95 FERC ¶ 61,121
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Curt Hébert, Jr., Chairman;
William L. Massey, and Linda Breathitt.

New York Independent System Operator, Inc.	Docket Nos. ER00-3591-000, ER00-3591-001, ER00-3591-002, and ER00-1969-001
New York Independent System Operator, Inc.	Docket Nos. ER00-3038-001 and ER00-3038-002
New York State Electric and Gas Corporation	Docket Nos. EL00-70-002 and EL00-70-003
v.	
New York Independent System Operator, Inc.	

ORDER ON MOTION TO IMPLEMENT HYBRID FIXED BLOCK PRICING RULE AND REQUIRING TARIFF FILING, ACTING ON RELATED REQUESTS FOR REHEARING, AND ACCEPTING PRELIMINARY REPORT

(Issued April 26, 2001)

On July 26, 2000, the Commission issued an order (July 26 Order)[1] directing New York Independent System Operator, Inc. (NYISO) to revise the method by which it sets the price of energy with respect to the dispatch of fixed block resources. On August 25, 2000, NYISO submitted a request for partial rehearing of the July 26 Order asking the Commission to allow NYISO to implement a hybrid fixed block pricing rule that would combine the best features of the revised pricing rule and NYISO's pricing policy. Subsequently, NYISO refined its hybrid fixed block pricing proposal and on March 20, 2000, it filed a motion requesting the Commission's permission to implement the proposed pricing rule.

[1] New York Independent System Operator, Inc., et al., 92 FERC ¶ 61,073 (2000).

In this order, we grant NYISO's motion for permission to implement the hybrid fixed block generation pricing rule but require NYISO to file compliance tariff sheets describing this rule. We will also address NYISO's request for partial rehearing of the July 26 Order and requests for rehearing filed by other parties to the extent they challenge the Commission's ruling on the fixed block pricing rule in the July 26 Order. Finally, this order accepts NYISO's preliminary compliance report on implementation of the pro rata curtailment procedures.

I. Background

On April 24, 2000, the New York State Electric and Gas Corporation (NYSEG) filed with the Commission a complaint challenging NYISO's fixed block pricing methodology on the grounds that it violated NYISO's Market Administration and Control Area Services Tariff (Services Tariff) and locational-based market price (LBMP)[2] pricing theory. In its complaint, NYSEG argued that it was inappropriate to allow a fixed block unit[3] to set LBMP when a more economic unit had to be backed down to accommodate it, and to pay the backed-down unit its lost opportunity costs.

In the July 26 Order addressing NYSEG's complaint, the Commission stated that NYISO's fixed block pricing methodology was consistent with its Services Tariff and comported with the LBMP in those instances when the fixed block resource reflects the marginal cost of supplying one more unit of energy. However, the Commission concluded that when less expensive generation resources are dispatched down for the purpose of accommodating more expensive fixed block resources, the marginal cost of supplying the next increment of load should be equal to the bid price of the least expensive unit that has been backed down. The Commission concluded that in these instances the Services Tariff required the energy price to reflect the marginal cost of the backed-down unit, and directed NYISO to revise its procedures for setting prices accordingly. The Commission also noted that under this pricing method, there would be no need to make lost opportunity cost payments to backed-down units, and that fixed block units that were required to run would receive a guarantee payment to make up the difference between the market-clearing price set by the backed-down unit and their bid production costs.

On August 25, 2000, NYISO filed with the Commission a request for partial rehearing of the July 26 Order proposing to implement a fixed block pricing approach that differs from both NYISO's

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[2] LBMP is a pricing methodology under which the price of energy at each location in the New York transmission system is equivalent to the cost to supply the next increment of load at that location.

[3] Fixed block units are generation resources that can only be dispatched in one of two states, i.e., they must be either turned completely off or turned on and run at their maximum capacity. For example, the majority of individual gas turbine generating units in the New York Control Area are fixed block units.

current practice and the Commission's ruling. NYISO maintained that its new hybrid pricing approach would combine the best features of the Commission's directive and NYISO's current pricing method. By order issued on November 8, 2000,[4] the hybrid fixed block pricing proposal was set for discussion at the technical conference held on January 22-23.

