

**UNITED STATES OF AMERICA
Before the
FEDERAL ENERGY REGULATORY COMMISSION**

Settlement Intervals and Shortage Pricing in)
Markets Operated by Regional Transmission) Docket No. RM15-24-000
Organizations and Independent System Operators)

COMMENTS OF XO ENERGY, LLC

On September 17, 2015, the Federal Energy Regulatory Commission (“FERC” or the “Commission”) issued a Notice of Proposed Rulemaking (the “NOPR”) in the above-captioned docket. XO Energy, LLC (“XO Energy”) hereby respectfully submits comments to the issues raised by FERC in the NOPR, namely, the Commission’s proposal to require each regional transmission operator (“RTO”) and independent system operator (“ISO”) to align settlement intervals with dispatch intervals.¹ Furthermore, XO Energy believes that additional steps should be taken to improve overall market efficiency in the RTOs/ISOs, including the (x) implementation of a transmission product in the day-ahead markets, and (y) requirement that load bid in at more granular locations and at time periods that are more closely aligned with dispatch and settlement intervals.

I. The Implementation of Five (5) Minute Settlement Intervals Should Enhance Price Formation and Transparency

XO Energy believes that accurate price formation and transparency are critical to efficient, well-functioning wholesale electricity market. In that regard, the implementation of five (5) minute settlement intervals should serve to enhance these components. In the NOPR,

¹ *Settlement Intervals and Shortage Pricing in Markets Operated by Regional Transmission Organizations and Independent System Operators*, 152 FERC ¶ 61,218 (2015).

FERC recognized that the use of more granular settlement intervals will facilitate transparency and, in so doing, lead to more accurate price signals.

XO Energy notes that there has been significant resistance to the implementation of five (5) minute settlement intervals based upon the costs, in both time and money, associated with the installation of new equipment. XO Energy further notes that five (5) minute data already exists for certain transactions (e.g., generation, imports and exports), therefore, these transactions can begin settling at five (5) minute intervals while load continues to settle on an hourly basis. As equipment installations are completed, load can transition to five (5) minute settlement intervals. Since hourly versus five (5) minute settlements will cause shortfalls/overcollections of revenues, these charges/credits can be allocated pro rata to hourly load.

II. Implementation of a Day-Ahead Transmission Product Across the RTOs/ISOs Will Improve Price Formation, Transparency and Market Efficiency

XO Energy supports the full expansion of nodes on which market participants may transact across all of the RTOs/ISOs. By expanding nodal availability, market participants will be able to transact precisely – that is, exactly where market inefficiencies exist in order to produce more accurate load allocation. In so doing, the number and volume of transactions submitted will be reduced, improving day-ahead market solution time and increasing market efficiencies.

In addition, XO Energy strongly recommends the implementation of a day-ahead transmission product across all of the RTOs/ISOs. Potomac Economics, the market monitor for four (4) of the RTOs/ISOs, has been vigorously recommending the inclusion of a day-ahead transmission product since 2012. The four (4) key benefits noted by Potomac Economics include the following: (i) more accurate price formation, (ii) improved day-ahead and real-time

price convergence, (iii) enhanced price flexibility, and (iv) permits real-time hedging for flow, between and source and sink nodes.²

At this time, ERCOT is the only market that has a day-ahead transmission product (DAM PTP Obligation). ERCOT's DAM PTP Obligation is available at every node and its price caps are aligned with the day-ahead market price caps. Although PJM has a similar transmission product (UTC), its limited nodal availability and price restrictions have severely curtailed the effectiveness of the product.

III. Load Should Be Forecast, Bid And Scheduled On A More Granular Basis

In addition to FERC's proposals regarding the scheduling, dispatch and settlement intervals for generation into the ISO/RTO markets, XO Energy supports reforms to the manner in which load is forecasted, bid and settled in the markets. In PJM, generation bids in at specific nodes while load bids in and settles zonally. Location is a key component of an LMP market; clearing aggregated zonal load based upon zonal prices creates inaccurate price signals.

Earlier this year, Dr. Joseph Bowring, the Independent Market Monitor for PJM, summarized the benefits of nodal pricing as follows:

Nodal pricing for generation and load is superior to zonal pricing as measured by short and long term market efficiency and market transparency. Nodal prices provide an accurate locational price equal to the locational marginal cost of electricity. The nodal price provides an efficient signal to inform decisions about where to locate new generation or retire existing generation, where to locate new load or reduce existing load, when and where to increase or decrease generation, and when and where to increase or decrease load, and where to locate transmission system improvements. Nodal pricing, where the reported price is matched by the settlement price, provides an efficient signal to inform real time consumption and production decisions for load and generation.³

² *MISO Virtual Spread Bid Proposal: Stakeholder Workshop*, 18 November 2013, Slide 10.

³ *See Review of New Zealand's Spot Market: Recommendations to Improve Transparency, Efficiency and Reduce Barriers to Participation*, Monitoring Analytics LLC at 5 (February 17, 2015), available at <https://www.ea.govt.nz/dmsdocument/19225>

In order to improve accurate price formation and market efficiency, XO Energy believes that the day-ahead market should transact in the most granular manner possible in order to facilitate consistent price signals between the day-ahead and real-time markets.

IV. Conclusion

XO Energy appreciates the opportunity afforded by the Commission to submit comments on the NOPR. We encourage the Commission to closely review issues of price formation and transparency in the ISO/RTO markets, in particular, by expanding the day-ahead markets in all ISOs to include a day-ahead transmission product as well as forecasting load on a more granular basis.

Respectfully submitted,

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