

A Proposal to Assign Installed Capacity Import Rights

Introduction

Installed Capacity (ICAP) Suppliers located outside the NYCA utilize Import Rights to participate in the New York (ICAP) market. Currently, these ICAP Import Rights are assigned to NYISO Market Participants on a first-come, first-serve basis. The first-come, first-serve process calls for Market Participants desiring rights to submit their request to the NYISO via facsimile (FAX). The NYISO assigns the ICAP Import Rights to Market Participants in the order in which the requests for such rights are received. A Market Participant requesting ICAP Import Rights must provide documentation of an ICAP bilateral transaction with a qualified external Supplier at the time the request is made. There is no charge to obtain these rights and the rights are transferable to other Market Participants.

When ICAP Import Rights from an external control area are fully allocated, the NYISO requires that the capacity associated with those Rights must then be certified by the party holding the Rights at Certification time. If the capacity associated with the Rights is not certified, the NYISO will offer the capacity into the Spot Market Auction at \$0/kW-Month (i.e., the Rights holder becomes a “price taker”). The holder of the Rights will be paid the market-clearing price determined in that auction.

The issues associated with this process are:

- 1) Results of the first-come, first-serve process are unpredictable, considering the uncertainties surrounding the FAX process employed; and,
- 2) the requesting party may not receive the ICAP Import Rights requested, thus, placing the Market Participant in a position of holding capacity with no market in which to utilize the capacity.

Proposal

Any proposal for a new process for assigning Rights must satisfy the following objectives:

- 1) The process to obtain the Rights must be fair and unbiased;
- 2) Documentation of a bilateral transaction with a qualified ICAP Supplier must be provided, but not necessarily at the time the request for Rights is submitted;
- 3) The external capacity associated with the ICAP Import Rights is used to offset a New York LSE’s UCAP requirements; and,
- 4) Market mechanisms are in place to prevent manipulation of capacity prices in New York.

The proposal to be presented resolves the two issues described above and preserves elements of the current process to meet all of the objectives.

An auction for ICAP Import Rights will be conducted where interested Market Participants may submit bids to procure available Rights. The amount of ICAP Import Rights available, in MWs, will be determined by the NYISO. New York State Electric & Gas (NYSEG), by tariff, has the right to request up to 1,080 MW of ICAP Import Rights from PJM. The amount of NYSEG's request would be removed from the Rights available in the auction. Bids would be submitted in \$/kW-Month of ICAP.

The ICAP Import Rights auction will be conducted using the rules for the monthly UCAP auctions. The highest bidders will be preliminarily awarded the Rights subject to the individual external control area import limits and the total NYCA import limit for ICAP. If multiple bidders submit bids at the market clearing price, the awards will be pro-rated based on the total MWs submitted at the market clearing price.

Market Participants preliminarily awarded rights in this auction will be given 48-hours to provide documentation of a bilateral transaction with a qualified ICAP Supplier located in the external control area for which Rights were awarded. If after this 48-hour period, all Market Participants have provided acceptable documentation, the preliminary awards would become final.

If one or more of the Market Participants preliminarily awarded Rights cannot provide acceptable documentation, then the NYISO will rerun the auction. Bids from Market Participant(s) that failed to provide documentation will be removed prior to the rerun of the auction. No additional bids will be accepted and Market Participants will not be allowed to revise their offers. After the preliminary awards are announced, the 48-hour documentation period would begin again.

The auction process described above would be repeated until Market Participants preliminarily awarded Rights provide acceptable documentation of a bilateral transaction. The elimination from repeated auctions of Market Participants that failed to provide acceptable documentation could result in market clearing prices for ICAP Import Rights that fall to zero.

The revenues produced by the auction will be used to reduce Rate Schedule 1 charges.

A Market Participant awarded ICAP Import Rights may trade those rights to another Market Participant. If at certification time, the Market Participant holding ICAP Import Rights has not entered into a bilateral transaction with a New York LSE and the import rights from the associated external control area are fully subscribed, the capacity associated with those rights will be entered into the Spot Market auction on behalf of the rights holder at \$0/kW-Month. The rights holder would receive the market clearing price for the capacity sold in that auction.

Establishing the length of time for which these Rights could be procured will be determined through a consensus among Market Participant and the NYISO; however, the minimum time period would be one month.