After the technical conference, NYISO's Generation Issues Task Force began to review and to further develop the hybrid pricing rule. On March 20, 2001, NYISO submitted this filing setting forth the revised hybrid fixed block pricing proposal and requesting the Commission's permission to implement it. We will address the merits of NYISO's proposal below.

II. Comments

NYISO states that it served a copy of the instant filing on each person designated on the service list compiled by the Commission's Secretary in Docket No. ER00-3591-000, et al., in accordance with the requirement of Rule 2010 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.2010 (2000). Pursuant to 18 C.F.R. § 385.213(d)(1), any answer to a motion must be filed within 15 days after the motion was filed. None has been filed in this proceeding.

III. Discussion

A. NYISO's Hybrid Fixed Block Pricing Proposal

NYISO's current pricing method employs a two-step process to calculate LBMP settlement prices. In the first step, or the ideal dispatch, fixed block units that have been scheduled to operate are dispatched based on their bids to meet loads at the lowest possible cost given reliability constraints. The ideal dispatch gives no consideration to operating and physical limitations of fixed block units and treats them as if they could be dispatched at any level from zero to their maximum capacity. In the second step, or the final dispatch, the NYISO software dispatches fixed block units that must be run at their maximum capacity and adjusts the ideal dispatch schedules of other units to accommodate the block-loading of the operating units.

NYISO's practice has been to permit a fixed block unit that is chosen to run in the ideal dispatch to set the market-clearing price even when a less expensive unit is backed down to make room for it in the final dispatch. The fixed block units that are backed down to accommodate those that have been scheduled to operate receive a payment of lost opportunity costs to ensure that they are not penalized for following the NYISO's dispatch signal.

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[4] New York Independent System Operator, Inc., 93 FERC ¶ 61,142 (2000).

In the July 26 Order, the Commission suggested that the LBMP settlement price should be set by a less expensive generation resource that was backed down to accommodate a more expensive fixed block unit. Furthermore, the Commission stated that fixed block units that are required to run must receive a guarantee payment to make up the difference between the market-clearing price set by the backed-down unit and their bid production costs.

Now, NYISO proposes a hybrid fixed block pricing policy, which, NYISO states, combines the best features of the Commission-proposed pricing method and NYISO's current fixed block pricing approach. In particular, NYISO proposes to use the Commission's pricing rule (i.e., to set the LBMP at the bid of the backed-down unit) to calculate all day-ahead LBMPs, and also to determine real-time LBMPs when fixed block units are not actually required to meet load, but are operating due to minimum run-time constraints or under similar inflexible conditions. However, NYISO proposes to use its current pricing rule in real time when the operation of fixed block units is required to meet load, avoid the operation of higher-cost units or satisfy reliability requirements.

NYISO argues that applying the Commission-proposed pricing methodology in these latter circumstances would send inaccurate price signals to market participants. The LBMP set by a fixed block unit that operates for the purpose of meeting load, as opposed to satisfying the minimum run-time requirement, truly reflects market conditions, as these fixed block units will run economically at the LBMP prices they establish.

NYISO also contends that the Commission's pricing rule will discourage energy imports by suppliers outside the New York control area. NYISO explains that imbalances between day-ahead and real-time schedules for day-ahead imports are settled at the real-time price, and if the real-time price is determined in accordance with the Commission-proposed rule, external generators would receive the real-time price, which would be less than the cost of starting a fixed block unit to meet the scheduling imbalances.

Furthermore, NYISO argues that the Commission's rule would discourage the development of price-responsive real-time loads in New York. Because the real-time prices would not reflect the incremental cost of meeting load, loads would have no incentive to reduce output in real time even when the incremental cost of meeting load is very high. This in its turn would increase uplift charges. Because loads would rather participate in the real-time market than in the day-ahead market in order to take advantage of a real-time LBMP set by a less expensive unit, participation in the day-ahead market would decrease. Under these circumstances NYISO would be required to schedule additional non-fixed block generation at minimum load day-ahead in order to meet the forecast load, which would result in a shift of market costs into uplift. In particular, it applies to the eastern part of the state where most of fixed block generation resources are located. Prices in the east would be lowered , and any

reduction in real-time prices below the bid prices of fixed block units running to meet load would be recovered in the form of uplift charges from customers all over the state.

