

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

Settlement Intervals and Shortage Pricing in Markets
Operated by Regional Transmission Organizations
And Independent System Operators

Docket No. RM15-24-000

**COMMENTS OF THE NATURAL GAS SUPPLY ASSOCIATION
IN SUPPORT OF ENERGY PRICE FORMATION REFORMS**

Pursuant to Commission's Notice of Proposed Rulemaking ("NOPR") in the referenced proceeding,¹ the Natural Gas Supply Association ("NGSA") respectfully submits comments in support of the Commission's proposals to enhance energy price formation in regional power markets.

NGSA represents integrated and independent energy companies that produce and market domestic natural gas. Established in 1965, NGSA encourages the use of natural gas within a balanced national energy policy and supports the benefits of competitive markets. NGSA promotes increased supply and the reliable, efficient delivery of natural gas to customers. Our members, as producers and marketers of natural gas, have an interest in ensuring that wholesale power market structures provide accurate price signals that adequately compensate power customers that rely on natural gas for the services they provide.

Proper price signals incentivize generators to invest in facilities and equipment as well as to make advance fuel arrangements in order to operate in a reliable manner. It is

¹ See *Settlement Intervals and Shortage Pricing in Markets Operated by Regional Transmission Organizations and Independent System Operators*, 153 FERC ¶ 61,218 (2015) ("NOPR").

not in the best interests of the electricity or natural gas industries for generators to face hindrances to making investments in fuel assurance required to fulfill their obligations. For this reason, NGSAs has a substantial interest in this proceeding that cannot be adequately served by any other party.

I. COMMUNICATIONS

Any communications with respect to this pleading and this proceeding should be addressed to:

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II. EXECUTIVE SUMMARY

NGSA supports the Commission's proposals in this proceeding to align dispatch and settlement intervals and to remove current restrictions on when shortage pricing is invoked in each regional market. Both of these proposals address critical problems that exist in the energy price formation process. Over time, regional energy markets have developed a number of structural components that mask accurate price signals to market participants. As a result of these price formation issues, power markets have experienced substantial out-of-market uplift payments, low levels of generator investment in greater performance, and a loss of confidence in system reliability.

The proposals in the NOPR are a positive first step toward increasing market transparency and providing accurate market price signals, thereby providing greater

market incentives for generators to reliably perform and inducing investment. Absent market prices that reflect supply and demand fundamentals, some generators may not be willing or able to make efficient investments in facilities and equipment to maintain reliability, including improving the firmness of their fuel procurement.

NGSA has strongly advocated for regional power markets to modify their pricing structures to compensate generators for the services they provide. Price reforms, such as those proposed in this NOPR, can enhance the ability of generators to make advance arrangements to procure fuel and to bolster fuel assurance in the regional markets they serve. On March 6, 2015, NGSA joined the Electric Power Supply Association, Edison Electric Institute, the Nuclear Energy Institute, and America's Natural Gas Alliance in sending a letter to Chairman Bay and the Commissioners introducing a set of Principles for Energy Market Formation Reforms. In that letter, we asked the Commission to consider the following:

In order to provide the market signals necessary to support the investment and customer response needed to maintain reliability, energy prices, to the extent possible, should reflect the true value and marginal cost of providing power to the grid. To help reach this goal, policies that support the resources and services necessary for a reliable electricity system must be in place. As outlined in the principles below, **this includes minimizing the impact of market rules and out of market operator actions that interfere with these price signals.**²

The proposals in this NOPR are consistent with the suggested industry-supported reform principles outlined in our March 6 letter. Thus, we encourage the Commission to swiftly adopt the changes it proposed in the NOPR while continuing to move forward

² Letter on Joint Price Formation Principles from EPSA, EEI, NEI, NGSA and ANGA, Docket No. AD14-14 (March 9, 2015) (emphasis added).

with other incremental price formation improvements contemplated in the Commission's recent Order Directing Reports in Docket No. AD14-14-000.³

III. COMMENTS

1. **Settling real-time markets coincident with dispatch intervals provides transparent price signals required to incent efforts to enhance reliability.**

We agree with the Commission's assessment in the NOPR that the current "misalignment between dispatch and settlement intervals [] distort[s] price signals" in some RTOs and fails to adequately compensate generators for the services they provide.⁴ This misalignment can create regional reliability concerns because generators may not have sufficient incentives to make investments to build and maintain reliability, including securing natural gas arrangements to ensure they can meet their obligations when dispatched.

