

Comments from Dynegy Regarding Congestion Management Settlement Credits (CMSC) in the IMO- Administered Electricity Market

In response to the paper presented by the Market Surveillance Panel (MSP) of the IMO reviewing CMSC payments, Dynegy would like to offer the following comments and suggestions with respect to changing a part of the IMO market. As an active market participant in the IMO market since August 2002, Dynegy has experience as an importer of energy and has received CMSC payments. While Dynegy does not own generation or serve load in the IMO, Dynegy owns generation in many other parts of the country and is a load-serving entity in some areas. Thus, we feel we are well positioned to comment on market design issues such as the one presented here.

In the overview section of the paper, the MSP acknowledges, “these issues are complex, interrelated and need to be assessed carefully and in light of future market developments” (page 2). Dynegy strongly agrees with this point, and we are concerned about the proposal to “fix” one aspect of this complex market without fully appreciating the other potential impacts of this “fix”. To eliminate CMSC payments in isolation, without assessing or changing the IOGs, intertie rules, or overall market design, could cause disruptions in the IMO market, especially as the industry prepares for the hot summer months.

In getting quickly to an open market, the IMO established one clearing price for the entire region that does not reflect transmission constraints or locational price signals for generation and load. Since actual price signals in each area are masked, generators, loads, importers and exporters do not get the information they need to make efficient, economic decisions to enter into market transactions. In a Location-based Marginal Pricing system (LBMP or LMP), all market participants receive real pricing signals on which to base transactions. This eliminates the need for adjustment-type payments to incentivize market participants to enter into transactions or deter from transactions that are needed or harm system reliability. Dynegy strongly encourages the IMO to move toward an LMP-type market as quickly as possible. In the interim, dramatic market-design changes such as the one proposed here seem unnecessary when the focus should be on moving to a more efficient overall market design.

However, in looking more closely at CMSC payments, and specifically at congestion off payments, Dynegy does see some areas that could potentially be examined in order to minimize the use of congestion off payments. Much is made in the paper of the fact that market participants may offer energy at low or negative prices such that the market clearing price is low, even if this energy cannot in fact supply the market where it is needed. In our view, much of this stems from the “energy only” and “one price” nature of the IMO market. Generators that need to run for certain minimum periods of time have no means to confer this information to the IMO except through their energy bidding. Thus, generators may bid very low or negative prices in order to get “taken” each hour, insuring that they meet their minimum run times. By restricting market participants to

energy only bids and offers, additional information regarding those bids and offers that could allow market participants to meet their operational needs and change their bidding behavior is not available to the IMO and not taken into account in clearing the market.

As an importer of energy to the IMO, Dynegy is concerned about the complete elimination of congestion off payments, especially as they relate to untimely notification of schedule changes. When the market is working according to the IMO rules, a market participant normally has the ability and time to re-sell their energy if a schedule is curtailed due to the pre-dispatch constrained report. Under this scenario, market participants are informed of the schedule curtailment at 15 minutes past the top of the hour, which is sufficient time for market participants to find other markets for their energy. However, it has been our experience that occasionally dispatch must step in and manually curtail schedules much past the normal time limits. This does not give a market participant enough time to find other markets for their energy and they are therefore harmed economically by the actions of the IMO. Additionally, the market participant may have purchased transmission for this transaction that, without timely notification, is rendered useless.

A market design structure that does not compensate importers in the event of untimely notification may change the bidding behavior of these importers or cause the importers to sell their energy in other markets rather than take a chance on late curtailment. Responding to dispatch instructions in order to securely maintain the grid should not harm importers. Because the IMO can be heavily dependent on importers during times of the year, the IMO market design should encourage imports and incentivize market participants to respond to dispatch instructions. The MSP panel paper makes an error when it assumes that importers will not change their bidding behavior if congestion off payments are eliminated. If the risk of late or untimely notification remains in the market while congestion off payments are no longer paid, importers will either increase their bids significantly in order to adjust to this new risk or they will not offer energy into the IMO at all.

Perhaps the most obvious problem with congestion off payments is with respect to exports being constrained. Exporters have an unnatural risk when they attempt to export their energy and are constrained off. This curtailment of the export schedule leaves the market participant short in the market to which they were attempting to take the energy, leaving them open to paying congestion off payments in the IMO. This in effect means that a market participant may have to pay the IMO for not getting supplied and be at risk for purchasing energy in the market in which they are now short. The MSP should look at these scenarios and eliminate congestion off payments when the exporter would have to pay the IMO not to get supplied.

With respect to constrained on payments, one suggestion is that the MSP explore Reliability-Must-Run (RMR) contracts for generation that is consistently required in order to meet the security needs of the IMO. Generators need to be able to recover their fixed costs and not merely be limited to recovering their short-term marginal costs. A guarantee of payment to a generator in a constrained location that is needed for reliability

could incent other generators to locate in IMO-identified security problem areas. Rather than depend on the unknown after-the-fact constrained on payments, a generator would have the certainty of a reliability payment that could afford new entrants the economic ability to enter the IMO market.

In conclusion, while Dynegy acknowledges that congestion on and off payments are not the most efficient method to compensate market participants in order to maintain a single-clearing price market, the MSP must be cautious in undertaking any market design changes in isolation. By the MSP's own admission, abuses of this market have not been identified by the Market Assessment Unit (page 19). As long as the Market Assessment Unit continues to oversee and diligently monitor for abuses with respect to CMSC, it seems a better use of the IMO resources and market participants' time to work toward an LBMP-type market that can clearly identify constraints on the system that may encourage new investment in transmission and generation to alleviate the most congested areas of the system.