

Briefing on market power mitigation in
the capacity procurement mechanism

Capacity Procurement Mechanism Pricing Principles and Issues

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CPM prices: Dual Roles

1. Market for under-procured RA

- (e.g. “balancing market” for RA)
- Opportunity for more efficient procurement when requirements not met
- Role of market power mitigation
 - How will MPM in this process interact with CPUC-based pricing caps?

2. Mechanism for utilizing resources not procured through RA (exceptional dispatch – extreme events)

- RA requirements are met
- But non-RA resources still needed anyway
 - Usually through Exceptional Dispatch
- A sign of lax requirements or of unpredictable events?

Role 2: Exceptional Dispatch, Insufficient Requirements or bad luck?

- Paradigm 1: Too *low* a Target?
 - Shoulder months not adequately covered?
 - Are LSEs free riding on capacity costs from other months then?
 - Redistribution of RA payments or shortage of RA payments?
- Paradigm 2: The *wrong* Targets?
 - *Know* local constraints will bind but do not require specific RA capacity to meet them.
 - LSEs substitute cheaper capacity elsewhere for showings.
 - Would finer RA requirements create too much market power in the RA market? Just shifting market anyway?
- Paradigm 3: s*&t happens
 - Planning (RA) standards are reasonable but do not always cover every contingency
 - When surprise contingencies arise, some needed units are not RA that month
 - Some units are paid *that month* but not needed; other units not paid but are needed *that month*
 - Balance of payments (excess, shortfalls) somewhat averages out over time.

Exceptional Dispatch:

Scarcity or local market power (or both?)

- If RA requirements are set too low (paradigm 1) *and* market revenues overly restricted, then ED could be interpreted as scarcity
 - More of a case for higher CPM payment (market price or CONE)
- If “finer” RA requirements would create local market power, then
 - natural monopoly situation
 - Would need to make sure that RA payments plus CPM cover LR average costs.
- If RA requirements are on average adequate but unexpected system conditions cause need for a *specific* unit, then can be interpreted as local market power
 - Units in this situation could be expected to bid high CPM prices in month-ahead auctions, as the only time they are called is when their specific unit is needed.
 - More of a case for payment based only on incremental cost.