Locational Capacity Exports - Mitigation

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Background & Overview

- **Conforming changes to the tariff language for capacity export mitigation**
  - ***The current tariff languages functions only for the defined term "ICAP Suppliers," thus it must be modified to function correctly for all exporting generators located in a Mitigated Capacity Zone ("MCZ")***
- **In addition to these conforming changes, the NYISO is proposing to enhance the penalty calculation**
  - ***This is to ensure robust results in situations where "pay for performance" penalties may influence the economics of an export***

Conforming Changes – *Definitions*

- **MST 23.2.1 – Definition of "Affiliated Entity"**
  - ***Expanded to include entities that have Control of capacity, or that can determine or submit offers of capacity, from a Generator electrically located in an MCZ, even if it is not an ICAP Supplier***
- **MST 23.2.1 – Definition of "Market Party"**
  - ***Expanded to include entities affecting any of the ISO administered markets, including through the submission of bids or offers into an External Control Area***
- **MST 23.2.1 – Definition of "Pivotal Supplier"**
  - ***In light of the changes to "Market Party" and "Affiliated Entity," clarified that MW of an External Sale of Capacity will not be included in this calculation***

Conforming Changes – *Export Test*

- **MST 23.4.5.4.1 – “export test”**
  - ***Modified to allow for its application to Generators in MCZs that are*** **not** ***ICAP Suppliers***
    - **Removed the criteria that limited the application of this test to Pivotal Suppliers**
  - ***Added language to address situations where certain parameters (*****i.e.,** ***most recent EFORd and UCAP) of exporting Generators are not known***
    - **Defined the term “External Sale UCAP” as being based on best available information**
    - **For clarity, renamed the current term “External Sale of UCAP” to the new term “External Sale of Capacity”**

Conforming Changes – *Export Test*

- **MST 23.4.5.4.1 – "export test"**
  - ***Clarified prong (1) of withholding test – whether External Sale UCAP could have been made available or sold into the MCZ instead of being exported***
    - **Language now makes it clear that it is presumed that the Generator in question timely met the requirements to qualify as an ICAP Supplier**
  - ***Added prong (3) to the withholding test***
    - **In order to be deemed to be physically withholding, the Responsible Market Party for the External Sale UCAP must either be a Pivotal Supplier, or would have been if the External Sale UCAP had been available in the MCZ**

Conforming Changes – *Penalty Calculation*

- **MST 23.4.5.4.2 – Penalties**
  - *Modified to allow for its application to Generators in MCZs that are* not *ICAP Suppliers*
    - **Changes mirror those made in 23.4.5.4.1**
    - **Conformed language to incorporate the new definitions of "External Sale of Capacity" and "External Sale UCAP"**
  - *Discussion of additional changes related to the enhancement of the penalty calculation to follow in subsequent slides*

Penalty Calculation – *Current Rules*

- **The determination of withholding is based on a comparison between:**
  - *The net revenues from UCAP sales that would have been earned by the sale of External Sale UCAP in a Mitigated Capacity Zone ("MCZ"), and*
  - *The net revenues earned from the External Sale of Capacity*
- **The penalty calculation stipulates an amount equal to 1.5x the lesser of:**
  - *The difference between the average MCP in the Spot Auction for the MCZ with and without the External Capacity Sale, and*
  - *The difference between that average price and the clearing price in the External Reconfiguration Auction*

Penalty Calculation – *Concerns*

- **This difference in the calculations has raised concerns because:**
  - ***With the implementation of 'pay-for-performance' type initiatives in the Neighboring Control Areas, the clearing price of an External Reconfiguration Auction may reflect an implicit risk premium for anticipated performance penalties***
  - ***Thus, a comparison of clearing prices alone may tend to overstate the net revenues earned by a capacity export and comparatively reduce the calculated penalty amount***
  - ***Because this difference is correctly captured in the 'Export Test' methodology – but not the penalty calculation – under the previously proposed language the NYISO may find itself limited to assessing $0.00 penalties to entities deemed to have been withholding External Sale UCAP***

Penalty Calculation – *Proposed Solution*

- **The NYISO therefore proposes:**
  - ***To remove the 'lesser of' language from the penalty calculation.***
  - ***This would bring the penalty in-line with every other penalty for withholding, and***
  - ***This would ensure that an entity deemed to have been withholding will always be penalized in an amount larger than their ill-gotten gains.***
- **Notes:**
  - ***The NYISO already has a process to address concerns regarding 'unpredictable' or 'surprise' auction results (Att. H 23.4.5.4.3)***
  - ***An entity seeking to export from an MCZ may request a forecast of ICAP prices from the NYISO in advance of submitting offers into an External Reconfiguration Auction***
  - ***The External Sale of Capacity is then given safe harbor, provided that it is offered into that auction in a manner such that, if accepted, will produce more net revenues than would have been earned in the MCZ under the NYISO's forecast***
  - ***An alternative to this proposal would be to alter the penalty calculation such that it retains the 'lesser of,' but is dependent on the difference in net revenues, rather than the difference in average clearing prices.***

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- ***Maintaining and enhancing regional reliability***
- ***Operating open, fair and competitive wholesale electricity markets***
- ***Planning the power system for the future***
- ***Providing factual information to policy makers, stakeholders and investors in the power system***

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