

***Market Rules That Apply When an LSE
Acquires More UCAP Than It Needs to Meet
Its Share of a Locational UCAP
Requirement***

NYISO Installed Capacity Working Group

Albany, NY

June 17, 2008

Presented by Michael Cadwalader

Distributed as submitted by Mike Cadwalader, Consultant for the Transmission Owners

Current Requirement to Sell UCAP in a Locality

Before the ICAP Spot Market Auction for a given month, suppose that an LSE acquires more UCAP in a Locality than it needs to meet its share of the Minimum UCAP Requirement for that Locality.

- **The excess UCAP could consist of generation owned by that LSE, or UCAP under contract to that LSE.**
- **Or it could be UCAP that was bought in the strip or monthly auctions.**

If this LSE does not offer its excess UCAP in that Locality into the Spot Market Auction, the ISO will simply disregard that UCAP when it conducts the results of the Spot Market Auction.

But there is no need for such a stringent rule.

The rules can be changed to provide LSEs with additional flexibility *without* facilitating withholding of UCAP in Localities.

Ex. 1: Constraints on the Location of UCAP Awarded in ICAP Auctions

The following example will illustrate how this rule affects LSE A, which serves ROS load.

- **LSE A's share of the Minimum UCAP Requirement for the NYCA is 500 MW.**
- **LSE A's share of the Minimum UCAP Requirement for each Locality is zero.**

LSE A submits a bid into an ISO-administered monthly ICAP auction to purchase 500 MW of UCAP to be provided by a resource anywhere in the NYCA.

- **Bidders to purchase UCAP in one of these auctions can indicate that the UCAP they wish to purchase **must** be provided by a resource in a given Locality.**
- **If they do not indicate that the UCAP must be provided by a resource in a given Locality, then it can be provided by resources anywhere in the NYCA. (ICAP Manual, § 5.13.)**

Ex. 1: Auction Results

In the auction, assume that:

- The amount of UCAP provided by resources in a Locality

exceeds

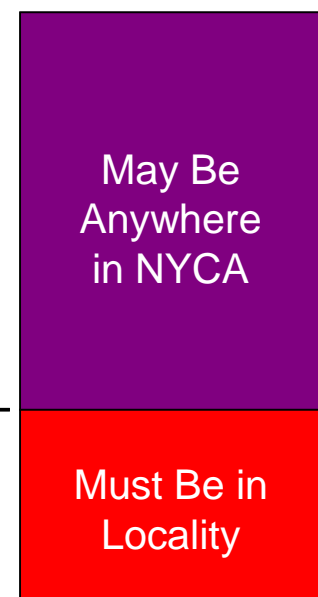
- The amount of UCAP purchased by bidders who specified that their UCAP must be provided by resources in that Locality,

as in the figure.

Accepted Offers
to Sell UCAP



Accepted Bids to
Purchase UCAP



Difference

A vertical double-headed arrow with dashed horizontal lines at its ends, indicating the difference in height between the top of the 'In Locality' section of the left bar and the top of the 'Must Be in Locality' section of the right bar.

