

# IMM VOM Proposal

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# Market Power Mitigation

- **Market power mitigation is the sole purpose of cost-based offers in PJM.**
- **Competitive prices are the goal of market power mitigation.**
- **Competitive prices = short run marginal cost (SRMC).**
- **FERC conclusions about market power mitigation in PJM are based on the understanding that cost-based offers in PJM are based on short run marginal costs.**
  - <https://www.ferc.gov/legal/staff-reports/2014/AD14-14-mitigation-rto-iso-markets.pdf>

# Short Run

- **Most costs are fixed, not marginal, in the short run.**
- **In the market time frame, day to day, hour to hour, a generator cannot:**
  - **build a plant;**
  - **arrange firm fuel delivery contracts;**
  - **hire a new worker;**
  - **repair a tube leak;**
  - **change a turbine blade.**

# Market Power Incentives

- **Market power creates the ability and incentive to raise price above SRMC.**
- **Market power mitigation uses SRMC to replace the price offer in the presence of market power.**
- **A competitive outcome cannot be expected in the presence of market power unless cost offer = SRMC.**
- **Every generator in PJM has an incentive to define cost offers to be greater than SRMC for the situation in which they have market power.**

# Inefficient Consequences

- **Exercises of market power result in inefficient market outcomes:**
  - **Higher prices.**
  - **Higher congestion costs.**
  - **Higher uplift costs.**
  - **Uneconomic commitments to relieve constraints.**
- **Lower prices on the opposite side of constraints.**

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- **Only operating costs (short run marginal costs) can be included in a unit's cost-based energy offer.**
- **Operating costs can be calculated:**
  - **Actual current costs.**
  - **Average for a 12 month period (updated annually or monthly).**
  - **Equal to benchmark by unit type provided by the IMM.**
  - **Method must be specified in FCP.**

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- **For transparency, Manual 15 will list all allowable operating costs.**
  - **Market Sellers will be able to include other operating costs if SRMC and approved. New operating costs will be included in the M15 list during the manual's annual review.**
- **Replace “incremental” with “short run marginal” in OA Schedule 2 and Manual 15.**
- **Starting and peaking cyclic factors are not included.**

# IMM Proposal

- **All maintenance/labor costs are included in the unit's capacity offer.**
  - **Remove all costs that are not short run marginal costs from M15 and OA Schedule 2.**
  - **Revise Net CONE calculation to ensure inclusion of all labor and maintenance costs in quadrennial review.**
  - **Market Sellers will be allowed to include projected maintenance expenses in their ACR, when ACR used in offer cap.**



# IMM Proposal Transition

- **Proposal requires changes to PJM OATT, OA and Manual 15.**
- **All changes must be effective 30 days after FERC's approval.**

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