Applying Current In-City Mitigation Rules to Controllable Lines and Next Steps

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NYISO Installed Capacity Working Group August 11, 2009

In-City Capacity Mitigation/Background

- The existing buyer side capacity mitigation measures address the potential for adding uneconomic capacity in the form of
  - *A new generator*
  - *A controllable line*
- Generally, these measures are intended to discourage investment in uneconomic capacity. Therefore, the mitigation measures that will be applied should be known at the time the investment decision is made
- Buyer side mitigation
  - *the default Offer Floor set at 75 percent of Net CONE, with an opportunity for an exemption, or a lower Offer Floor set at Unit Net CONE*

Note: This presentation does not address SCR mitigation measures.

Background

- The default Offer Floor for new capacity
  - *A*pplies “for each of the six Capability Periods starting with the Capability Period for which the Installed Capacity Supplier first offers to supply UCAP (“Initial Capability Period”), or the period of years if longer…” Att. H Section 4.5(g)
  - Requires that new capacity subject to an Offer Floor be offered into the Spot Auction. This requirement is to ensure bids adhere to the Offer Floor.
- There are two ways in which an MP can be exempt from the 0.75*Net CONE Offer Floor, and one by which the Offer Floor would be reduced

Two ways to be exempt

- Section 4.5g(ii), Attachment H:
  - *An Installed Capacity Supplier shall be exempt from an Offer Floor if*
    - *“(a) any ICAP Spot Market Auction price for the two Capability Periods beginning with the first Capability Period for any part of which the Installed Capacity Supplier is reasonably anticipated to offer to supply UCAP (the “Starting Capability Period”) is projected by the ISO to be higher, with the inclusion of the Installed Capacity Supplier, than the highest Offer Floor based on Net CONE that would be applicable to such supplier in such Capability Periods,” or*
    - *“(b) the average of the ICAP Spot Market Auction prices in the six Capability Periods beginning with the Starting Capability Period is projected by the ISO to be higher, with the inclusion of the Installed Capacity Supplier, than the reasonably anticipated Unit Net CONE of the Installed Capacity Supplier”*

One way to reduce the Offer Floor

- Section 4.5g(iii), Attachment H
  - *“If an Installed Capacity Supplier demonstrates to the reasonable satisfaction of the ISO, in consultation with the Market Advisor, that its Unit Net CONE is less than any Offer Floor that would otherwise be applicable to the Installed Capacity Supplier, then its Offer Floor shall be reduced to a numerical value equal to its Unit Net CONE”*

Exemption Based on Spot Market Price

- 4.5(g)(ii)(a): The Offer Floor exemption available under this subsection is based on price forecasts, and would be the same for the Developer/Interconnection Customer, the holder of capacity rights to a controllable line (a "Transmission Service Rightsholder" or "TSRholder"), and a generator located in NYC
- Methodology
  - *Will use the demand curve prices, factoring in planned generator retirements and additions (including the resource that the exemption analysis is being performed in relation to) using reliable information available that is current as of the time of the analysis including but not limited to the NYISO Gold Book, the interconnection queue, SCR forecasts, and load forecasts*
  - *Forecast of NYC Spot Auction prices =*

    NYC UCAP Ref Point in $ +

    (NYC Forecast UCAP in MW - NYC UCAP Requirement in MW) *(Slope of the Demand Curve)

    - Where

      NYC Forecast UCAP in MW = NYC Capacity + additions - retirements

Determining Unit Net CONE

- Under Att. H 4.5(g)(ii)(b) and (g)(iii), a Unit Net CONE calculation is required
  - *" 'Unit Net CONE' shall mean localized levelized embedded costs of a specified Installed Capacity Supplier, including interconnection costs, and for an Installed Capacity Supplier located outside the New York City Locality including embedded costs of transmission service, in either case net of likely projected annual Energy and Ancillary Services revenues, as determined by the ISO, translated into a seasonally adjusted monthly UCAP value using an appropriate class outage rate." Att. H §2.1*

Determining Unit Net CONE (cont.)