Ex. 1: UCAP Awards When Locational Constraints Do Not Bind

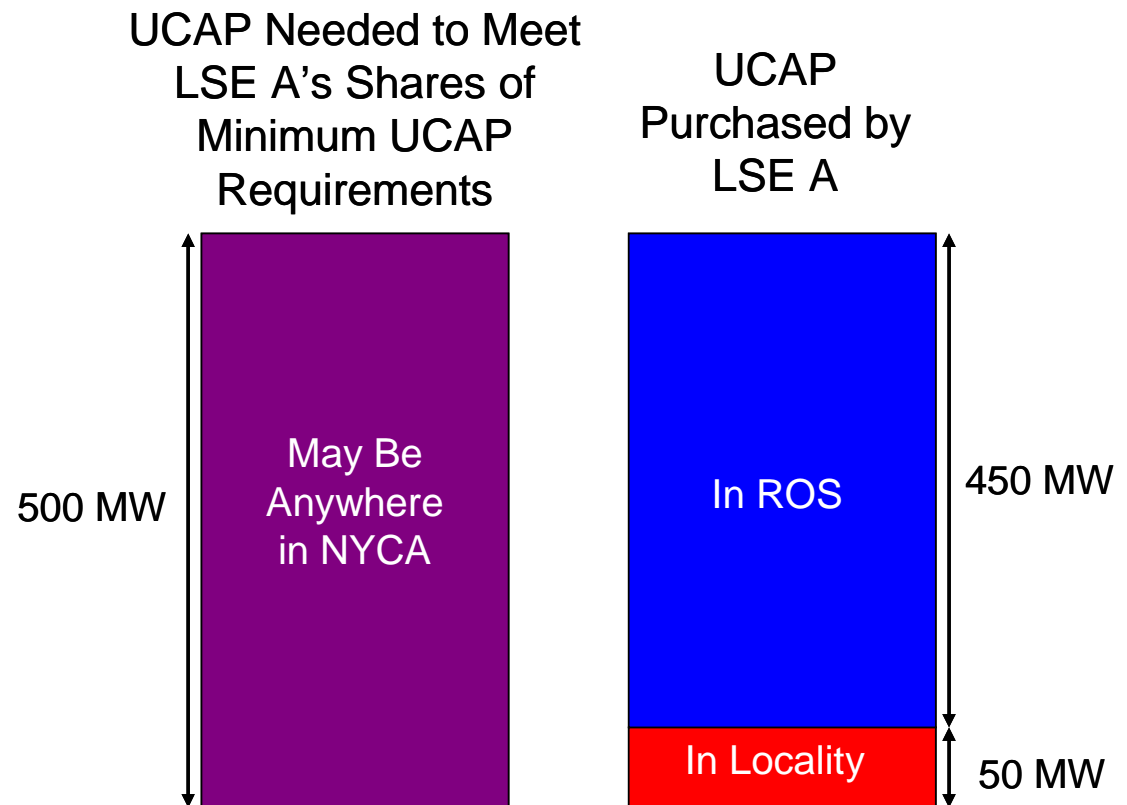
The difference is allocated to buyers who specified that their UCAP could be provided by resources located **anywhere** in the NYCA. (ICAP Manual, § 5.17.)

As a result, assume that while all of LSE A's 500 MW bid to purchase UCAP was accepted, it was awarded:

- **450 MW of ROS UCAP**

plus

- **50 MW of UCAP provided by a resource in the Locality.**



Ex. 1: Requirements Imposed Upon UCAP Awardees

Under the market rules as currently implemented by the ISO, if LSE A does not offer into the Spot Market Auction all of the 50 MW of UCAP in that Locality that it purchased in the monthly auction:

- **Those 50 MW of UCAP in the Locality will simply be disregarded.**
- **LSE A would need to purchase additional ROS UCAP.**
- **It might pay a higher price for that UCAP.**
 - *The price of ROS UCAP is set at the intersection of the supply and demand curves for the NYCA.*
 - *Ignoring 50 MW of UCAP may cause those curves to intersect at a higher price.*

Additionally, the price of UCAP in that Locality might also increase (although that would not affect LSE A).

Rule Change #1: LSEs Would Not Be Required to Sell Excess UCAP Relative to Locational Requirement

Under proposed rule change #1, this rule would be eliminated:

- If an LSE simply acquires more UCAP than it needs to meet its share of the Minimum UCAP Requirement **for a Locality,**
- And it does not offer the excess UCAP into the Spot Market Auction,
- The NYISO would not automatically disregard that UCAP.

Eliminating this rule would eliminate the problem described on the preceding slide. But note that:

