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August 10, 1999

By Hand

The Honorable David P. Boergers, Secretary  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, D.C. 20426

Docket Nos. ER97-1523-000 *et al.*  
New York Independent System Operator, Inc.  
Filing of Details of Installed Capacity Auction

Dear Mr. Boergers:

In its Order issued July 29, 1999 in *Central Hudson Gas & Electric Co., et al.*, 88 FERC ¶ 61,138 (1999) ("July 29 Order"), the Commission directed the New York Independent System Operator, Inc. ("NYISO") "to file with the Commission a detailed proposal for an installed capacity auction market. Such a detailed proposal should include, but not be limited to, bidding rules and procedures, procedures for determining market clearing prices, and market power mitigation procedures." July 29 Order, mimeo at 31. The NYISO, by counsel, hereby files the detailed proposal, including the bidding rules and procedures and procedures for determining market clearing prices. Specific market power mitigation procedures will be filed by August 23, 1999.

Request for Prompt Approval

The New York ISO respectfully requests Commission approval of the details of the auction for Installed Capacity ("ICAP") no later than early September, 1999 so as to permit the auction to occur in mid-September 1999 for the Winter 1999-2000 Capability Period beginning November 1, 1999.

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Persons to be Included on the Service List

The names, titles and addresses of the persons who should be included on the official service list in this proceeding, and to whom communications concerning this filing should be addressed, are as follows:

William J. Museler  
President  
New York Independent System Operator, Inc.  
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Summary of Filing

The New York Independent System Operator Market Administration and Control Area Services Tariff ("ISO Services Tariff") requires all Load Serving Entities ("LSE") to own or contract with providers of sufficient installed capacity to meet an installed capacity requirement for that LSE. LSEs that fail to procure sufficient installed capacity will be subject to deficiency penalties. *See* ISO Services Tariff, §§ 5.9-5.13. Section 5.12 of the ISO Services Tariff specifically contemplates an ICAP auction.

A detailed "Installed Capacity Auction Description" is provided as Attachment A hereto. Attachment A is based on Chapter 6 of the "NYISO Installed Capacity Requirements Manual," which has been posted on the NYISO website. This filing provides a set of interim procedures to govern auctions during the Winter 1999-2000 Capability Period. Permanent procedures will be developed by the ISO prior to the Summer 2000 Capability Period.

Attachment A provides the bidding rules and procedures as well as procedures for determining market clearing prices. On July 26, 1999, the NYISO submitted its Market Monitoring Plan. The NYISO has previously advised the Commission that specific market power mitigation measures will be filed by September 1, 1999. The process for developing those

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measures includes discussions with a large number of market participants and ultimate approval by the NYISO Board. Two drafts have been circulated, and two meetings with the market participants have been held. The NYISO now expects to file the market power mitigation measures, including appropriate provisions for installed capacity markets, on or about August 23, 1999.

Request for Waiver of Notice Requirements and Other Filing Requirements

This filing is made in compliance with the Commission's directive in the July 29 Order. If the Commission's normal 60-day notice requirement is applicable here, it should be waived so as to permit the first ICAP Auction to occur on or about September 15, 1999. Any other requirements that may be applicable to this filing should be waived since the Commission has specifically directed the ISO to provide the detailed proposal provided here.

Federal Register Notice

A draft *Federal Register* Notice is provided as Attachment B. Additionally, an electronic version in WordPerfect 5.1 format of the Notice is being furnished with this filing.

Respectfully submitted,

Arnold H. Quint  
Counsel for the New York  
Independent System Operator, Inc.

Enclosures

cc: Official Service Lists in  
Docket Nos. ER97-1523-000, OA97-470-000  
and ER97-4234-000 (not consolidated)

## INSTALLED CAPACITY AUCTION DESCRIPTION

### 1. DEFINITIONS

All definitions appearing in the ISO Services Tariff are incorporated herein by reference. In addition, the following definitions will be used in this document:

**DMNC Test Period:** The period during a Capability Period during which a resource's DMNC test must be conducted if that DMNC test is to be valid for purposes of determining the amount of Installed Capacity that resource is permitted to provide during that Capability Period. This period will be defined for the Summer and Winter Capability Periods in the ISO Procedures.