NYISO intends to implement the hybrid pricing proposal without amending its Services Tariff. It claims that the software changes required for implementation of the proposal will make NYISO's price calculation methodology more consistent with the definition of LBMP set forth in Section 2.97 of the Services Tariff.

B. Commission Ruling on Hybrid Fixed Block Pricing Rule

We find NYISO's hybrid fixed block pricing proposal to be just and reasonable and accept it, as it will promote efficiency in the NYISO-administered energy markets. While it differs from the approach required by our earlier order, we believe the changes proposed by NYISO will lead to a more accurate calculation of the LBMP as set forth in its Services Tariff. We note that the issue being resolved here arose because NYISO's tariff did not clearly specify how the LBMP would be calculated when lower-priced units were backed down to accommodate fixed block units. To avoid such disputes in the future, NYISO's tariff should specify how it will treat fixed block units in setting the LBMP. Thus, although we conclude that NYISO's proposal is consistent with its Services Tariff, NYISO must file with the Commission compliance tariff sheets to describe the hybrid fixed block pricing rule. Also, the Commission dismisses NYISO's request for partial rehearing and requests for rehearing filed by the entities listed in the Appendix to this order as moot to the extent they challenge the Commission's ruling on the fixed block generation pricing in the July 26 Order.

C. NYISO' Preliminary Compliance Report on Pro Rata Curtailment and Fixed Block Generation Pricing

The July 26 Order directed NYISO to adopt pro rata curtailment procedures to govern transactions with identical decremental bids, finding that NYISO's curtailment practice was in violation of the Commission-approved Services Tariff. Originally, NYISO's software was not designed to handle curtailments on a pro rata basis. Instead, the software randomly selected transactions for curtailment, which resulted in one transaction being cut in its entirety while others, with identical decremental bids, were allowed to flow with little or no reduction. The random selection was entirely automatic and did not allow for manual intervention.

On August 4, 2000, NYISO filed a preliminary compliance report explaining that it intends to comply with the Commission's mandate to implement pro rata curtailment procedures and will notify the Commission upon successful completion of the project.
In the initial comments filed following the January 22-23 technical conference, NYISO informs the Commission that it has successfully implemented the software changes required to curtail transactions

with equal decremental bids on a pro rata basis.[5] The change was put in place by NYISO in November 2000. The Commission accepts NYISO's compliance report in part addressing the pro rata curtailment, as NYISO has informed the Commission that its curtailment procedures are presently in compliance with its Services Tariff and the July 26 Order's directives. The Commission also accepts the part of the report regarding the hybrid fixed block pricing rule, although that report has been superseded to some extent by NYISO's March 20, 2001 motion and this order, as discussed above.

The Commission orders:

(A) The Commission grants NYISO's motion for permission to implement the hybrid fixed block generation pricing rule as of May 1, 2001.

(B) Within 10 days of the date of issuance of this order, NYISO shall file revised tariff sheets describing its hybrid fixed block generation pricing rule, as discussed in the body of this order.

(C) The Commission dismisses requests for rehearing challenging the ruling in the July 26 Order in regard to the fixed block generation pricing rule as moot.

(D) The Commission accepts NYISO's Preliminary Compliance Report Concerning Pro Rata Curtailment Procedures and Fixed Block Generation Pricing, as discussed in the body of this order.

By the Commission.

(S E A L)

David P. Boergers,
Secretary.

[5] Initial Comments of the New York Independent System Operator, Inc., Docket No. ER00-3591-000, et al., at 19 (February 8, 2001).

Appendix

New York Independent System Operator, Inc.
Docket No. ER00-3591-000, et al.

AES NY, L.L.C.
Independent Power Producers of New York, Inc.
Orion Power New York GP
Southern Energy Bowline, L.L.C., Southern Energy Lovett, L.L.C., Southern Energy NY-GEN, L.L.C.