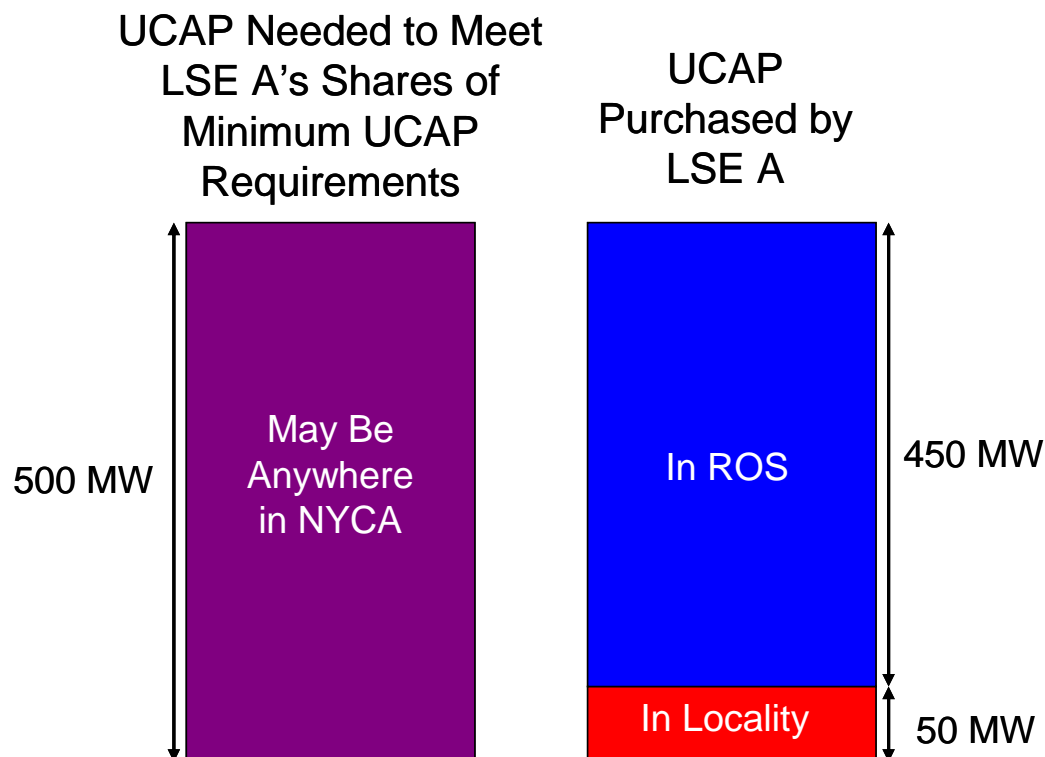
- If an LSE acquires more UCAP than it needs to meet its share of the Minimum UCAP Requirement **for the NYCA,**
- And it does not offer the excess UCAP into the Spot Market Auction,
- The NYISO would continue to disregard that UCAP.

Effect of Rule Change #1 on Example 1

Under this proposed rule change, if LSE A did not offer any capacity into the Spot Market Auction in this example, none of its capacity would be disregarded:

- It purchased 450 MW of ROS UCAP and 50 MW of UCAP in a Locality in the monthly auction.
- This does not exceed its share of the Minimum UCAP Requirement for the NYCA, which is 500 MW.

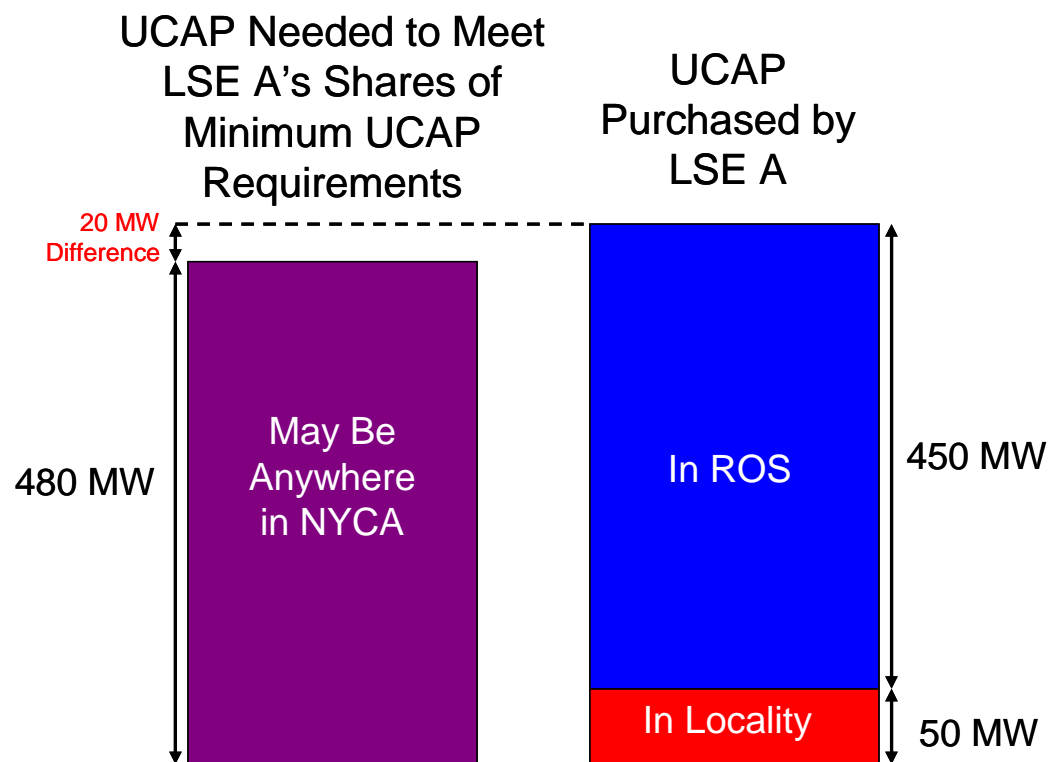
Of course, it could offer its 50 MW of UCAP in the Locality into the auction if it **chose** to.