**Bidder:** An entity that bids to purchase Installed Capacity in the Installed Capacity Auction ("Auction").

**Offeror:** An entity that offers to sell Installed Capacity in the Auction.

### 2. OVERVIEW

In the Auction, LSEs will have the opportunity to purchase the Installed Capacity necessary to meet the Installed Capacity Requirements set forth in the ISO Services Tariff, and Installed Capacity providers will have the opportunity to sell Installed Capacity. LSEs will also be permitted to purchase part or all of the Installed Capacity necessary to meet their requirements through bilateral transactions for Installed Capacity conducted outside the Auction. Likewise, Installed Capacity providers will be permitted to sell Installed Capacity outside the Auction. Participation in the Auction will not be restricted to LSEs and Installed Capacity providers (although entities wishing to purchase Installed Capacity in the Auction will be required to demonstrate creditworthiness, and entities offering to sell Installed Capacity in the Auction will be required to demonstrate that they have contracted with resources that are likely to be able to provide the offered amount of Installed Capacity).

### 3. SCOPE OF FILING

This document describes interim Installed Capacity Auction procedures, which the ISO will follow when auctioning Installed Capacity that is valid during the Winter 1999-2000 Capability Period, and which Bidders and Offerors must follow in order to participate in those Auctions. Permanent Installed Capacity Auction procedures will be developed by the ISO for auctioning

Installed Capacity that is valid during the Summer 2000 Capability Period and subsequent Capability Periods.

If the ISO has not filed permanent Installed Capacity Auction procedures, or the Commission has not accepted those procedures, by the date of the first Auction in which Installed Capacity valid during the Summer 2000 Capability Period is to be auctioned, or if permanent Installed Capacity Auction procedures have been filed by the ISO and accepted by the Commission by that date, but the ISO has stated in that filing that those permanent Installed Capacity Auction procedures will not take effect until some later date, then the interim Installed Capacity Auction procedures described in this filing will continue be used to perform all Auctions until the date upon which the ISO's permanent Installed Capacity Auction procedures become effective.

#### **4. AUCTION STRUCTURE AND TIMING**

The ISO will conduct Auctions on a periodic basis. Auctions shall be conducted at least once per Capability Period, and may be conducted more frequently if so specified by ISO Procedures.

Each Auction will consist of a set of sub-auctions. In each of those sub-auctions, Bidders will be able to purchase Installed Capacity for a single month (and only that month), and Offerors will be available to sell Installed Capacity for that month.

The determination of the months within any given Auction for which the ISO will conduct sub-auctions will be made by the ISO, in association with ISO Procedures. The months for which a sub-auction is conducted may include the current month, preceding months, or months in the future (e.g., an Auction held in July 2000 could include sub-auctions of Installed Capacity for months before July 2000, a sub-auction of Installed Capacity for the month of July 2000, and sub-auctions of Installed Capacity for months following July 2000). The ISO Procedures shall ensure that:

- (i) At least one sub-auction for each month within a given Capability Period will be held at least 60 days before the beginning of that Capability Period (with the exception of the months within the Winter 1999-2000 Capability Period, for which at least one sub-auction will be held at least 45 days before the beginning of that Capability Period);
- (ii) At least one sub-auction for each month within a given Capability Period will be held after each LSE's final Installed Capacity requirements for that Capability Period have been announced, but before deficiency penalties have been assessed for LSEs that have failed to maintain or contract for sufficient Installed Capacity to meet those requirements; and
- (iii) Each Auction that includes a sub-auction for one month within a given Capability Period will include sub-auctions for every other month within that Capability Period.

The sub-auctions will be conducted independently of one another. Bids to purchase Installed Capacity and offers to sell Installed Capacity must be submitted separately for each sub-auction.

Bids to purchase Installed Capacity and offers to sell Installed Capacity that are not selected in a given sub-auction will not carry over into subsequent Auctions.

ISO Procedures will define the minimum number of business days before each Auction begins by which Bidders who wish to purchase Installed Capacity in that Auction must submit bids to the ISO to purchase Installed Capacity, and Offerors who wish to sell Installed Capacity in that Auction must submit offers to the ISO to sell Installed Capacity. If no Bidders submit bids to purchase Installed Capacity for a given month by that deadline, or no Offerors submit offers to sell Installed Capacity for a given month by that deadline, the ISO will cancel the sub-auction it had planned to conduct for Installed Capacity for that month.

## **5. LIMITATIONS ON OFFERORS' PARTICIPATION IN THE AUCTION**

Only Customers will be permitted to offer to sell Installed Capacity in the Auction.

