

NYISO Board of Directors Decision on  
NYSEG's Appeal of the Decision to File the Stage II ICAP Tariff

In NYSEG's motion requesting that we defer the filing of the Stage II ICAP Tariff, NYSEG raises questions about reliability and the need to coordinate installed capacity markets in the northeast. These issues were considered in a long and thoughtful process as part of the development of the Stage II ICAP Tariff over the last eighteen months. We therefore approve the immediate filing of the Stage II ICAP Tariff as recently approved by the Management Committee and recommended by a unanimous decision of the Governance Committee, and we deny the NYSEG appeal. We also direct the Staff to continue to pursue common installed capacity principles with all northeast ISOs, and to monitor for any unintended consequences of the change to UCAP and a one-month Obligation Procurement Period including potential market volatility or impacts on reliability.

NYSEG argues that the Stage II Tariff is "fundamentally inconsistent with the NYISO's established commitment to eliminate "seams" issues with PJM and ISO-NE." We find the opposite: The Stage II UCAP design and one-month Obligation Procurement Period ("OPP") actually bridge the seams and bring the markets closer. The NYISO's old ICAP/six-month OPP design currently in place could not be more incompatible with PJM or ISO-NE. The Stage II UCAP design is patterned after the PJM program; many of the equations used to define UCAP in Stage II were taken directly from PJM procedures after extensive discussions among NYISO Staff, the ICAP Working Group, and PJM. The one-month OPP in Stage II mirrors ISO-NE's recent request to FERC for a one-month period. It also allows Market Participant flexibility to coordinate with the temporary PJM seasonal interval program recently approved for the next eleven months by FERC. The monthly OPP in the NYISO Stage II Tariff can easily be aggregated by Market Participants to coordinate with PJM's current three to five month seasonal intervals.

Further, the Stage II Tariff approved by the Management Committee for filing is the product of eighteen months of diligent work by the Market Participants. That work cannot be ignored. During that period, a full airing was given to all the issues surrounding a change in market design, and many different ways of designing the ICAP market were considered. The

UCAP/one-month OPP was developed as a workable, acceptable market design after months of study and discussion. When the Stage II Tariff was first discussed in concept at the Business Issues Committee and the Management Committee over a year ago, PJM's request for seasonal intervals and FERC's subsequent Order approving the PJM seasonal intervals on a temporary basis were not available. The Stage II ICAP Tariff developed through the committee process must now be filed in a timely fashion to obtain a FERC decision this fall, in time to implement the Stage II ICAP Tariff in the 2001 Winter Capability Period. NYSEG raised the question of the PJM change at the Management Committee, but the Management Committee decided overwhelmingly to proceed. The recent PJM change was thus considered and rejected specifically by both the BIC and the Management Committee as a reason to delay the Stage II filing.

NYSEG asserts, without support, that the proposed FERC Order on the Stage II one-month OPP will affect reliability negatively. We note that three separate analyses from three different independent consultants on reliability impacts of a move to a one-month OPP were commissioned last year as part of the considerations of the Stage II Market design, and all three confirmed that reliability would not be adversely impacted by a one-month OPP. These are the Brattle Report, dated May 24, 2000, entitled Shortening the NYISO's Installed Capacity Procurement Period: Assessment of Reliability Impacts; a November 5, 2000 Memorandum prepared by economist Frank Felder, KEMA-Consulting Associate, entitled "Energy Caps and the Proposed Reduction of the Installed Capacity Obligation Procurement Period from Six Months to One Month"; and a November 27, 2000 Memorandum prepared by economist and NYISO's Independent Market Advisor David Patton of Potomac Economists, entitled "Capacity Migration and ICAP Deficiency Charges". Even after the change to the one-month OPP, New York Load Serving Entities ("LSEs") will continue to have an annual capacity requirement to meet their loads, and still face deficiency charges if they do not cover their annual ICAP requirement.

We are troubled by certain characterizations in NYSEG's Notice of Appeal. NYSEG repeatedly states unequivocally that "FERC has approved" seasonal intervals in PJM, without noting that FERC directed PJM in its Order to make a new filing within 11 months showing market support for the seasonal capacity commitment under its Reliability Assurance Agreement

“or proposing a new methodology.” Thus, the FERC approval for the seasonal intervals is actually conditional and temporary. NYSEG also incorrectly equates PJM’s old one-day interval with the proposed NYISO Stage II one-month OPP, without offering any basis to support its contention that the one-month OPP would create the same problems PJM found with the one-day interval. And while NYSEG insists that seams issues must be addressed in the northeast ICAP markets, NYSEG fails to inform the Board in its filing that ISO-NE recently requested approval of a one-month ICAP supply period -- identical to the one in the proposed NYISO Stage II Tariff. Thus, if NYISO were simply to follow the PJM seasonal intervals, it would be moving away from ISO-NE.

We, therefore, do not find it necessary to reverse the decision of the Management Committee to file the Stage II ICAP Tariff with FERC, and we direct the NYISO Staff to file immediately to allow sufficient time for FERC approval prior to the 2001-2002 Winter Capability Period auction. We also direct the Staff to vigorously pursue the discussions with PJM, ISO-NE, and others that are underway to resolve remaining seams issues regarding the ICAP market, and to monitor the Stage II ICAP Market as it is implemented for any effects on reliability and volatility.