Effect of Rule Change #1 on Example 2

Suppose that LSE A's share of the Minimum UCAP Requirement for the NYCA had been 480 MW, instead of 500 MW.

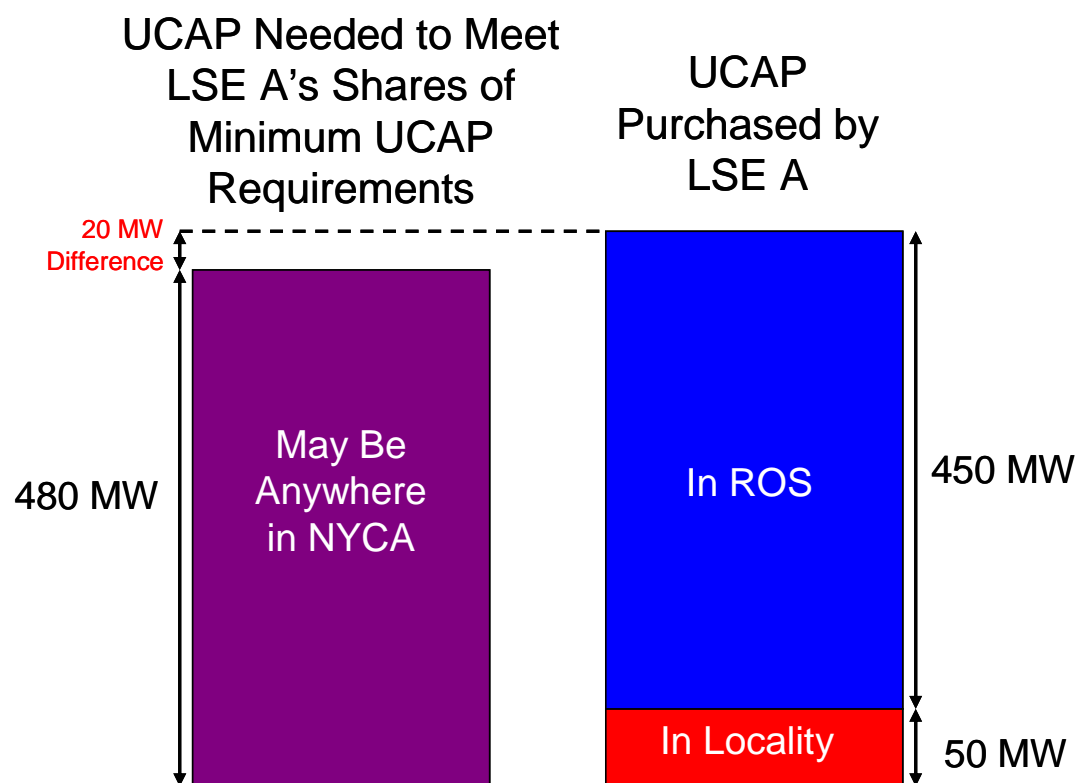
- However, continue to assume that LSE A purchased 450 MW of ROS UCAP and 50 MW of UCAP in a Locality in the monthly auction.
- Then it would have purchased 20 more MW than are needed to meet its share of the Minimum UCAP Requirement for the NYCA.



Effect of Rule Change #1 on Example 2 (cont.)

If LSE A does not offer any UCAP into the Spot Market Auction:

- Under the ISO's current procedures, **50 MW** of its UCAP in the **Locality** would be disregarded in the Spot Market Auction.
- But under this proposed rule change, only **20 MW** of its **ROS** UCAP would be disregarded.



Impact on Withholding UCAP in Localities

This proposal would not “transform” UCAP in a Locality into ROS UCAP.

