FCM Alternative Capacity Price Rule Discussion

FCM Working Group

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Outline

- Background
- “Alternative Capacity Price Rule”
- Conceptual Design Framework

Background

- The market will naturally produce both high and low prices
- Parties are free to take positions outside of the market
- The presence of out-of-market positions can have the effect of depressing FCA prices to a level below those at which the market would have cleared absent OOM capacity

  Consequence: Low prices may suppress timely market-based investment and/ or trigger premature retirement of existing resources distorting long run signals and confounding the market objective of coordinated entry and exit costing consumers in the form of greater investment and reliability risk

Alternative Capacity Price Rule (APR)

- **Objective**: APR was developed to address the potential price distortion effect of OOM resource participation in the FCA
- The general case APR mechanism has two components
  - Trigger: New capacity needed and Offered supply sufficient and OOM capacity exceeds new capacity need
  - Price Adjustment: Set FCA price equal to lesser of CONE or last accepted delist minus a penny
- The existing mechanism does not effectively achieve the objective of the APR

Conceptual Design Framework

- The trigger mechanism focuses on conditions inside a single year, but OOM positions taken by participants can have multi-year effects
- The APR trigger does not consider RMR arrangements with the ISO

  Conceptual Design Element: The APR trigger should reflect the persistent impact of all OOM capacity on market clearing

Conceptual Design Framework (cont'd)

- There is no necessary link between the choice of pricing mechanism and the trigger
- In principle the price mechanism should reflect the competitive price outcome absent the existence of OOM capacity
- An administrative pricing mechanism can be designed to establish reasonable price outcomes

Discussion