



Market Power Definition and Market Power Mitigation Discussion

TPS Task Force
Wilmington, DE

PJM MMU

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- Ability to increase/decrease market clearing price above/below competitive price level
 - Market structure permits participant behavior with an impact on market performance
- Competitive price level is the short run marginal cost of unit setting market clearing price
 - Risk
 - Opportunity costs
 - Scarcity pricing

- **FERC:**
 - Where a market-based rate applicant is found to have market power, it is incumbent upon the Commission to either reject such rates or to ensure that adequate mitigation measures are in place to ensure that the rates are just and reasonable.
 - AEP Power Marketing, Inc., et al., Order on Rehearing and Modifying Interim Generation Market Power Analysis and Mitigation Policy, 107 FERC (p) 61,018, April 14, 2004.

- FERC:
 - “It is the possession of market power (and therefore the potential to exercise it), not the actual exercise of market power, that triggers the need for mitigation...Once it is determined that an entity has market power, adequate mitigation of the potential to exercise market power becomes essential.”
 - FERC Order on Rehearing re: the California MRTU market rules; paragraph 490.



- Overall approach to market design
 - Market design should not require market power for sustainability
 - Market power mitigation required only with non-competitive market structure
 - The market market design must be sustainable:
 - RPM, Ancillary services, real time and day ahead markets
 - Scarcity rules
 - Market power mitigation