- Under current procedures, if an LSE uses UCAP in a Locality to meet its share of the Minimum UCAP Requirement for that Locality, that UCAP is already included in the supply curves **both** for that Locality and for the NYCA in the Spot Market Auction.
- Under the proposed rule change, if an LSE uses additional UCAP to meet its share of the Minimum UCAP Requirements for the NYCA, that UCAP would **also** be included in the supply curves **both** for that Locality and for the NYCA in the Spot Market Auction.
- There is no difference in the treatment of this UCAP.

Consequently, adopting this rule change would not permit any UCAP to be withheld from the ICAP market for the Locality.

- Nor would it drive up the price of UCAP in that Locality.

Impact on Withholding UCAP in Localities (cont.)

In fact, as this example illustrates, this approach would reduce the likelihood that UCAP in Localities would be withheld.

Suppose that LSE A does not offer into the Spot Market Auction any of the UCAP it purchased in the Locality.

- **Under current procedures, LSE A's UCAP in the Locality would have been disregarded when determining the results of the Spot Market Auction.**
- **Under the proposed rule change, all of its UCAP in the Locality would be taken into account when determining the results of the Spot Market Auction.**

Rule Change #2: Account for Excess UCAP When Calculating Purchase Obligations in Localities

In addition, we need to modify the procedure used to calculate the amount of UCAP that LSEs are required to purchase in a Locality.

- **Currently, the total obligation to purchase UCAP in each Locality is determined in the Spot Market Auction. It is then allocated to LSEs serving load in that Locality.**

Suppose that some LSEs (like LSE A) provide more than the amount of UCAP they are required to provide in a Locality.

Under proposed Rule Change #2, the amount that other LSEs are required to purchase in that Locality would be reduced accordingly.

- **Otherwise, the total amount of UCAP in that Locality that LSEs are required to purchase would exceed the total purchase obligation established for that Locality.**

Effect of Rule Change #2 on Example 1

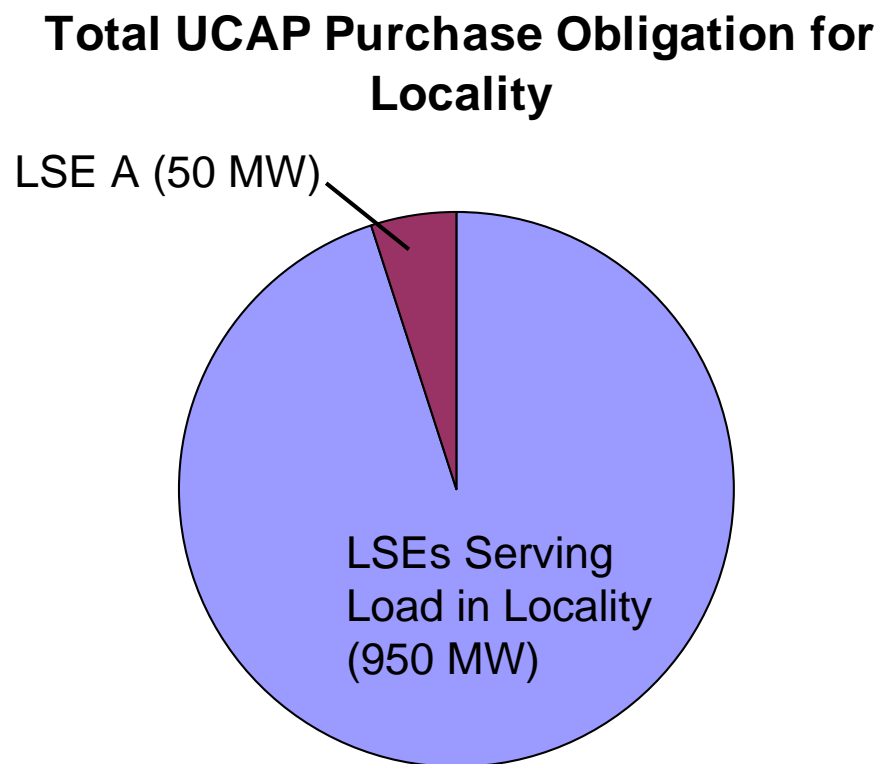
Return to Example 1's assumption that LSE A's share of the Minimum UCAP Requirement for the NYCA is equal to the amount of UCAP it purchased in the monthly auction (which was 500 MW).

- **If LSE A does not offer any UCAP in the Spot Market Auction, then it is providing 50 MW more UCAP in the Locality than it is required to provide.**
- **Under this proposed rule change, the amount of UCAP that other LSEs in that Locality must purchase must be reduced by 50 MW.**

Effect of Rule Change #2 on Example 1 (cont.)