For instance, as the Commission has pointed out, an average hourly price for each five-minute dispatch interval does not fully compensate a generator for services provided during certain intervals within that hour, and can result in an RTO compensating those generators through uplift payments to make them whole, as opposed to the generators receiving such compensation through transparent energy market prices. While uplift payments may compensate individual generators for their costs, these payments mask true market price signals and dampen the incentive for

³ See *Price Formation in Energy and Ancillary Services Markets Operated by Regional Transmission Organizations and Independent System Operators*, 153 FERC ¶ 61,221 (2015) ("Order Directing Reports").

⁴ See NOPR at P 3.

generators to make needed investments to maintain system reliability.⁵ Over the long-term, aligning dispatch and settlement intervals (and thus a greater opportunity to be compensated for services provided) should lead to greater generator investment, including investment in natural gas contractual arrangements that ensure that generators are well-equipped to follow dispatch instructions.

2. Generators must be compensated for maintaining system reliability during shortage events.

NGSA also supports the Commission's proposal to lessen restrictions on shortage pricing triggers by requiring RTOs to invoke shortage pricing for any dispatch interval during which a shortage of energy or operating reserves occurs. As the Commission points out, eliminating the existing limitations on shortage triggers will incent resources to take actions to respond to shortage events and minimize the need for shortage pricing during subsequent dispatch intervals.

Similar to the Commission's proposal to align dispatch and settlement intervals, providing greater confidence to generators that they will be appropriately compensated for their performance during a shortage event will encourage investments by generators that allow them to more reliably perform; leading to greater regional fuel assurance. Conversely, overly restricting when a generator can receive shortage pricing can result in generators failing to perform when the system is in critical need of their assistance.

⁵ While some market participants and operators sometimes single out natural gas costs as one of the reasons for high uplift costs, it is important to note that these costs can be substantially minimized by including accurate market signals in the energy price as opposed to out-of-market payments. If generators are confident that they will be adequately compensated in energy markets, they will be more capable of making advance arrangements to procure natural gas and to hedge in order to minimize volatility.

For these reasons, NGSAs support the Commission's proposal to trigger shortage pricing whenever a shortage event occurs so that proper market signals are provided.

3. NGSAs encourage the Commission to expeditiously move forward with its pricing reform efforts.

NGSAs are encouraged that the Commission views the proposals in this NOPR as only the first steps in addressing price formation issues and that the Commission is already taking other incremental actions to build a record on other possible price reforms that may enhance market signals, such as the recent Order Directing Reports in Docket No. AD14-14-000.⁶ Additional price formation reforms are essential for regional markets to operate more efficiently and reliably, especially as states work toward compliance with the Clean Power Plan.

In addition to the joint industry energy price formation principles suggested in our March 6 letter, NGSAs encouraged the Commission to consider other power market reforms in comments filed in support of PJM's capacity performance proposal.⁷ Specifically, NGSAs asked the Commission to consider: (1) adjusting the energy price cap to improve the ability to compensate generators for costs associated with fuel assurance measures; (2) providing assurances, to the greatest extent possible, that offers approaching the established offer cap will be presumed legitimate; and (3) setting the market seller offer cap in capacity markets at a level that sufficiently compensates generators for their costs and investments. We ask the Commission to make these issues

⁶ See *supra* n.3.

⁷ See *PJM Interconnection, L.L.C.*, Docket No. ER15-623-000 (Jan. 20, 2015).

a priority as it considers additional pricing reforms that are needed to ensure the proper functioning of regional energy markets.

IV. CONCLUSION

For the reasons outlined above, NGSAs supports the Commission's proposals outlined in the NOPR and encourages the Commission to issue a final rule to implement these proposals and to initiate other much-needed pricing reforms without delay.

Respectfully submitted,

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