



MARKET MONITORING

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Market Power in Capacity Markets

- Market power is endemic to capacity market
- Supply side
 - Concentration of ownership is high
 - On average, three suppliers in monthly markets
- Demand side
 - Aggregate demand is known
 - Demand of individual participants is known
 - Demand is extremely inelastic
- Conclusion
 - Combination of supply and demand conditions means that market power is a persistent issue
 - Any redesign of the capacity market must include explicit market power mitigation rules
 - Redesign of the capacity market must take account of market power issues



Market Power Mitigation: Capacity

- Market power measured by reference to a competitive price
- Competitive price in the capacity market = marginal cost of capacity
- Firm energy related opportunity costs
 - Default opportunity cost: measure of external energy forward prices
 - Demonstration of higher firm energy related opportunity cost
- Capacity market related opportunity costs
 - Demonstration of capacity market related opportunity costs
- Direct marginal costs
 - Incremental costs associated with keeping capacity in the market
 - Incremental costs associated with building new generation, net of energy market and other net revenue sources
- Construct supply curve for capacity based on marginal costs
 - Market clearing price



Market Power in Capacity Markets

- Market power needs to be addressed
- Discussion of alternative market power mitigation methods is essential