



SIR35 REDUCE SELF-COMMITMENTS AND CONSIDER EXTENDING DAM MARKET

SPP MARKET MONITOR

MARCH 18, 2020

Helping our members work together to keep the lights on... today and in the future.



SouthwestPowerPool



SPPorg



southwest-power-pool

SIR35 REDUCE SELF-COMMITMENTS MARKET MONITOR

- **What will the initiative do for SPP's Market:**

- Evaluate economic incentives and regulatory restrictions that would reduce the number of self-commitments in the day-ahead market
- Incentivize the reduction in the number of self-commitments
- Extend day-ahead market optimization by one day for long-lead time resources
- Commit long-lead time resources during last available unit commitment run

SIR35 REDUCE SELF-COMMITMENTS MARKET MONITOR

- **How is SPP's market improved by implementing the initiative:**
 - Improve price formation
 - Self-commitments distort price formation by shifting supply curve to the right
 - Self-commitments increase MWh(s) of energy not eligible to set price
 - Ensure optimal resource mix for market conditions is committed
 - Self-commitments do not provide efficient resource mix
 - Improve market efficiency
 - Self-commitments reduced the price of energy by ~\$2/MWh without a corresponding reduction in production cost
 - Self-commitments reduces supplier surplus by ~\$500 million per year

SIR35 REDUCE SELF-COMMITMENTS MARKET MONITOR

- **Potential System Impacts:**
 - DA, MCE, MDB, RUC, Settlements
- **Potential MCE Performance Impact:**
 - Medium-High
- **Potential Complexity:**
 - Design: Medium
 - Implementation: Medium
- **Potential Risks:**
 - Dependent on solution details
- **Market Philosophy Impacts: Price Formation, Price Convergence, Market Efficiency, Market Transparency, Market Reliability**
 - All

SIR35 REDUCE SELF-COMMITMENTS MARKET MONITOR

- **Example/Research/Analysis Information:**

- The MMU published a report on the impacts of self-commitments on the integrated marketplace and the MMU recommendations in December 2019
 - <https://www.spp.org/documents/61118/spp%20mmu%20self-commit%20whitepaper.pdf>
- The MMU provided stakeholder education on the impacts of self-commitments on the integrated marketplace and the MMU recommendations in February 2020
 - <https://www.spp.org/documents/61451/stakeholder%20presentation,%202.3.2020%20-%20self-committing%20in%20spp%20markets%20overview,%20impacts,%20and%20recommendations.pdf>
- The provided similar education to the Regional State Commissions and FERC upon request

SIR35 REDUCE SELF-COMMITMENTS MARKET MONITOR

- **Southern Company:**

- Southern Power Company (SPC) appreciates the opportunity to participate in SPP's strategic roadmap process. SPC provides comments here in support of the Holistic Integrated Tariff Team's (HITT) Reliability Recommendation #3 to implement a multi-day market, which was one of SPC's recommendations on market design in its presentation to the HITT on November 6, 2018.
- Although there has been a gradual decline in self-commitments over the past few years, self-committed generation still represented approximately 50% of the generation dispatched in the SPP Integrated Marketplace in 2019. Self-commitment causes market distortions by allowing less economic units to jump out of merit order in the supply curve, resulting in both higher costs to ratepayers related to carrying capital cost of uneconomic assets and lower energy market prices due to the high percentage of self-commitments. As discussed in the SPP Market Monitoring Unit's (MMU) self-commitment whitepaper, a multi-day market would increase market commitments as long lead time resources would become more competitive over the longer optimization period.
- Stakeholders and SPP Staff should continue work to implement a multi-day market, which will (1) increase more cost-effective market commitments, (2) provide more accurate investment signals due to improved price formation, and (3) decrease production costs which will ultimately benefit ratepayers. SPC supports a two-day market because (1) wind and load forecasts are accurate at an acceptable level looking forward two days (but decline sharply afterwards) and (2) the additional day would provide enough time for the SPP Integrated Marketplace to commit the majority of long lead-time resources. Additionally, SPC supports increasing transparency on self-commitment decisions and the MMU developing an annual impact assessment of self-commits in the SPP Integrated Marketplace.