

UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

New England Power Pool

)

Docket No. ER00-2016-000

**Affidavit of Peter Cramton<sup>1</sup>**

April 13, 2000

I have been asked by ISO New England, Inc. (“ISO-NE”) to clarify my views on one-part vs. three-part bidding in the congestion management system/multi-settlement system (“CMS/MSS”) proposed for the New England Power Pool (“NEPOOL”). On December 30, 1999, NEPOOL filed the “Compromise Proposal” in FERC Docket No. ER99-2335-000, which supported three-part bids, allowing generators to specify start-up, no-load, and energy components in their bids. An alternative “Generator Proposal,” put forth by a group of generators, recommends that one-part bids be used under CMS/MSS. The “Generator Proposal” was filed on March 30, 2000 in FERC Docket No. ER00-2016-000, with a filing letter justifying the differences between the “Generator Proposal” and the “Compromise Proposal.” Pages 14-21 of the filing letter argues in favor of one-part bids. On page 16-17, it quotes my 1998 paper<sup>2</sup> with Robert Wilson in support of one-part bids: “It is worth noting in this connection that Professors Robert Wilson and Peter Cramton endorsed single-part bidding in a 1998 paper prepared for the ISO-NE, by stating ‘pure energy bids are all that is required for efficiency.’”

The full statement in our paper is “Only pure energy bids are needed for efficiency in the energy market. The inclusion of start-up and no-load components, while sensible in a centrally optimized system, are prone to gaming in a decentralized bidding environment.”<sup>3</sup> In particular, we recognized that the desirability of three-part bids depends on whether NEPOOL is run as a centrally optimized system. The “Compromise Proposal” does propose a centrally optimized system. It proposes a centralized unit commitment with co-optimization of energy and reserves. In this environment, three-part bidding is sensible, primarily because it gives the generators the ability to express directly all components of their costs (start-up, no-load, and energy). Although I favor one-part bids in systems like California without centralized unit-commitment, I support three-part bidding in centralized systems like NEPOOL.

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<sup>1</sup> Peter Cramton is Professor of Economics at the University of Maryland and President of Market Design Inc. Over the last 15 years, he has conducted research on auction theory and practice. This research appears in the leading peer-reviewed economics journals. During the last 6 years, Cramton has applied this research in the design and implementation of auction markets in the U.S. and abroad. He has led the design and implementation of several high-stake auction markets in the telecommunications and electricity industries.

<sup>2</sup> Peter Cramton and Robert Wilson, “A Review of ISO New England’s Proposed Market Rules,” White Paper, Market Design Inc., September 1998. This paper is available from [www.cramton.umd.edu](http://www.cramton.umd.edu); click Auction.

<sup>3</sup> Id. at 31.

**Attestation**

I am the witness identified in the foregoing affidavit. I have read the affidavit and am familiar with its contents. The facts set forth therein are true to the best of my knowledge, information, and belief.

Peter Cramton

April 19, 2000

Subscribed and sworn to before me  
this \_\_ day of April, 2000.

\_\_\_\_\_  
Notary Public

My commission expires: \_\_\_\_\_