT, IESO and NBSO are not subject to the Commission's jurisdiction in this regard and are not joining in these Comments.

actual production costs of units that clear in the marketplace. To do otherwise, would, by design, force cleared units to run at a loss and potentially discourage a resource from being available to the RTO when otherwise needed to ensure reliability. As any implementation of an offer cap has the potential that marginal costs might exceed that cap, the RTOs agree that production costs guarantees should exist to ensure cost recovery is available to resources with higher actual costs.[2]

Second, as the Commission evaluates appropriate price formation principles and the need for revised offer caps, the IRC urges the Commission to consider offers caps that are coordinated for consistency across neighboring organized markets operated by ISO/RTOs.[3] A new set of issues could arise should the Commission approach this issue in a piecemeal fashion. For example, interface pricing at ISO/RTO borders could be affected as energy resources seek the highest market prices that could result if offer cap rules diverge. Moreover, the efficiencies to be gained by the market to market coordination that exist across a number of ISO/RTO markets may be frustrated if the offer caps prevent resources from offering marginal costs (*e.g.*, one market may end up mitigating a constraint at a higher shadow price than would be available from the other market if the offer caps were not the same) and adjacent generating units in different ISO/RTO markets that operate on the same natural gas pipeline could end up losing gas procurement opportunities to less efficient resources in markets with higher offer caps, raising equity and efficiency concerns. Moreover, shortage pricing rules also should be similarly considered ensuring that adjacent markets do not have inefficient or divergent prices at their interfaces.

[2] While the IRC Members are agreement on this general principle, the individual IRC Members do not universally agree on a specific offer cap level that would effectuate the above operating cost recovery principle. Moreover, some IRC Members have not seen an immediate need to change their offer cap provisions and do not believe such changes should be prioritized over other more pertinent issues in their markets.

[3] The IRC recognizes that in areas initiating new organized markets operated by ISO/RTOs there may be legitimated reasons for offer caps to vary.

As a final principle, to the extent that the Commission finds that natural gas price spikes as were witnessed during the 2014 Polar Vortex constitute one driver of its review, the IRC believes that the impacts of these price spikes can be ameliorated by a continued focus on natural gas markets to increase transparency and ensure flexibility in gas scheduling. Generally speaking, intra-day spikes in gas prices are difficult to support with existing processes and the RTOs think that additional transparency is needed in the intra-day gas markets in order to support verification of the cost-basis for offer cap adjustments or production cost guarantees. The Commission should build on the meeting[4] facilitated by Commissioner Moeller last year to examine such price spikes as a critical aspect of price formation, which can drive higher prices and increased volatility in ISO/RTO markets. The IRC stands ready to work with the Commission on this as well as all other aspects of this important set of issues.

4 *Commissioner Phillip D. Moeller's Inquiry Into the Trading of Natural Gas, and the Proposal to Establish an Electronic Information and Trading Platform*, Docket No. AD14-19-000.

II. CONCLUSION

The IRC respectfully requests that the Commission consider these Comments in this proceeding.

Respectfully submitted,

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