



Descending Clock Auction (DCA): Stakeholder Feedback

Capturing Concerns and Issues with DCA

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Background and Objectives

- During the 2016 Work Plan discussions, NEPOOL requested the ISO evaluate the descending clock auction format and alternatives for the Forward Capacity Auction.
- This initial scoping discussion will allow the ISO to better understand stakeholder concerns with the current construct and desired objectives.
- The ISO's next steps for its assessment will be determined based on this discussion.



Collecting Feedback

- Stakeholders have raised concerns about the Forward Capacity Auction, indicating problems may stem from the use of a Descending Clock Auction (DCA).
- The ISO has begun to collect feedback about the DCA in order to understand the concerns. (A summary of these concerns is available on slide 4.)
- Today, our objective is to collect additional feedback and better understand the concerns raised.
- After this session, the ISO will assess:
 - Whether the concerns are caused by the DCA format and
 - Whether the concerns would be alleviated by a Sealed Bid Auction (closed auction) format.



Questions Raised To Date

- Stakeholders have expressed the following questions and concerns regarding auction formats (DCA v. sealed-bid):
 - Whether **seller-side market power** potential is lessened under one or the other?
 - When facing conditions of limited competition, which format works better?
 - Is there limited competition and, if so, is it limited because of the DCA design?
 - Whether the **ISO's mitigation measures** would be different under one format or the other? (and if so, how?)
 - Whether **bidders' incentives** to provide true/best offers are different with and without post-round information?
 - Whether the **timing** of submission of certain (e.g. static) existing resources' bids and new resources' offers could be aligned?
 - Whether **compensation** would or could be pay-as-bid?
 - Whether the timing and implementation of **overlapping impact tests** would or could be different under one format versus the other?



ADDITIONAL CONCERNS?

We will now collect additional questions, concerns and feedback.



Problem Statement / Scoping Discussion

- The problem statements, questions, and concerns collected at this session will determine the ISO's next steps in its assessment.
1. Now that we have a Demand Curve, do we still need a DCA?
 2. DCA may be beneficial under conditions with significant new entry right before the auction. Is it beneficial when there are limited suppliers and offers are submitted nearly a year before the auction?
 3. Are there inherent differences between auction structures used to procure load vs. procure supply?
 4. Price/Quantity pairs within rounds do not reveal information to other suppliers. If information sharing is a benefit of an open auction, why have that structure?



Problem Statement / Scoping Discussion

5. Would a more competitive auction feature allow all resources to enter bids at the same time; and be held to the submitted prices?
 - Currently, New Resources can adjust prices in the auction based on their view of the auction. Existing Resources are held to the bid price submitted months earlier.
6. Can the DCA format be changed to share more information?
 - Participants can't tell how decisions are being made by the auctioneer (Ex: Bid-cover-ratio or size of rounds).
7. Would one of the auction formats better facilitate a design where costs could determine overlapping impacts/queue positions?
8. Does one of the auction formats better facilitate changes to, or more flexibility in, the current timelines?
 - Ex: Can sealed bid allow all ISO functions to be concluded later?



Problem Statement / Scoping Discussion

9. Does one auction design encourage bidders to focus more on their individual cost recovery needs vs. trying to discover the actions/behavior of other bidders?
10. Does one mechanism better model complex zonal configurations?
 - Ex: Addressing linear clearing order.
11. Does one mechanism better attract new entry?
12. Does one mechanism better facilitate reliability reviews?
 - i.e., Is it more cost effective for the ISO?



Problem Statement / Scoping Discussion

13. Is one mechanism more cost effective for the ISO to implement?
14. Does one mechanism provide more comparable treatment of resources in the clearing of the auction?
15. Would either auction format provide more information about lower cost resources; and would that information provide value to the marketplace (after the results)?
16. Which mechanism better facilitates the inclusion and consideration of new resources in mitigation and reliability reviews?



Other Issues Raised

1. Have other capacity markets moved from an open auction format to closed?
 - If so, what were the results?
2. What are the implications of using a single round DCA that includes the cap down to the floor (all else being equal)?
3. If it is assumed that mitigated price is the exit price; does that effectively collapse the DCA into a sealed bid format?

