MSC Activities and Opinions

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Forthcoming MSC Opinions

1. Honoring Existing Transmission Contracts (ETCs) under Locational Marginal Pricing (LMP)

2. Alternatives to LMP
   - Transitional Alternative Pricing and Settlement (TAPAS)

3. Market Power Mitigation under LMP

Existing Transmission Contracts (ETCs)

- ETCs are contracts
  - Economists like to honor contract rights
  - Important to well-functioning markets
- LMP changes the rules of the game
  - Question: How should contract rights to transmission across large zones be transferred to an LMP setting

Honoring ETCs under LMP

Option 1:

Reserve full ETC capacity day ahead

- Much more complex than under the current zonal market design
- Could increase phantom congestion
- Could lead to inefficient dispatch

Honoring ETCs under LMP

Option 2

Reserve only scheduled capacity day ahead

- **ETC have highest priority day-ahead *and* are exempt from day-ahead congestion charges**
- **ETC holders allowed to (preferentially) adjust their schedules in real-time**
- **ETC holders hedged against congestion charges of these adjustments -- "Perfect Hedge"**
- **Full capacity reserved day-ahead on the interties (does not create the same complications as reserving capacity *within* the meshed network)**

Transitional Alternative Pricing and Settlement (TAPAS)

- Locational Marginal Pricing is strongly preferred to TAPAS
  - But we await a solution to problem of the seller's choice contracts
- Interim Solutions
  - Current market design
  - TAPAS
  - "Other" considerations
    - Augment RMR contracts
    - Provide incentive to forward contracting
    - Develop better software to deal with congestion issues

Interim Solutions

- Current Market Design
  - Creating reliability concerns because of congestion issues (e.g., Miguel)
  - All solutions to these problems will require software upgrades
- TAPAS (with or without CDPs?)
  - Creates incentive problems (by not offering constrained-down payments)
  - But these incentive problems may occur in areas with significant market power and thus bids would be otherwise constrained (hopefully) by effective market power mitigation
  - Efficiency justifications for CDPs are weak given these market power considerations
- Augment any Non-LMP approach with RA and additional RMR units
  - To solve reliability issues {and local market power problems}

Local Market Power Mitigation (LMPM)

- LMPM is critical to a well-functioning nodal market

- Market Design and LMPM must be internally consistent

Residual Unit Commitment (RUC) and LMPM

- FERC Rulings
  - Eliminates must-offer requirement
  - Allow units to keep RUC capacity payments if subsequently dispatched for energy
  - Require market-clearing price for RUC capacity, not pay as bid
- Ruling severely undermines effectiveness of current sequential RUC process and LMPM mechanism
- Argues for further integration of RUC process into day-ahead energy and ancillary services market
  - Doing so would eliminate the need for a RUC capacity plus energy payment

Automatic Mitigation Procedures (AMP)

- Sanctions exercise of market power within conduct and impact thresholds
- Makes it costly for suppliers to bid to low prices during competitive periods because of impact on "reference" levels
- Rarely invoked
  - But would avoid "huge" price spikes
- May create many hours with small consumer losses to exercise of market power
- No empirical (or theoretical) evidence that AMP mechanism limits exercise of market power more than it sanctions it

Preferred Solution

- Provide incentives for market participants to hedge their real-time price exposure to limit exercise of system-wide market power
- Design a stringent LMPM mechanism that is integrated into day-ahead energy and ancillary services market
- Follow three step process
  - Identify pivotal generators/times
  - Insert "competitive" bids for these generators
  - Compute market clearing prices
- MSC opinion will provide recommendations on the design of such a mechanism