

Process for Securing ICAP when a Deficiency Exists After the Deficiency Auction.

When ICAP deficiencies cannot be satisfied in the deficiency auction phase, the ISO charges deficient LSE at the deficiency rate and attempts to secure capacity from qualified ICAP providers. However, tariff rules preclude the ISO from purchasing ICAP from generators who fail to offer into deficiency auction. This rule is a reasonable protection to ensure that ICAP suppliers will not exert market power when supplies are otherwise adequate, by withholding capacity to drive up the deficiency auction clearing price by withholding capacity and subsequently offering to sell their capacity at the deficiency price. However, the result of the ISO rule is that suppliers might be unnecessarily precluded from the ICAP market at a time when ICAP offerings are inadequate.

Market participants need to consider why generators might fail to offer into the deficiency auction and then consider whether alternative mechanisms could better work to meet the needs of the ICAP deficiency auction without "cutting off the nose to spite the face".