

# Discussion of Capacity Market Reform Considerations

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# Problems with Existing Capacity Market Design

- ◆ Poor definition of product.
- ◆ Tenuous connection to performance.
- ◆ Services required of non-ICAP resources without explicit linkage to compensation method.
  - Obscures value of purchase to buyer.
  - Undermines collective market effectiveness and proper market valuation of generation services.
- ◆ All are interrelated.

# Explicit Linkage Between Services and Compensation Needed

- ◆ **Capacity Resources**
  - ◆ Physical call option on energy.
  - ◆ Financial call option on energy.
  - ◆ Any other restrictions on generation participation in the market not compensated through hourly markets.
- ◆ **Non-Capacity Resources**
  - ◆ No physical call option on energy.
  - ◆ No financial call option on energy.
  - ◆ No restrictions on generation participation in market not compensated through hourly markets.

# Physical Call Option on Energy

## ◆ Capacity Resources

- ◆ Must offer available generating capability into day ahead market.
- ◆ Accepts day ahead operating reserve obligation, if scheduled.
- ◆ Can export energy, but only on a recallable basis.
- ◆ Planned outages must be approved by ISO-NE to facilitate its managing operable capability levels.

## ◆ Non-Capacity Resources

- ◆ Must offer available generating capability into RT dispatch, however, no limitations on bidding.
- ◆ Flexibility to offer a portion of its generation day ahead without incurring an operating reserve obligation.
- ◆ Can export capacity as either monthly capacity or hourly non-recallable energy sales.
- ◆ ISO notification, but not approval, of planned outages required.

# Financial Call Option on Energy

- ◆ **Capacity Resources**
  - ◆ Day ahead bids for energy capped at \$1000/MWh.
  - ◆ Prohibition on rebidding when scheduled day ahead.
  - ◆ Call option to buyer must be real – energy revenues above \$1000/MWh (or lower bilaterally agreed value) should be credited to capacity buyer.
- ◆ **Non-Capacity Resources**
  - ◆ Allowed to bid to higher levels, at least equal to the costs retail customers willing to pay to avoid involuntary curtailment.
  - ◆ Wider tolerance for mitigation. Where mitigation deemed necessary, there is capacity need and mitigation should not be a substitute for capacity purchases.

