Interval-Level Bid Production Cost Guarantee for Price Correction Events
Straw Proposal

Market Structures Working Group

December 1, 2006

Presentation Outline

- ◆ Review
  - ▪ *Background*
  - ▪ *Recommended Approach*
  - ▪ *Next Steps from Last MSWG Discussion*
- ◆ Refined Requirements
- ◆ Implementation Timeline
- ◆ Next Steps

Background

- Issue Summary:
  - *Generators who act in accordance with NYISO dispatch signals should not be subject to financial harm by a subsequent price correction. Although current BPCG rules protect suppliers from losses in a given day, the cost incurred during price correction intervals could erode profits earned in other hours.*

- FERC instructed NYISO (ER06-1014) to initiate a stakeholder process to design a resolution
  - *Discussions initiated at August 7, 2006 MSWG with follow-up straw proposal at October 27, 2006 MSWG*

Recommended Approach

- ◆ Preventative Measures
  - ▪ *Reduce the number of price errors to minimize, ideally prevent, the occurrence of price corrections*
    - • NYISO efforts continue to identify and eliminate reoccurring causes of price errors
  - ▪ *Implement tools and staff to enable monitoring of market prices in near real-time, preventing persistent errors that lead to extended correction periods*
    - • NYISO has initiated the Enhanced Price Validation project to develop new Price Validation tools with near real-time monitoring capabilities

Recommended Approach (ctd.)

- ◆ Remedial Measures

    - ▪ *Provide a targeted Bid Production Cost Guarantee payment for periods of price correction*

        - • NYISO presented conceptual straw proposal for this remedial measure at the October 27, 2006 MSWG

Next Steps from Last Meeting

◆ Next steps from October 27, 2006 MSWG discussion included:

- *Evaluate questions raised during MSWG discussion, and consider refinement to draft rules as necessary*

- *Elaborate on straw proposal concepts, defining the specific business and implementation requirements necessary to drive implementation estimates*

- *Obtain LOE estimates and determine feasible implementation timeframe*

Refined Requirements

- Consecutive Price Correction intervals are viewed as a 'Price Correction Event'

  - *The eligible intervals are all price corrected intervals plus the following three intervals*

- For all identified intervals, the real time BPCG is calculated on an interval basis and margins in one interval do not offset losses in other event specific intervals

- Price Correction Event intervals that result in a loss will be paid as an interval-level uplift, separate from the 24-hour BPCG calculation

  - *E.g., If 24-hour BPCG calculation results in a margin, it will not be eroded by losses during Price Correction Events*

- Price Correction Event intervals that result in a margin will offset supplemental payments calculated for the 24-hour BPCG calculation

  - *E.g., If the 24-hour BPCG calculation results in an uplift, it will be offset by margins during Price Correction Events*

Refined Requirements (ctd.)

- Real time guarantee payment mitigation evaluation is performed on an interval level
  - *Conduct failing components are substituted and if impact is found, GP is calculated using reference bid component(s)*
- Treatment would be applied to suppliers at nodes impacted by price corrections
- Treatment would apply to all units who are otherwise eligible to receive BPCG, based on existing criteria
  - *Fixed schedules not eligible*
  - *Exception: During the event the ramp rate down real-time BPCG qualification constraint is suspended*
- All payments will be charged in accordance with NYISO Tariff instructions for recovering BPCG costs

Draft Material for Discussion Purposes Only

Implementation Timeline

- Implementation requires MIS changes to "flag" intervals with 'Price Correction Event'
  - *Will be implemented with EPV Phase 1 (February 2007)*

- Implementation requires changes in the NYISO BAS to apply interval-level BPCG settlement rules and associated mitigation logic to 'Price Correction Events'
  - *Freeze on changes to current BAS software pending completion of Settlement System Replacement Project (May 2007)*
  - *Must also consider constraints associated with the NYISO data center migration and summer peak periods*

- Considering these dependencies / constraints, the first feasible implementation window is late Summer 2007

Next Steps

- Continue to reduce the number of price errors to minimize, ideally prevent, the occurrence of price corrections

- Continue MSWG discussions on proposed rules
  - *Publish Concept of Operations for MP review*

- Refine implementation estimates and summarize cost / schedule for PPT consideration
  - *Pending approval, initiate implementation phase*
    - Includes technical design, development, testing, deployment

- Determine requirements for tariff modification and schedule necessary committee approvals