

Enhancements to the ICAP and Energy Forecasts in the Buyer-side Mitigation Rules



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*December 12, 2014
Rensselaer, NY*

Agenda

- **Overview and Background**
- **Impact**
- **Current rule:**
 - *Treatment of units that would meet the proposed definition of Mothballed (MO) and ICAP Ineligible Forced Outage (IIFO) units*
 - *Treatment of units in complete Class Years*
- **Proposed Framework**
- **Solution Options**
- **Next Steps**

Overview and Background

- ◆ **The purpose of this presentation is to discuss potential enhancements to, and increased transparency of, the forecasts used in the Buyer-side Mitigation (BSM) determinations.**
- ◆ **BSM exemption test is performed for all Examined Facilities and NCZ Examined Projects* in Mitigated Capacity Zones**
 - *The chief purpose of BSM is to prevent uneconomic entry from artificially suppressing capacity prices*
 - *There are two separate tests, the “Part A Test” and the “Part B Test” (see Appendix)*
 - *Both tests include energy and capacity (ICAP) markets forecasted market revenues*

***NCZ Examined Project rules are transition rules that only apply to when a new Locality is first accepted.**

Overview and Background (2)

- ◆ **Issue:** Some units that have exited the markets for various reasons and that might not re-enter service are modeled as “in-service.”
 - *In-service generating units are a significant factor in revenue forecasts*
- ◆ **Issue:** There are projects from the complete Class Years that have not yet been built.
 - *Some of these projects might not enter the market.*
- ◆ This presentation discusses possible impacts of such cases and potential enhancements to achieve a more reasonable revenue forecast in the BSM examinations and provide additional transparency.

Impact

- ◆ **Including units that are expected to not to be in-service could:**
 - *over-estimate the amount of in-service capacity*
 - *understate the forecasted prices*
 - *lead to over-mitigation*
- ◆ **Excluding units that are expected to be in-service could have the opposite effect**

Current Rule

- ◆ **Mothballed and ICAP Ineligible Forced Outage (“IIFO”) Units***
 - *“Expected Retirements”** are the only units excluded from the BSM forecasts.*
 - *All Mothballed & ICAP Ineligible Forced Out Units are included in BSM forecasts.*
- ◆ **Completed Class Years**
 - *For all Class Years before 2012, units from previously completed Class Years were in advanced stages of development and were included in BSM forecasts*

** The terms Mothballed and IIFO are part of a tariff proposal pending before FERC. As used herein, these phrases are used to indicate units that have the same characteristics of units that meet those general definitions.*

***Attachment H definition of “Expected Retirements” (Sec. 23.4.5.7) includes only units that have provided a written retirement notice to the PSC.*

Prior Guidance

- ◆ **FERC NCZ mitigation rule Order***
 - *“[W]e encourage NYISO, in consultation with its stakeholders, to consider modifying the Services Tariff to include criteria, applicable to all load zones, that can be used to determine if mothballed units should be included in Expected Retirements.”*

- ◆ **MMU**
 - *Several previous State of the Market Reports & BSM reports propose the NYISO address the issue regarding Mothballed and IIFO units*

* *New York Independent Sys Operator, Inc., 143 FERC ¶ 61,217 at P 111 (2013) at P 111.*

Proposed Framework

◆ **Core Principles:**

- *Market Rule Transparency*
- *Predictability by stakeholders*
- *Sound economic principles*
- *Enables timely application*
- *Consistency with related NYISO processes*

Solution Options

- ◆ **Option 1: Continue existing treatment**
 - *Only “Expected Retirements” are excluded from BSM Forecasts.*
- ◆ **Option 2: Modify and clarify existing rule**
 - *Change current rule for evaluating whether and when MO & IIFO units should be included in BSM Forecasts*
 - *Outline criteria for evaluating whether complete Class Year projects that have not progressed in development should be included in BSM Forecasts*
- ◆ **Effective Date**
 - *The NYISO is proposing that any revisions be effective for the Class Year after Class Year 2012*

