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# FCM

## Zonal Pricing Alternative

Forward Capacity Market Working Group  
October 8, 2009

# Goals of Forward Capacity Market

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- Send price signals to incent needed new entry.
- Properly value new and existing capacity in constrained areas.
- Prevent exercise of market power.
- Coordinate with transmission planning process.

## ISO Proposal For Zonal Requirements Will Fail To Recognize Locational Value in Constrained Zones

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- ISO proposal would base creation and pricing of constrained zones on permanent de-list bids and “non-pivotal” bids.
- For zones in which the in-zone requirements are equal to or greater than in-zone capacity, all or most bids will be pivotal.
  - The closer a zone to binding – more likely for all to be pivotal
  - The “tighter” the constraints for a zone, the fewer resources will be eligible to set price.
  - Lack of eligible zonal bids will result in lack of price separation.
- Vicious circle in which the most constrained zones are the least likely to create locational price signals.
- Poor locational price signals will result in out-of-market designation of units needed for reliability.

# Proposal for Zonal Pricing

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- Adopt ISO proposal to set the zonal local purchase amount equal to the higher of the zonal probabilistic LSR and the zonal TSA.
- Model separate zones if in-zone requirement and the in-zone capability could reasonably be met through delisting:
  - In zone capacity excess is less than minimum prescribed level of in-zone capability, e.g. existing within 25% of required.
  - In-zone surplus is less than the sum of capacity quantity of three largest in-zone units.
- Determine pivotal suppliers within potentially constrained zones in advance of auction.
- In zone portfolios with less than 5% share of the zonal local purchase requirement not considered pivotal.

## Proposal for Zonal Pricing (con't)

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- Allow price separation within potentially constrained zones based on *all* the following:
  - Permanent de-list bids;
  - Non-pivotal de-list bids of any kind;
  - De-list bids submitted from generation owners with a 5% or less market share in the zone (even if owner would be pivotal);
  - De-list bids from single unit supplier if greater than 5%.
  - Static de-list bids reviewed by FERC;
- All of the above bids are eligible to set price for the region.
- This proposal seeks to address market power concerns head-on, without sacrificing efficient price formation of the auction.