Market Renewal FACT SHEET

Mitigation Process

#13

The single schedule market (SSM) is one initiative in the Market Renewal's Energy work stream. A SSM will require a revised process for market power mitigation.

What is market power mitigation?

Market power mitigation refers to actions necessary to prevent market participants from taking advantage of market power they may have in a local market, e.g., the ability to profitably raise their offers significantly above their costs.[1]

The IESO currently mitigates market power by setting limits on energy market clearing prices, defining eligibility for Congestion Management Settlement Credits (CMSC), and reviewing CMSC payments after the fact (with the potential for a clawback). The IESO identifies participants that are subject to mitigation by applying the Pivotal Supplier Test,[2] a standard industry test for market power, along with conduct and impact thresholds similar to the industry standard Conduct and Impact Test.[3]

Market power mitigation in a SSM must occur before market operation. This differs from the current process. Under the current process, mitigation impacts CMSC payments for a single participant. In a SSM, mitigation impacts LMPs that all participants receive. It would be extremely complex to recalculate and adjust market settlements for all impacted participants after the fact.[4]

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[1] Market power can be exercised by raising prices to increase profits or reducing prices to depress the energy price.
[2] The Pivotal Supplier Test checks whether load in a constrained region can be met without the resources controlled by the supplier being tested and without violating transmission constraints.
[3] The Conduct and Impact Test checks whether submitted offers exceed a reference baseline sufficiently to trigger the test, then the impact of the higher bids is tested to see if it would change LMPs significantly. Only if the higher bids impact LMPs significantly are the offers mitigated.
[4] The existing limits on market offers are not necessarily impacted by the change to a single schedule market.

To mitigate market power before market operation there are three actions that must be performed by the IESO.

1. For each participant, determine whether mitigation will be applied
2. Determine cost-based offers (reference prices)
3. Apply mitigation to identified participants

In general, mitigation is applied if a supplier fails the market power test (i.e., either the Pivotal Supplier Test or Conduct and Impact Test).

When a participant with market power is identified, the IESO must determine a Reference Price for each of their resources. The Reference Price then becomes the offer price for each of those resources while they are being mitigated. In general, the Reference Price for each unit is tied to an estimate of its marginal operating costs. Market participants that are not determined to have market power have their offers treated as normal.

Why is it important?

Experience in other markets shows that SSMs introduce an increased potential for participants to have local market power due to the impact of transmission constraints on LMPs. For the broader benefits of the SSM to be realized, it is necessary to prevent market participants from exercising this market power. Market power mitigation by the IESO is an important tool for doing this and the process for market power mitigation must be changed to continue to work under a SSM. The goals of mitigation are to prevent undue wealth transfer between market participants and to maintain the efficiency of the market.

More information

For more information, please see the Market Renewal Fact Sheet on Reference Levels (#15).