

Capacity Markets – Market Power Mitigation Provisions



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California ISO
Your Link to Power

Capacity Market Stakeholder Meeting
September 19, 2007

Overview of DMM Comments

Market Power – Capacity vs. Energy

- Capacity procurement will not effectively mitigate market power in the energy market.
- Critically important that LSEs continue to hedge their energy positions through long-term energy contracting!

System-wide Market Power – Capacity Market

- Largely mitigated through forward auction timeframe (e.g., 4-years in advance of operational year) – provides competition from new investment.

Local Market Power – Capacity Market

- Forward auction timeframe not likely to be effective or efficient for mitigating market power – additional market power mitigation needed.

Local Market Power – Capacity Markets

- 🌐 Preferable to develop explicit ex-ante local market power mitigation (LMPM) rules.
- 🌐 Relying solely on ex-post monitoring by DMM and FERC is not an effective approach.
- 🌐 Ex-ante LMPM rules must address both physical and economic withholding.
- 🌐 Complexity of local area capacity requirements
 - Sub-area constraints could exacerbate local market power & potentially lead to over-procurement.
 - Role of CAISO Backstop capacity procurement must be considered.

Economic Withholding LMPM Approaches

Two approaches proposed

- Demand Curve (Constellation, Mirant)
- Direct Bid Mitigation (CFCMA, PG&E)

Demand Curve Approach

- May not be efficient to effectively mitigate market power (see NYISO).
- CAISO Backstop procurement of economically withheld capacity makes economic withholding more lucrative.

Direct Bid Mitigation Approach

- CFCMA Proposal
 - Very detailed structural, conduct & impact tests.
 - Additional analysis on whether proposed thresholds are adequate may be needed.
- PG&E Proposal – Additional details on bid mitigation provisions are needed.

Physical Withholding LMPM Approaches

- Constellation, PG&E, and Mirant proposals do not appear to address the potential for physical withholding.
- CFCMA Proposal provides strong provisions for physical withholding.
 - Existing resources must offer into CFCM or provide notice of administrative de-listing due to retirement or export contract.
 - If resource within a local area de-lists for export purposes:
 - Capacity will count toward meeting local but not state-wide requirement.
 - Exporting resource must offer any energy not exported – proposal should clarify obligation (i.e., Day Ahead or Real Time Market or both).