So if the Spot Market Auction established that a total of 1000 MW of UCAP must be purchased in that Locality:

- **Under this proposed rule change, LSEs serving loads in the Locality would only be required to purchase $1000 - 50 = 950$ MW of UCAP in the Locality.**
- **The other 50 MW are being provided by LSE A.**



Rule Change #3: Account for Excess UCAP When Assessing Supplemental Supply Fees

We also need to modify the procedure for assessing supplemental supply fees for Localities.

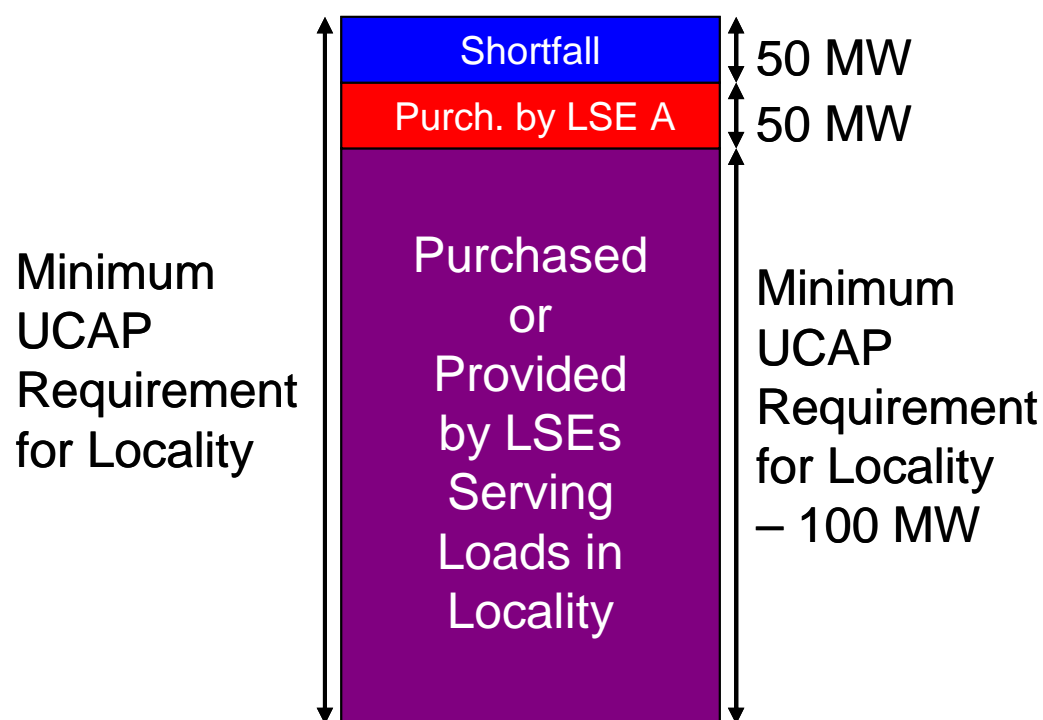
- **When locational requirements are not met, LSEs that did not acquire enough UCAP to meet their shares of that requirement are assessed supplemental supply fees.**
- **Currently, this fee is equal to the product of:**
 - *The price for UCAP in that Locality determined in the auction and*
 - *The difference between the LSE's share of the locational requirement and the amount of UCAP that LSE provided in that Locality.*
- **The ISO then seeks to obtain additional UCAP using those revenues.**

Under proposed Rule Change #3, if an LSE provides more than its share of the locational requirement, supplemental supply fees for other LSEs would be reduced accordingly.

Effect of Rule Change #3 on Example 1

Suppose that LSE A continues to provide 50 MW of UCAP in the Locality, even though it is not required to provide any.