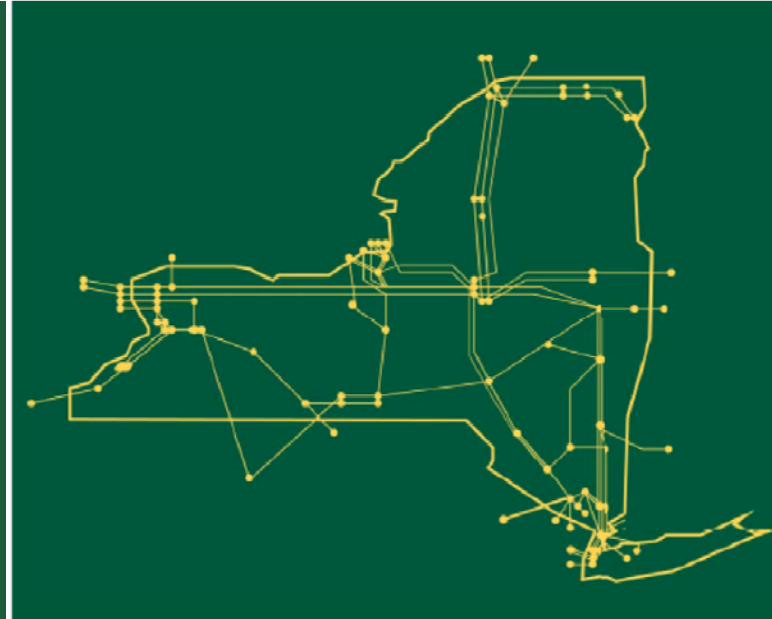
Next Steps

- ◆ **The NYISO will consider input received during today's ICAPWG meeting**
- ◆ **Stakeholders can also provide additional comments to deckels@nyiso.com**
- ◆ **Future steps include:**
 - *Further development of a proposal*
 - *Presentation of proposed criteria and rules to stakeholders at a future ICAPWG meeting*

Reference Materials

- ◆ **Market Services Tariff, Attachment H – Market Power Mitigation Measures**
http://www.nyiso.com/public/webdocs/markets_operations/documents/Tariffs/Market_Services/Attachments/att_h.pdf
- ◆ **BSM Narrative and Numerical Example**
http://www.nyiso.com/public/webdocs/markets_operations/services/market_monitoring/ICAP_Market_Mitigation/Buyer_Side_Mitigation/Numerical_Example/BSM_Narrative_and_Numerical_Example%20March%207%202014.pdf
- ◆ **ICAP BSM Test Data for Class Year 2012**
http://www.nyiso.com/public/webdocs/markets_operations/services/market_monitoring/ICAP_Market_Mitigation/Buyer_Side_Mitigation/Class%20Year%202012/ICAP%20Forecast%20Posting%20CY2012%20Document.pdf
- ◆ **Assessment of the BSM Exemption Test for Class Year 2011**
http://www.nyiso.com/public/markets_operations/services/market_monitoring/index.jsp

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Appendix

- ◆ **Part A Test:** This test compares the forecasted annual ICAP Spot Market Auction prices to the Default net CONE (DNC), which for the purposes of the Part A Test is defined as 75% of Mitigation Net CONE (MNC) and expressed here in units of \$/kW-year UCAP. ICAP Spot Market Auction prices are forecasted for one Capability Year (two Capability Periods) occurring three years from the Summer Capability Period of the Class Year. These values are compared with the DNC projected for that same time period. For instance, when examining a project in Class Year 2011, the NYISO would utilize the ICAP Demand Curves for the 2014 Capability Year to forecast ICAP prices. Under the Part A Test, the Examined Facility is exempt from BSM if the forecasted annual ICAP revenues exceed the DNC.
- ◆ **Part B Test:** This test is performed in relation to all three Capability Years in the Mitigation Study Period (“MSP,” the period that is three Capability Years from the Summer Capability Period of the Class Year). It compares the Unit Net CONE net of likely projected annual Energy and Ancillary Services revenues, to the forecasted ICAP prices during the MSP.