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Market Renewal – Market Power Mitigation Education Session – Settlement Mitigation

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Objective

- In response to questions and discussion on the materials presented during the July 23rd working session, this deck is intended to provide additional clarity regarding the need for Settlement Mitigation in the renewed market

Context Setting - Price Formation and Ex-Ante Mitigation

Context Setting – Recap on Price Formation

- Day Ahead Market (DAM) and pre-dispatch (PD) engines minimize overall costs to consumers
- Total system costs are jointly optimized for energy and operating reserve
- The optimization determines which resources are scheduled by taking into account non-quick start resources’ commitment costs (i.e., energy up to minimum loading point, speed no-load and start-up)

Context Setting – Recap on Price Formation *(continued)*

- Locational Marginal Price (LMP) formation is based on the submitted dispatch data (i.e., offers/bids for energy and offers for operating reserve) from the resource that is able to supply the next increment of energy or operating reserve demand, and does not include costs submitted for speed no-load and start-up

Context Setting – Mitigation Impact on Price Formation

- As previously discussed on July 16, 2024 (reference slide #14), one or more submitted dispatch data parameters (i.e., energy, speed no-load, start-up, operating reserve) can be mitigated to reference levels
- When a resource is mitigated, LMPs and schedules will be determined using reference levels of those resources that were mitigated and the submitted dispatch data for those resources that were not mitigated

Settlement Mitigation

Recap of why Settlement Mitigation is needed

- Settlement Mitigation ensures settlement payments reflect costs used to establish dispatch
  - As noted earlier, certain costs - energy offers up to a resource's minimum loading point, start-up offers and speed-no load offers - do not flow through to setting LMPs

Settlement Mitigation - current vs. future market

- In the current market, Settlement Mitigation takes the form of pre-approved GCG values/audit, CMSC clawbacks, and Local Market Power investigations
- These mechanisms result in money first being paid to suppliers, and then clawed back at a later date
- In the future market, the application of Settlement Mitigation means that consumers will avoid paying for ineligible supplier costs in the first place, thereby avoiding the need for retroactive adjustments
- There will be full transparency on settlement statements and the data files as to why submitted offers were replaced with reference level values and the actual reference level values that were used