

Resource Adequacy Market: RAM Update

NYISO

Management Committee Meeting

September 17, 2003

Background

- NYISO, PJM and ISO-NE made Joint FERC Filing – January 10, 2003
- CRM Group developed concept of Centralized Resource Market Model (CRM) – An independent study to optimize the design and to minimize market power/gaming potential was proposed.
 - *RFP was issued in April 2003*
 - *Contract was awarded to NERA in June 2003*
- “Other Issues” were also identified. They are:
 - *Resource Characteristics and Qualifications*
 - *Demand Resources*
 - *Unit Testing Requirements*
 - *Credit Requirements for Forward Market*

RAM/CRM Proposal

- A centralized auction was proposed on behalf of all load to commit Resources & set LSE prices for a future commitment period.
 - *Coordinated auctions for each Northeast ISO region*
 - *Minimize, but allow for, area differences*
- **UCAP will used throughout the region**
- **Resource requirements set well in advance**
- **Supply and Demand Resources to be included**
- **Support retail access programs**
- **Bilateral agreements encouraged**
- **All three Northeast ISOs would transition existing capacity markets to CRM**

Preliminary NERA Recommendations

- **Planning Horizon – 3 years is recommended**
 - *One and two year horizons do not assure adequacy, are biased toward short lead-time resources, increase price volatility and preclude more efficient resources*
 - *Risks are even greater with shorter (less than one year) planning horizons*
 - *Five year planning horizon is marginally better but not significantly enough to overcome the following considerations:*
 - ▶ Forecast uncertainty
 - ▶ Market confidence in energy and ancillary revenues
 - ▶ Potential negative impact on demand participation
 - ▶ Potential difficulty in qualifying longer lead-time resources
 - *Three year horizon represents the best balanced choice.*

Preliminary NERA Recommendations (cont.)

- **Commitment Period – Minimum of 1 year**
 - *NERA believes a variety of Commitment Period (CP) Alternatives could meet the RAM objectives. One year CP meets the purpose but creates exposure to a single auction and possible transient events.*
 - *2 and 3 year CPs also serve the purpose, but also provide benefits and flexibility on auction format and percent procured.*
 - *Recommendation on commitment period will fall into above range and will be further developed.*
 - *Shorter period (less than one year) makes prices less stable, is more difficult to ensure adequacy and limits the ability to make meaningful decisions - rejected*
 - *Significantly longer periods were considered but rejected - transfers too much risk from providers to customers. Bilaterals are available to providers and customers who prefer a longer term. Uncertainty in energy and ancillary market could also drive up prices unnecessarily.*

Preliminary NERA Recommendations (cont.)

➤ Auction Model – Descending Clock

- *Among Open Auctions, Clock Has Strong Advantages*
 - ▶ Strategic Simplicity, can learn rules easily, more likely to enter
- *Most sensible design when products are very similar*
- *Careful design can ensure that bidders learn from aggregate information but have little or no opportunity to coordinate*
- *Opportunities for withholding are limited*
- *Clock Preserves Other Important Benefits of Open Auctions*
 - ▶ Bidders learn during the auction. Additional information lessens risk
- *Relative prices that are achieved by open auctions reflect market views*
- *Clock Auction with careful design on information revealed to bidders provides strong protection against withholding and against coordination*

Outstanding Issues

- Market monitoring and mitigation measures
- Deficiency charges and offer caps
- Variable resource adequacy (“Demand Curve”)
- Resource inclusion/nondiscrimination
- Impact on bilaterals
- Compatibility with retail choice
- Impact on energy and ancillary Markets
- Reconfiguration alternatives

Other Issues

- **Resource Characteristics and Qualifications**
 - *Supply Resources*
 - ▶ Contract Requirements for new Resources
 - ▶ Treatment of Intermittent Resources
 - *Demand Resources*
 - ▶ Contract Requirements for future Demand Resources
- **Demand Resources**
 - *Curtable Load and Distributed Generation*
- **Testing Requirements**
 - *Verification, DMNC Testing*
 - *Treatment of Externals – Deliverability, (Re)call, ICAP Principles*
- **Credit Requirements**

Schedule

- **“Other Issues” Groups continuing to meet**
- **NERA continuing their studies**
- **Next RAM Meeting – October 2003 – Date TBD**
- **NERA Final Report – Late October - Early November**
 - *RAM Meeting – NERA to present Final Report*
 - *“Other Issues” teams present their Results and Recommendations*
- **November – December – ISO/Stakeholders develop tariff proposals**
- **February 28, 2004 – File Status Report with FERC**
- **Second Quarter 2004 - Individual ISO Tariff Filings**
- **Second half of 2004 – Hold Initial Forward Auction(s)**