

Update on Energy Price Formation

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Topics

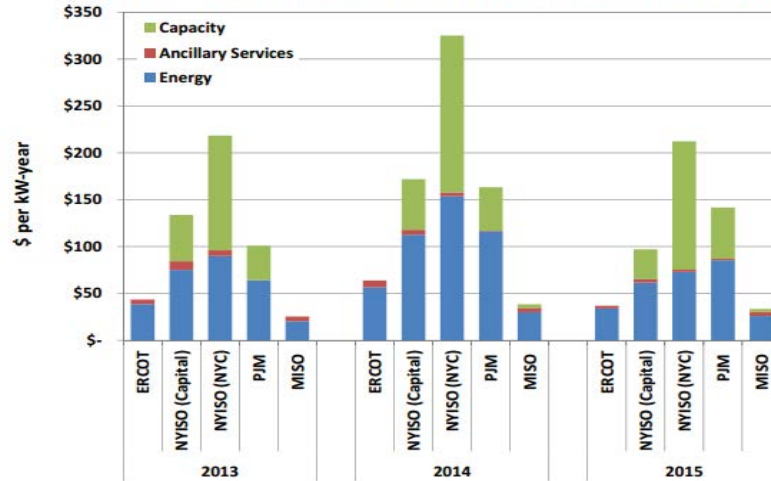
- Generator Revenue Sources
- Energy Price Formation Issues and Recommendations
- ERCOT Discussion
- Takeaways



Generator Revenue Sources

Competitive suppliers earn revenue from sales of energy, ancillary services and, in many markets, capacity

Figure 73: Combined Cycle Net Revenue Comparison Between Markets



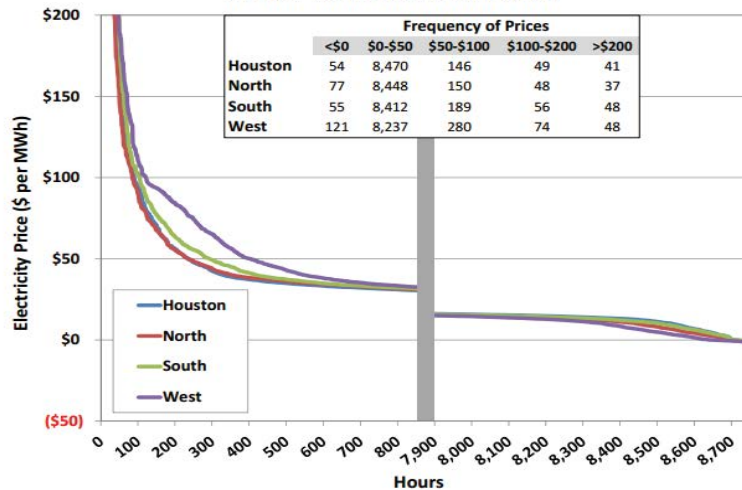
Potomac Economics, Ltd., "2015 State of the Market Report for the ERCOT Wholesale Electricity Markets," June 2016, p. 97.



Real-time Price Signal

LMP energy prices are intended to incent resources to respond to dispatch instructions to reliably serve load at least-cost in real-time

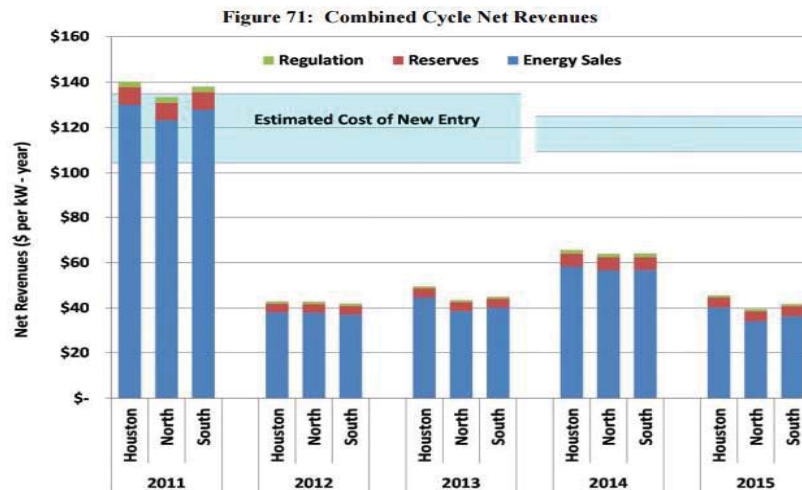
Figure 8: Zonal Price Duration Curves



Id., p. 7.

Entry and Exit

Over the longer-run, revenues from energy, ancillary services and (often) capacity are intended to lead to efficient electricity market entry and exit



Energy Price Formation Issues

FERC Docket AD14-14-000 opened June 2014

- Concern about results of market operation
 - Uplift payments
 - Price suppression
 - Price volatility
- Questions about whether market prices properly formed
 - Offer price mitigation/price caps
 - Reliability unit commitment
 - Price setting rules, such as scarcity pricing

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