

# Market Seller Offer Cap

**Office of the People's Counsel for the District of Columbia**  
**Resource Adequacy Senior Task Force**  
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# Overview of DC OPC

- By law, DC OPC is the statutory advocate for consumers of regulated utility service in the District of Columbia.
- **DISCLAIMER:** Presentation is for discussion purposes only and does not reflect the policies or positions the Office, the People's Counsel, or the Joint Consumer Advocates as referenced in Docket No. EL19-63 may take on any specific matter.

## How Did We Get Here?

### **FERC: Existing MSOC is unjust and unreasonable**

*IMM v. PJM* and *JCA v. PJM*, 174 FERC ¶ 61,212 (3/18/21)

- FERC found that “the default offer cap is inappropriate” ¶ 66
- Two sources of MSOC miscalculation: (1) “360 PAI exceeds market participants’ reasonable, actual expectations of the number of PAI the system will experience in a given year;” (2) “Net CONE times B has been higher than or equal to 99% of offers subject to an offer cap” ¶¶ 65-66

# How Did We Get Here?

## FERC: Prior MSOC Not Effective

- High default offer cap “may unjustly and unreasonably prevent the appropriate review of offers, thereby allowing potential exercises of market power, and reducing the capacity market’s overall competitiveness” ¶ 65
- Not actual exercise of market power, “but rather whether the default offer cap enables the appropriate review of offers and imposition of mitigation in order to ensure competitive market outcomes” ¶ 67

# How Did We Get Here?

## FERC: Solutions Must Effectively Mitigate Market Power

- FERC directed that “the default offer cap should be set at a level that permits the Market Monitor and PJM to review offers that may constitute an attempt to exercise market power and mitigate offers where appropriate” ¶ 67
- FERC emphasized that the focus must be on market power mitigation; “we find these concerns that a lower offer cap will be unduly burdensome to be overstated and insufficient to undermine our finding that the current default offer cap is unjust and unreasonable” ¶ 69

# Where Are We Going?

## Effective Market Power Mitigation is Paramount

- Capacity market was “not competitive” under prior MSOC
- Consumers would have saved over \$1.23 billion in the 2020/2021 BRA had non-competitive offers been capped at Net ACR
- Any solution must effectively screen offers for market power; however, we can consider solutions that better accommodate market participants while effectively screening for market power

# Where Are We Going?

## Design Principles

- MSOC should be set at a level that is generally *below* where RPM might clear
- Concern about market power is greater when the auction clears at higher price levels; concern is low at low clearing prices
- Transparency, simplicity, and minimizing discretion are important features
- Balance the objective of ensuring market power is not exercised with the objective of minimizing administrative review

# Where Are We Going?

## MSOC Based on Empirical Net CONE

- MSOC would equal 90% of Empirical Net CONE
- Empirical Net CONE: simple weighted average of the past three auction results
- Empirical Net CONE is a quite stable predictor of future auction prices
- Keeping MSOC below the likely auction price leads to a high likelihood that the marginal bid will be reviewed

# Questions?

## Contact Information

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