

# **Con Ed Min Oil Burn**

## **2006 Market Implications**

Market Structures Working Group – June 29, 2006

# Agenda

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- ◆ Overview
- ◆ Market Participant Concerns
- ◆ Guiding Principles
- ◆ Analysis
  - *Actual Load Distribution, Statewide Price Impacts, Reference Prices*
- ◆ Draft Proposal for Comment
  - *Considerations subject to further technical review and finalization of reliability rule implementation procedures*
- ◆ Next Steps

# Overview

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- ◆ 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

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- ◆ 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

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- ◆ 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

# Generator Compensation

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- ◆ 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

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- ◆ 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

## Peak Load Distribution

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- ◆ Minimum Oil Burn threshold was reached about half the days in 2005; almost every day during the Summer.
- ◆ Higher thresholds identified in new proposed rule were reached on 39 days in 2005.



# Peak Load Distribution (Cont.)

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Peak Load	Hours (H,I,J)	Days (H,I,J)
8000–8999 MW	943	95
9000–10799 MW	836	57
10800–12199 MW	298	30
12200–12699 MW	36	7
> 12700 MW	9	2
<b>Total</b>	<b>2122</b>	<b>191</b>

January 1, 2005 – December 31, 2005

## Statewide Pricing Impacts

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- ◆ During 2005, there were 247 hours in the DAM where Con Ed load was forecast above 8000 MW and there were no in-city constraints.
  - *Approximately 12% of Min Oil Burn hours*
  - *Approximately 3% of all hours*
- ◆ When prices were greater than \$100 in Real-time, NYC and Hudson Valley prices were within \$7 of each other approximately 2% of the time.
- ◆ Minimum Oil Burn units may, or may not, have been the marginal unit during these intervals.

## Statewide Pricing Impacts (Cont.)

- ◆ Percentage of real-time intervals when NYC and Hudson Valley LBMPs are within \$7.
- ◆ Load is sum of zones H,I, and J.
- ◆ Price setting unit may be in NYC or upstate.

Load \ LBMP	< \$100	\$100-\$199	\$ 200-\$299	>\$300	All LBMP
8000–8999 MW	2.0%	1.3%	0.2%	0.1%	3.5%
9000–9999 MW	0.4%	0.2%	0.0%	0.0%	0.6%
> 10000 MW	0.1%	0.1%	0.1%	0.0%	0.4%
<b>Total</b>	<b>2.6%</b>	<b>1.6%</b>	<b>0.2%</b>	<b>0.1%</b>	<b>4.5%</b>

January 1, 2005 – December 31, 2005

# Reference Prices

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- ◆ 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

# Summer 2006 Proposal

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- ◆ 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*
- ◆ Continue cost recovery to costs allowed under tariff
- ◆ Allocate uplift to appropriate Con Ed district loads
- ◆ Explore longer term alternative solutions with stakeholders

# Market Participant Comments

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- ◆ NYISO will finalize this preliminary proposal as quickly as possible
- ◆ Please provide comments to Frank Francis at [f Francis@nyiso.com](mailto:f Francis@nyiso.com)