

# Fuel Price Indexing of Reference Prices

MSWG – June 2, 2006

# Fuel Price Indexing Process

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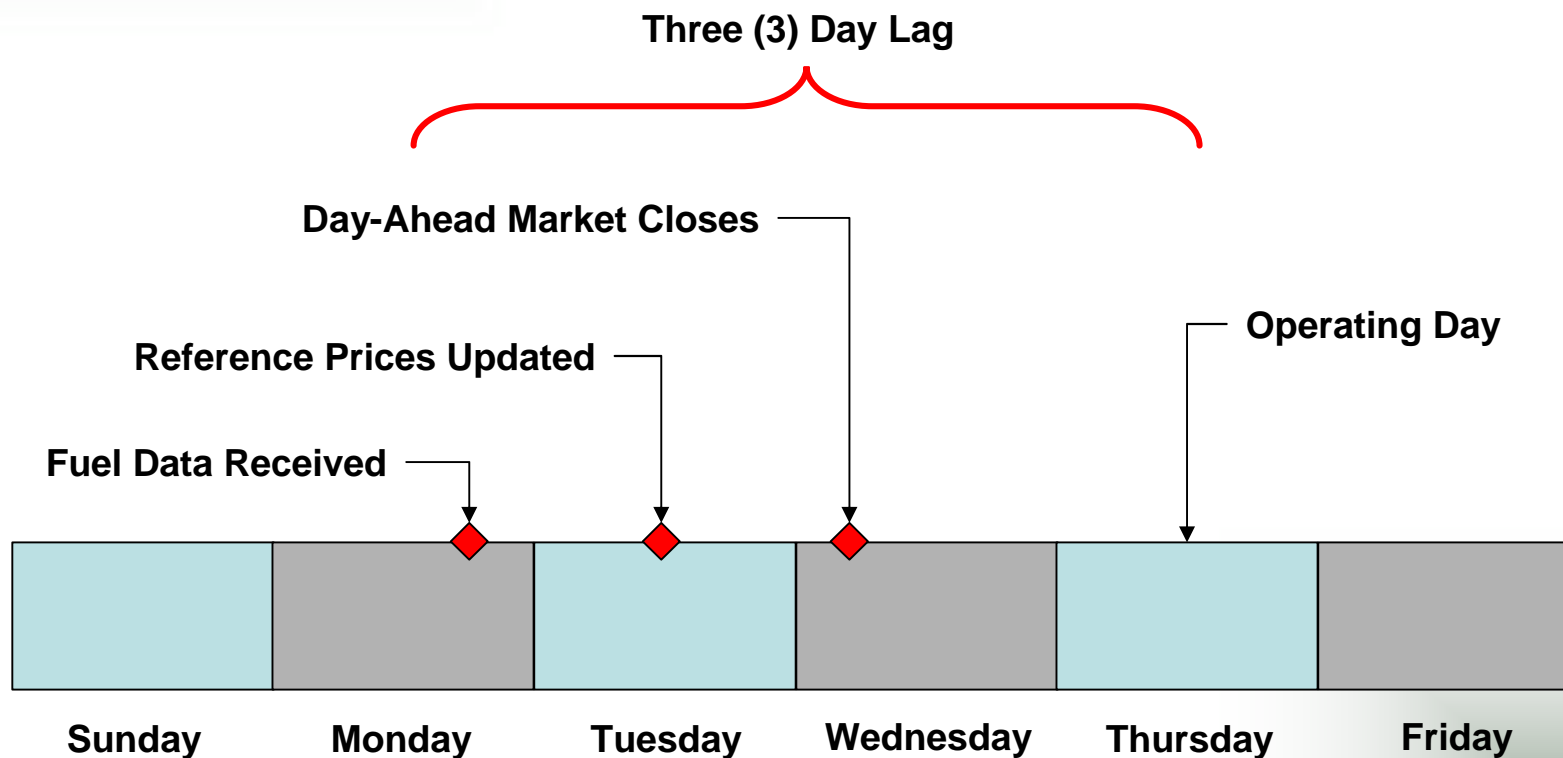
- ◆ *The NYISO strives to maintain reference price values that reflect the most current operating costs, including fuel prices*
- ◆ *Reference prices are updated daily to reflect current market fuel prices*
  - Fuel prices are obtained from Platts and Argus
- ◆ *Process for Market Monitoring to input new fuel prices is combination of manual and automated steps*

# Process Improvement Opportunities

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- ◆ *Fuel price data to support existing processes is not available for use by NYISO staff until late in the evening of trading day (after 8:00 PM)*
- ◆ *During periods of fuel price volatility, fuel prices may not get reflected in reference prices in as timely manner as possible*
  - Normal processing of data results in a 3-day lag between fuel market close and operating day
- ◆ *Market Monitoring tracks fuel prices, and occasionally executes manual update to reference prices*
  - *Manual process risk*

