

Con Ed Min Oil Burn

Market Implications

Market Structures Working Group – June 23, 2006

Agenda

- ◆ Overview
- ◆ Market Participant Concerns
- ◆ Guiding Principles
- ◆ Analysis
 - *Reference Prices, Generator Compensation, Cost Allocation*
- ◆ Draft Proposal for Comment
 - *Considerations subject to further technical review and finalization of reliability rule implementation procedures*
- ◆ Next Steps

Overview

- ◆ Con Ed Minimum Oil Burn reliability rules require assessment to determine potential market impacts
- ◆ Software limitations, restrictions on system changes during peak periods, and current tariff provisions limit options for addressing market concerns this summer
- ◆ The NYISO wants to provide proper market mechanisms to support necessary reliability rules
 - *Recognize need to respond, even without changes to the reliability rules*

Market Participant Concerns

- ◆ Generator reference prices are indexed to fuel prices; current oil prices are significantly higher than gas prices
- ◆ Units ordered to burn oil might not be correctly compensated if reference prices don't reflect the higher fuel price (gas or oil)
- ◆ Costs consequences of implementing this rule may be seen state-wide
- ◆ Generators ordered to burn more expensive fuel have expressed concern about the potential for lost opportunities based on reduced level of commitment

Guiding Principles

- ◆ To the extent possible:
 - *Prices should reflect actual costs*
 - *Generator compensation should be based on LBMP as opposed to uplift*
- ◆ In instances when generator revenue does not cover out-of-pocket expenses, additional payments should be made to cover them
- ◆ Any additional payments should be allocated to the loads who benefit from the local reliability rule

Reference Prices

- ◆ Generator reference prices are updated regularly to reflect a number of characteristics
- ◆ Separate reference prices exist for Day-Ahead and Real-Time markets
- ◆ Software and process limitations impact cycle time for updating reference prices and flexibility to account for fuel mixes
- ◆ Process controls are necessary to provide acceptable level of accuracy and certainty

Generator Compensation

- ◆ Reference prices should reflect actual operating costs and should be updated timely to produce most accurate LBMPs, to the extent possible
- ◆ Services Tariff 4.1.7 allows NYISO to make a BPCG payment to cover the incremental expense in minimum generation, start up and energy costs, not reflected in LBMP and ancillary service revenue for the day
 - *Payment for lost opportunities under this condition is not supported under existing tariffs*

Cost Allocation

- ◆ Services Tariff Section 4.1.7 and OATT RS-1 allow the NYISO to assign any uplift to the subzone(s) for which local reliability rule is written
- ◆ Increased LBMPs produced when NYC units go into minimum oil burn cannot be limited to the Con Edison transmission district if transmission constraints disappear

Preliminary Proposal

- ◆ Use existing reference price process to reflect minimum oil burn requirements in Day-Ahead and Real-Time reference prices:
 - *Identify appropriate fuel mix levels for units*
 - *Obtain sufficient notice / confirmation that a minimum oil burn has been ordered*
 - *Currently not feasible to make in-day changes to Real-Time reference prices for in-day Min Oil Burn calls*
- ◆ Limit cost recovery to costs allowable under tariff
- ◆ Allocate uplift to appropriate Con Ed district loads
- ◆ Explore longer term alternative solutions with stakeholders

Market Participant Comments

- ◆ NYISO will finalize this preliminary proposal as quickly as possible
- ◆ Please provide comments to Frank Francis at f Francis@nyiso.com