



Special Session
State Commission
Conference Call
Market Power Mitigation and RPM

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Market Monitor



- Forward looking
 - Competition from new entry
 - Investment incentives
- Locational capacity prices
 - Accurate price signals
 - Locational price signals
 - Investment incentives
 - Retirement incentives

- Performance incentives
 - RPM: EFORd based
 - Alternative: Actual performance on high load days
- Net revenue offset
 - RPM: Historical data
 - Alternative: Actual net revenues
 - Incentive effects
 - Energy market power effects



- Reliability issues
- Inadequate investment signals
- Retirement issues
 - Non-market bilateral contracts
- Risks to market design

- Capacity markets susceptible to market power
- Locational capacity markets more susceptible to market power
 - Prices above competitive level
 - Wealth transfer
- Market power mitigation plan required to address these risks

- To prevent exercise of market power by existing resources
- Not applied to new resources
- Limited to relatively small local capacity markets
- Market Monitoring Plan applies to capacity markets



- No physical withholding
- No economic withholding
 - Structure
 - Behavior
 - Performance

- All existing generation resources must offer capacity in auctions except
 - Units reasonably expected to be physically unable to deliver
 - Units that have a physically firm commitment to an external sale of its capacity
 - Units constructed as energy only resources
- If failure to offer
 - Unit cannot be used to satisfy any capacity obligation for that delivery year.

- Price impact
 - If withholding results in an increase in market prices by more than 5 percent
 - MMU may postpone clearing auction
 - MMU would request review by FERC



- Identification of locational deliverability areas (LDAs) by PJM
- Preliminary Market Structure Screen
- Market Structure Screen applied in auction clearing process

- Preliminary Screen failed if:
 - HHI exceeds 1800
 - Any Capacity Market Seller has market share greater than 20 percent
 - There are three or fewer jointly pivotal suppliers
- Failure of the Preliminary Screen results in the provision of additional data
- If Preliminary Screen passed – no additional data required

- Market Structure Screen failed if, for constrained area (LDA)
 - HHI exceeds 2500
 - Any Capacity Market Seller has market share > 20%
 - There are three or fewer pivotal suppliers

- Mitigation may be applied if screen failed
 - Only in specific constrained area (LDA)
 - If a unit attempts to exercise market power
 - If that attempt would increase market price
 - Mitigation means unit offer limited to avoidable cost plus 10 percent (incremental cost of capacity)

- Mitigation does not limit scarcity prices
 - New entry offers not mitigated
 - All resources receive new entry price when new entry required
 - If total capacity offered is less than required, price set by demand curve
- Mitigated units receive higher of
 - LDA market clearing price
 - Overall market clearing price



QUESTIONS?