# Fuel Price Indexing Timeline



# NYISO Process Improvement

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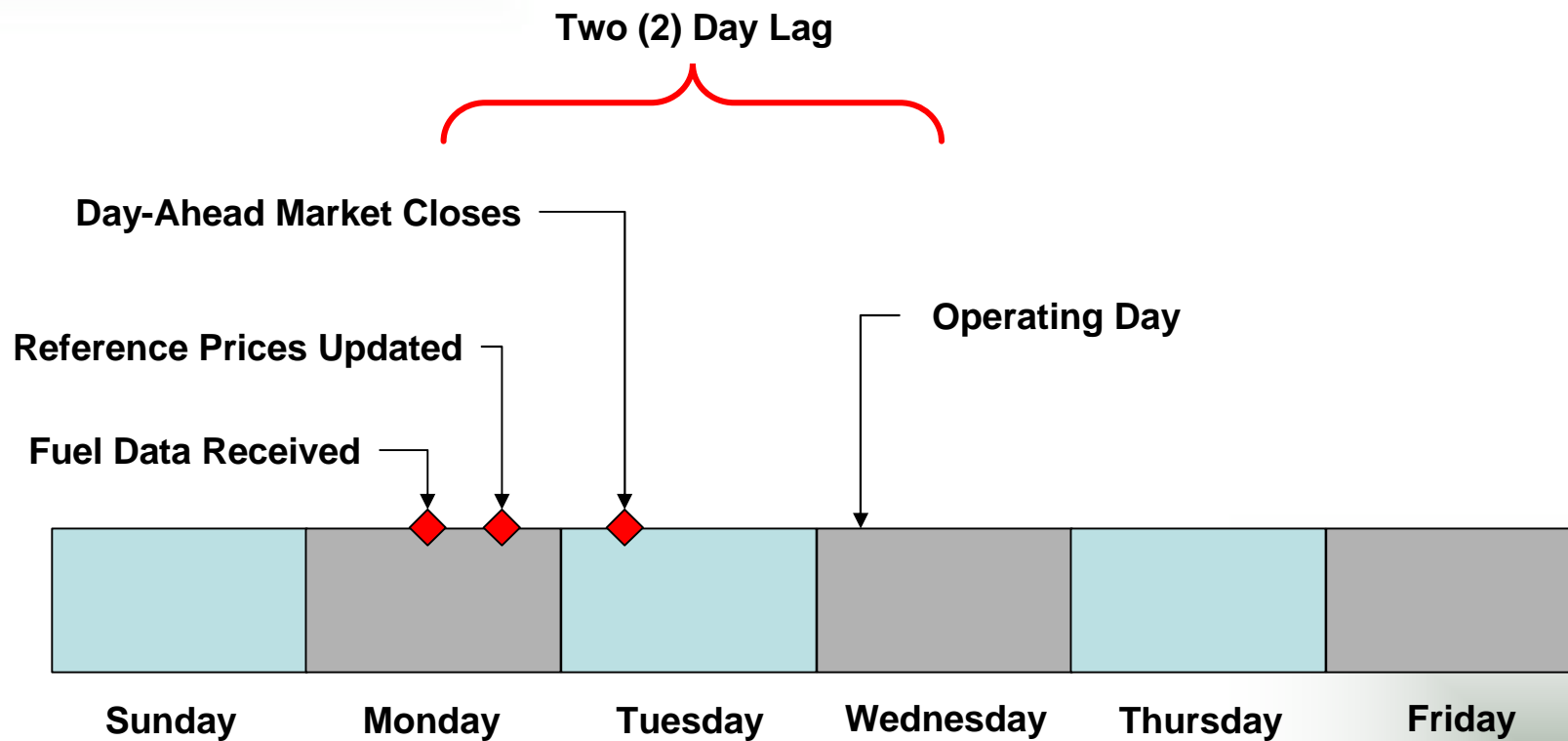
- ◆ *The NYISO Lean Six Sigma (LSS) program targets process improvement opportunities within bid to bill processes*
  - Structured methodology based on detailed process review and rigorous data analysis
- ◆ *LSS project team formed with goal to reduce fuel price indexing of reference prices from a 3-day lag to 2-days*
  - Data analyzed covered a one (1) year period (November 1, 2004 through October 31, 2005)

# NYISO Process Improvement (Cont.)

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- ◆ *Lean Six Sigma project team findings:*
  - Fuel price volatility at levels requiring manual intervention was limited to gas markets
  - Gas price indices are available from the Intercontinental Exchange (ICE) earlier in the trading day (1:00 PM)
  - ICE prices are almost identical to Platts prices; 95% within \$0.10, 87% within \$0.05
- ◆ *LSS team recommendation to use ICE price, and perform reference price updates later in day*
  - *Virtually no cost to NYISO*

# Fuel Price Indexing Updated Timeline



# Summary

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- ◆ *The NYISO has initiated process changes that will involve using the ICE gas index to update reference prices*
- ◆ *Other fuel prices will continue to be supplied by Platts and Argus and incorporated in reference prices according to existing processes*
- ◆ *These process changes have been reviewed by the NYISO market advisor*
- ◆ *Process changes are targeted for implementation by the end of June*