



Capacity Market Mitigation Rule Enhancements

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Background

- The MMU has identified several potential enhancements in its BSM Exemption Test reports and in its State of the Market Reports
- In addition, the NYISO has self-identified some potential enhancements to its processes and rules
- The purpose of this presentation is:
 - *to provide an overview of potential enhancements to the existing ICAP market mitigation rules*
 - *to solicit stakeholder feedback and to gauge interest*
- **Scope and expectations**
 - *This process will only seek to improve upon existing rules and enhance existing processes*
 - *This will not be a forum to consider design changes or to propose additional exemptions*

Enhancement Process

- **The NYISO will be bringing individual topics for discussion in a phased approach**
 - ***This approach allows for:***
 1. **An unrestricted and complete discussion of each issue**
 2. **The consideration of each issue based on its value and merits alone**
 3. **Faster development of material and proposals, allowing the NYISO to bring forward issues for discussion earlier**
- **At a future point, the NYISO will consider with stakeholders the relationship between any potential changes**

Identified Enhancements

- **Buyer-side Mitigation**
 - ***BSM Forecast***
 - Inclusion rules for “Expected Retirements” (*presentation today*)
 - Inclusion rules for examined projects
 - Inflation adjustment for future Demand Curves (only for use in the BSM determinations)
 - NCZ-specific forecast assumptions
 - ***Mitigation Study Period***
 - ***BSM Test Methodology***
 - ***BSM Offer Floor Modification***
- **Supply Side Mitigation**
 - ***Pivotal Control Threshold***
 - The NYISO will be bringing a presentation to stakeholders on this issue in the near future

BSM Forecast

- **Inclusion rules for “Expected Retirements”**
 - *Will be discussed today in a separate presentation*
- **Inclusion rules for examined projects**
 - *The NYISO has described its inclusion criteria for past Class Years in public postings*
 - *As the number of previously examined projects that got a final determination but that have not yet entered the market increases, these criteria must be refined and expanded upon*
 - *In addition, as exemption tests are added, the treatment of concurrent Class Year projects in the forecasts of their peers should be examined*
- **Inflation adjustment for future Demand Curves**
 - *The NYISO will evaluate whether the index assumed for the inflation of future Demand Curves in the MC-approved Section 205 filing can be enhanced*
- **NCZ-specific forecast assumptions**
 - *“Load forecast... ..used to develop the Indicative Locational Minimum Installed Capacity Requirement”*
 - *At the time that Indicative Determinations are performed, there are more up-to-date and relevant data sources available*

Mitigation Study Period (“MSP”)

- **The current rules define the MSP as three Capability Years, beginning 3 years from the Class Year**
 - *For example, CY2015 MSP is May 1, 2018 – April 30, 2021*
 - *The MMU Report on CY2012 BSM determinations indicates that it is desirable to align the MSP with the commercial operating date (“COD”) of the Examined Facility*
 - *The current rule is designed to increase certainty to developers and all stakeholders, and to avoid gaming in the timing of a project’s COD*
 - *The three years embedded in the rule is intended to be reflective of the construction lead time for a typical new entrant*
- **An enhancement to the definition of the MSP should retain these objectives while seeking to increase alignment with a project’s actual COD**

BSM Test Methodology

- *Under the current methodology of the Part A & Part B tests, a levelized carrying charge, net of average projected Energy and Ancillary Services revenues over the MSP (“Net CONE”), is compared to the ICAP Price Forecast for either one or three years of the MSP*
- *In addition, the current methodology may occasionally result in determinations that are sensitive to certain case-specific short-term assumptions that affect a project’s revenues over the MSP, but that may not have a prolonged impact on the project's economics*
- *An alternative methodology would be to make use of decision criteria that is more likely to be used by an actual developer, and examines projected cash flows over the investment horizon*

BSM Offer Floor Modification

- *According to the MST Att. H Section 23.4.7.3.2, the Offer Floor for an Examined Facility that is not exempt from BSM is set at the lower of its Unit Net CONE and 75% of the Mitigation Net Cone (the “Default Offer Floor”)*
- *In various reports, the MMU has recommended that the NYISO modify the Default Offer Floor to be equal to 100% of Mitigation Net CONE, over concerns that under the current rules, buyer-side entities may be able to suppress ICAP prices to a level below long-run equilibrium (i.e., to 75% of Mitigation Net CONE)*
- *The NYISO has previously discussed with stakeholders modifications of this nature as part of packaged proposals*

Next Steps

- **BSM Forecast Enhancements – today**
- **Pivotal Control Threshold – up next**
- **The NYISO will consider input received during today's ICAPWG meeting**
- **Stakeholders can also provide additional comments in writing to deckels@nyiso.com or to lseirup@nyiso.com**

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- *Planning the power system for the future*
- *Providing factual information to policy makers, stakeholders and investors in the power system*

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