Symmetrical/Asymmetrical Deadband on
Annual Demand Curve Updating

The cost to build the proxy unit and the drivers of both the proxy unit costs and the LBMPs are all expected, all other things held constant, to increase over time due to inflation. Consequently, the demand curves, assuming no other changes to assumptions, would grow with inflation over time. This is why all past approved demand curves had the curves parameters increase at the estimated rate of inflation at the time the curves were adopted.

Any deadband that is placed on the impact of annual adjustments to the demand curve needs to recognize that if the curves are adopted without annual adjustment they will increase by inflation over time. Consequently, the deadband needs to start from an expected increase from inflation. For example, if the inflation rate was expected to be 2% at the time the curves were set then a year over year increase of 10% is 8% beyond what would have been expected without the annual update methodology and a year over year decrease of 6% is an 8% drop compared to what would have been expected without the update methodology.

Setting the deadband as only allowing prices to increase or decline by 10% from the previous year's value, which some have called a symmetrical deadband, actually results in an assymetrical deadband because the 10% year over year increase is only 8% beyond what would be expected without the update methodology and a 10% year over year decrease is 12% below what would have been expected without the update methodology.

To have a fair, symmetrical, deadband the upper limit on how much the curves can grow year over year should be set at the limit on the impact from updating plus the underlying expected inflation. The downward limit on the year over year change should be limited to the limit on the impact from updating minus expected inflation.