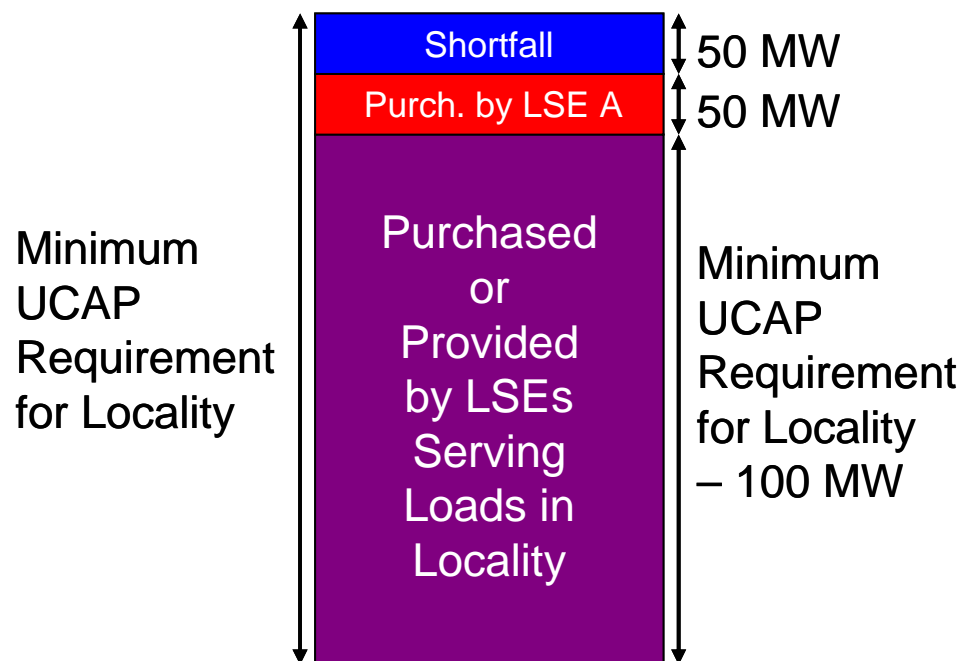
- Also suppose that the ISO nevertheless falls 50 MW short of meeting the Minimum UCAP Requirement for that Locality.
- Then the other LSEs in that Locality must be a total of 100 MW short.



Effect of Rule Change #3 on Example 1 (cont.)

It is only necessary to acquire another 50 MW of UCAP to meet the Minimum UCAP Requirement for the Locality.

- Under the current rules, LSEs serving load in this Locality would be assessed the supplemental supply fee for 100 MW.
- Under this proposed rule change, those LSEs would only be charged supplemental supply fees for the 50 MW needed to meet the Minimum UCAP Requirement for the Locality.



Rule Change #4: Eliminate ICAP Provider Responsibility for UCAP That Is Disregarded

Finally, the ISO currently applies the same obligations to UCAP that it disregards in the Spot Market Auction that it applies to UCAP that is counted towards LSEs' UCAP purchase obligations.

- **In the preceding example, if LSE A does not offer into the Spot Market Auction the 50 MW of UCAP in the Locality that it purchased in the monthly auction, it still must offer all of that capacity into the DAM.**
- **That capacity is also subject to all of the other rules that apply to capacity used to provide ICAP.**

Under proposed Rule Change #4, capacity that is not counted towards a UCAP obligation is not providing ICAP would not be assigned the responsibilities that apply to ICAP providers.

Summary of Proposed Rule Changes

To summarize, the proposed rule changes would:

- 1. Eliminate the rule stating that if an LSE has acquired more capacity than is needed to meet its share of the Minimum UCAP Requirement for a Locality, and that UCAP was not offered into the Spot Market Auction, the ISO will disregard that UCAP.**
- 2. Reduce the amount of UCAP that each LSE serving load in a Locality is required to purchase there, when other LSEs provide more UCAP in that Locality than they were required to purchase.**
- 3. Modify the calculation of supplemental supply fees so that they are only assessed for the amount of UCAP needed to meet the Minimum UCAP Requirement for a Locality.**
- 4. Eliminate the rule that requires capacity that is not counted towards an LSE's share of the obligation to purchase UCAP to fulfill the responsibilities of UCAP providers.**

Effects of Proposed Rule Changes

These rule changes would:

- **Limit the circumstances in which the ISO requires LSEs to offer UCAP into the Spot Market Auction to times when it is truly necessary to impose such a requirement.**
- **Reduce the likelihood that the ISO will ignore some UCAP in the Spot Market Auction if LSEs fail to comply with this requirement.**
- **Preserve LSEs' flexibility, so that they can choose not to offer UCAP in Localities into the Spot Market Auction if that is their wish, as long as that UCAP is needed to meet their respective shares of the Minimum UCAP Requirement for the NYCA.**
- **Only impose the responsibilities assigned to ICAP providers to capacity that is actually counted towards an LSE's share of the obligation to purchase UCAP.**