

Priority Access Pricing

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- Zonal version of priority insurance (Chao and Peck)
 - Postage stamps differentiated by reserve price
 - Reserve price chosen; probability determined by dispatch procedure and actual conditions
 - Priorities play role of adjustment bids in CA
- System operator
 - Charges actuarial value of spot-price insurance
 - Chooses dispatch to minimize payments

Advantages

- **Simplicity** - via postage stamp form
 - Useful for bilateral market
 - Supplants secondary markets for FTRs/TCCs
- **Essentially: forward market for adjustment bids** - as versus current spot market in CA
- **Provides explicit criterion and incentives for system operator**

Practical Difficulties

- Requires probability assessment by SO
 - To set price of insurance contracts,
depending on reserve price selected
- Invokes “rational expectations” by traders
- Still requires interzonal usage charges
- Efficiency is compromised by zonal form
- SO incentives rely on “franchise”

Technical Features

- Insurance price is an “option value”
 - Differentiated by reserve price, not the node.
- Traders’ incentives are to under-insure at nodes unlikely to encounter congestion
 - underinsure = reserve price too high
 - but this provides incentives for plant location