Proposed Fuel Price and Type Selection for Indexing Reference Levels

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Overview

- Review of current fuel price and type practice and limitations

- Interim Enhancements

- Proposed Implementation

- New Bid Parameters

- Pros & Cons

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Current Practice

- MP requires fuel type or fuel price adjustment
  - *Routine or Emergency (TB 68) request made*
  - *Takes hours to process*
  - *No effective dating of references, prices effective immediately until next update*
  - *No market differentiation*

- List of current indices updated daily
  - *Argus – Kerosene*
  - *Argus – No. 2*
  - *Argus – No. 6*
  - *ICE – Natural gas,Transco Z6 NY*

- List of indices updated manually or not indexed
  - *Coals, Nuclear, Wood, Tires*
  - *Biomass, Refuse, Hydro, Wind, Landfill Gas*

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Interim Enhancements

- Transco Z6 Natural Gas will be updated automatically in October 2009
  - *Switching from ICE to Argus index*
  - *Will change time of day references are updated from 1600 EST to approximately 2200 EST.*
- Differentiation between DAM and RT market
  - *Will be able to separately index Energy, Min gen and Start up fuels*
- Additional Natural Gas Indices available
  - *Algonquin, Iroquois, Dominion, Texas Eastern, Columbia, Niagara*

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Proposed Implementation

- ◆ As part of cost based submittal MP's will specify default fuel types for fuel indexing
    - ▪ *Fuel Type for DAM Energy and Min Gen*
    - ▪ *Fuel Type for DAM Start up*
    - ▪ *Fuel Type for Real Time Energy and Min Gen*
    - ▪ *Fuel Type for RT Start up*

- ◆ MP's will also define
    - ▪ *All possible fuels for each Generator*
    - ▪ *Predetermined blends of your choice*
    - ▪ *Fuel burden - tax % plus $/mmbtu adder*

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New Bid Parameters Proposal

- ◆ Fuel type and Fuel price will be optional bid parameters indicating the fuel type and price applicable to that hour's operation
  - Fuel type and price that are bid will index reference for market hour bid/reference pair
  - Bid parameters will override default definitions in cost based submittal
  - Fuel type and price can change on an hourly basis in real-time, must use the same fuel type/price for all hours of the DAM
- This gives MPs the ability to change their fuel type and price without requiring a reference update request – either routine or emergency
- ◆ MP's will be allowed to bid fuel types or canned blends listed in system pre-defined Cost Based data submitted for that unit

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New Bid Parameters cont'd

- ◆ Allowed to Bid the following combinations of the two new bid parameters:

  - *Fuel type only*
    - Fuel price will be derived from index

  - *Fuel price only ($/mmbtu)*
    - Fuel type will be derived from approved Cost based data

  - *Fuel type and price*
    - Entered fuel price will be used in reference calculation

  - *No fuel type or price*
    - Fuel type will be derived from Cost based data, fuel price will be derived from index

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New Bid Parameters cont'd

- MMP may audit the hourly fuel type and price data submission.

- MMP will disable the ability to bid fuel price and fuel type for any generator found to be misrepresenting fuel information in their bids.

- If MP requests MMP can disable option to update price or type by generator

- NYISO is considering a mechanism to mitigate the risk to the marketplace of submitting erroneous data.

- Do you want a limit on range of fuel price entry to prevent wrong entries e.g.100% or $ limit or % change limit?

Fuel Blends

- Historically, fuel blends were used to represent a seasonal average.

- With RLS and the ability to change your fuel type on each bid – do we still need to utilize fuel blends?

- Current proposal allows for list of canned blends for unit

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Pros & Cons of Bidding Fuel Price and Type

- ◆ Pros
  - ▪ *Adding capability to bid hourly fuel price and type is necessary step to allow raising bids in real-time project*
    - • Ensures references are indexed to same assumptions
  - ▪ *Allows MP's additional ability to reflect actual costs for penalty gas, balancing charges, fuel interruption*
  - ▪ *Eliminates/reduces need for reference consultations to correct references for fuel issues by allowing MP to adjust as needed.*
  - ▪ *Improves effective dates for fuel prices*

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Pros & Cons continued

- ◆ Cons
  - *Must enter more bid parameters*
    - Additional possibility to make a mistake
  - *Viewable reference for new price and type will not be available ahead of market close*
  - *If an MP submits inaccurate fuel cost data, and a corresponding inaccurate bid, market clearing prices could be inappropriately set*

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