

It as been discussed several times in these meetings that a persistent bias at the external interfaces in BME creates an strong incentive for generators to locate outside NY.

Facts:

- When an external interface is binding into NY real time prices are the lower of the BME price or the real time price and BPCG are paid only to the imports whose accepted bids are higher than the resultant ECA-B corrected prices. The marginal external transaction may receive the BME price. Internal units often receive higher prices during these periods

In import constrained periods it seems to me that the bias is likely to very strongly favor internal units. This is independent of any potential BME/RT price bias.

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Facts:

- When an external interface is binding out of NY real-time prices are the higher of the BME price or the real time price but there are generally load counterparties outside NY paying for this energy.

Similar to the import constraint case the benefit here clearly lies with the higher priced location so the external generators receive higher prices. This is independent of any potential BME/SCD price bias.

BME Bias Encouraging External Generation

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Facts:

- When there is no binding constraint the real time price holds and BPCG are paid only to the imports whose accepted bids are higher than the original real time clearing price. The marginal external transaction may receive the BME price. Other transactions receiving the BPCG are paid up to their bid.

While there is a clear indication that external transactions may be paid more in these situations than internal generation it requires that the bidder correctly predict both the BME price and the real time price and bid somewhere in between them. It is an empirical question as to whether the importer would make more money bidding their true costs or playing chicken with the BME and real time prices. It would certainly be a risky exercise given the requirements to bid transactions through both the importing and exporting markets.

BME Bias Encourages Units To Go Off Dispatch

It as been discussed several times in these meetings that a persistent bias at the external interfaces in BME creates an strong incentive for generators to go off dispatch.

Facts:

- Off dispatch units are not paid the BME price, they are paid a BPCG on their minimum generation block equal to the difference between the RT price and their minimum generation block bid.
- Off dispatch units are not paid a RT BPCG if they were scheduled in the hour in the DAM.

For this incentive to be credible requires units to play chicken with the BME prices (i.e., guess a bid that lies between the RT price and the BME price) or be able to cycle their units each hour. While again it is an empirical question, the economic risk to a unit that cannot cycle of not being scheduled by BME would seem to outweigh any potential gains that might exist from any BME/RT price bias.