- New Generating Unit Net CONE
  - *The Unit Net CONE calculation for a new generating unit would be established by applying the Att. H definition; requires reviewing the cost of constructing the specific generating unit*
- New controllable line Unit Net CONE
  - *For the controllable line Developer (or Interconnection Customer), Unit Net CONE of a line would be the "levelized embedded costs" of the line, including interconnection costs; however*
    - The controllable line may not be an "Installed Capacity Supplier" therefore, a controllable line with UDRs needs to be coupled with generation in order to apply the new entry mitigation measures
    - Under 4.5(g)(ii)(b), the Unit Net CONE would be compared to the forecast price for capacity in NYC for the Capability Periods specified in 4.5(g)(ii)(b) and the calculation would be:
      - "Levelized embedded costs" of the line -- provided by the Developer/Interconnection Customer, plus
      - Forecast costs to acquire transmission access in exporting control area (transmission access charge), if applicable, plus
      - Forecast price of capacity, energy, and ancillary services in the exporting control area (if applicable), minus
      - Forecast energy and ancillary services revenue in NYC for the Capability Periods specified in 4.5(g)(ii)(b)

Determining Unit Net CONE (cont.)

- New controllable line Unit Net CONE (continued)
  - *For theTSRholder, if the Developer's (Interconnection Customer's) Unit Net CONE has not been established, Unit Net CONE of a line would be the "levelized embedded costs" of the line, including interconnection costs and will follow the same tariff methodology as the calculation for a Developer; however it would require different inputs*
    - The controllable line TSRholder who is not the Developer or Interconnection Customer will not know the "levelized embedded costs of the line including interconnection costs so the costs paid by the TSRholder for rights will be used as a proxy
    - The calculation would be
      - Costs paid by TSRholder for rights to controllable line (rights charge) as a proxy for the "levelized embedded costs" of the line when Developer's costs are absent (*e.g.*, when the Developer/Interconnection Customer is not partnered in the project with the Installed Capacity Supplier, or when a TSRholder obtained rights through an open season auction), plus
      - Forecast costs to acquire transmission access in exporting control area (transmission access charge), if applicable, plus
      - Forecast price of capacity, energy, and ancillary services in the exporting control area (if applicable), minus
      - Forecast energy and ancillary services revenue in NYC for the Capability Periods specified in 4.5(g)(ii)(b)

Use of the Unit Net CONE

- For a Developer or TSRholder, under 4.5(g)(ii)(b), the Unit Net CONE would be compared to the forecast price for capacity in NYC for the Capability Periods specified in 4.5(g)(ii)(b)
  - *If the forecast price of capacity in NYC is greater than Unit Net CONE, the Installed Capacity Supplier (TSRholder) is exempt from an offer floor*
- Under 4.5(g)(iii), if the Installed Capacity Supplier (TSRholder) does not qualify for an exemption, Unit Net CONE would be the floor if the Developer or TSRholder can demonstrate that its Unit Net CONE is less than 0.75*Net CONE
- If the Installed Capacity Supplier (TSRholder) does not qualify for an exemption or the alternate floor, the TSR holder would be subject to the 0.75*Net Cone Offer Floor

Next Steps

- The NYISO plans to tell FERC that we believe we can implement these provisions as described under the current Tariff but plan to request limited waivers out of an abundance of caution. The filing may address
  - *Timeline: 4.5(g)(ii) provides time markers for exemption requests if a Developer/Interconnection Customer, but only limited in relation to the time of entry. The NYISO is reviewing whether a limited waiver is needed when applying 4.5(g)(ii):*
    - To Installed Capacity Suppliers that are other than a Developer/Interconnection Customers
    - When outside the time markers
  - *A possible limited waiver to use the costs paid by TSRholder for rights to controllable line (rights charge) as a proxy for the cost of the line in the calculation of the "levelized embedded costs" of the line when such costs are absent*
  - *Providing notice that the NYISO intends to work through the stakeholder process to enhance the existing buyer side uneconomic entry mitigation measures with a capacity import test that would apply to TSRholders on an ongoing basis. The test would be based on a comparison of the capacity prices in NYC and what alternative price the capacity might have received in the neighboring control area*
    - The new test would begin following the end of the mitigation period or after a defined period
    - We are considering requesting a limited waiver so that an exemption to the existing buyer side uneconomic entry mitigation measures applies for no longer than 2 Years

Next Steps (cont.)

- The NYISO intends to ask for FERC action by mid-September
- The NYISO anticipates that the future enhanced framework will be the subject of a future FPA Section 205 filing
  - *The NYISO will work with stakeholders on a more complete framework to address the potential of uneconomically importing capacity over existing controllable lines.*
  - *We will present a proposed enhanced framework at the September 3 ICAP Working Group Meeting*
- We have reviewed the current Tariff measures and the proposed new test with the Market Advisor

The New York Independent System Operator (NYISO) is a not-for-profit corporation that began operations in 1999. The NYISO operates New York's bulk electricity grid, administers the state's wholesale electricity markets, and provides reliability and resource planning for the state's bulk electricity system.

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