The amount of Installed Capacity that can be offered for sale in a sub-auction for a given month from a given resource will not be permitted to exceed the amount of Installed Capacity that resource is permitted to provide in that month, which will be limited to the greater of the capacity demonstrated for that resource during the Capability Period containing that month, or the capacity demonstrated for that resource during the preceding like Capability Period. (For example, the amount of Installed Capacity that can be offered for sale during a month in the Summer 2001 Capability Period will be limited to the greater of the capacity demonstrated for that resource for the Summer 2001 Capability Period or the capacity demonstrated for that resource for the Summer 2000 Capability Period.) These procedures are more precisely set forth as follows:

- (i) If the owners of that resource have not yet submitted to the ISO the results of that resource's DMNC test for the Capability Period that includes the month to be covered by the sub-auction by the time at which offers for that sub-auction are due, then the amount of Installed Capacity that resource is permitted to offer for sale in that sub-auction shall not exceed the amount of Installed Capacity that resource has demonstrated in the past it can provide in the Capability Period that includes the month covered by that sub-auction (either through a DMNC test for that resource conducted during the DMNC Test Period for the preceding like Capability Period, or actual production data for that resource during the DMNC Test Period for the preceding like Capability Period).
- (ii) If the owners of that resource have submitted to the ISO the results of that resource's DMNC test for the Capability Period that includes the month to be covered by the sub-auction by the time at which offers for that sub-auction are due, then the amount of Installed Capacity that resource is permitted to offer for sale in that sub-auction shall not

exceed the greater of: the amount of Installed Capacity that resource has demonstrated it can provide in the Capability Period that includes the month covered by that sub-auction (either through a DMNC test for that resource conducted during the DMNC Test Period for that Capability Period, or actual production data for that resource during the DMNC Test Period for that Capability Period); or the amount of Installed Capacity that resource has demonstrated in the past it can provide in that Capability Period, the determination of which is described in the preceding paragraph.

- (iii) Resources located outside the NYCA must provide documentation similar to that described above, as further described in the ISO Procedures.

In cases in which the ISO has reduced the amount of Installed Capacity that a resource can provide due to the failure of that resource's owner to comply with the requirements for Installed Capacity providers set forth in the ISO Services Tariff, the amount of Installed Capacity that the owners of that resource are permitted to offer for sale in that sub-auction shall not exceed the amount of Installed Capacity that resource is permitted to provide.

The amount of Installed Capacity that any given Offeror is permitted to offer for sale in the Auction shall not exceed that Offeror's share of the amount of Installed Capacity that that resource is permitted to offer for sale, as calculated above, less any Installed Capacity that Offeror has offered for sale either through bilateral sales of Installed Capacity or through sales of Installed Capacity from that resource to external Control Areas. Offerors will be required to submit documentation to the ISO verifying that they own, have contracted to purchase, or have been designated as the agent for the share of that resource they claim when making offers to sell Installed Capacity. Any offer to sell that would cause the total amount of Installed Capacity offered by that Offeror from that resource to exceed the amount of Installed Capacity it is permitted to offer from that resource will be rejected.

In addition, all Offerors wishing to sell Installed Capacity in the Auction must submit written statements to the ISO stipulating that the Installed Capacity offered for sale in the Auction by that Offeror from a resource has not previously been committed to provide Installed Capacity in the New York market or in any other market.

If a resource (or a portion of a resource) is selected in the Auction to provide Installed Capacity, that resource (or portion thereof) cannot provide Installed Capacity to any other Control Area, and shall be required to adhere to the requirements for Installed Capacity Providers set forth in the ISO Services Tariff. Therefore, entities wishing to purchase Installed Capacity that will count toward Installed Capacity requirements in other Control Areas will not be able to purchase such capacity in this Auction.

## **6. LIMITATIONS ON BIDDERS' PARTICIPATION IN THE AUCTION**

Only Customers will be permitted to bid to purchase Installed Capacity in the Auction.

As part of its evaluation of each Bidder's creditworthiness, the ISO may establish credit limits for each Bidder. The ISO will reject bids from Bidders if acceptance of that bid could cause the total amount owed by that Bidder as a result of the Auction to exceed that Bidder's credit limit. Procedures for ensuring this does not occur will be detailed in the ISO Procedures.

## **7. INFORMATION CONTAINED IN BIDS TO PURCHASE OR OFFERS TO SELL**

Each Bidder may submit multiple bids. Each bid to purchase Installed Capacity submitted by a Bidder must include the following information:

- (i) The total amount of Installed Capacity it wishes to purchase in association with that bid, in MW;
- (ii) The maximum price the Bidder is willing to pay for the Installed Capacity it is offering to purchase in its bid, in \$/kW-month;
- (iii) The sub-auction (i.e., the month and year) to which the bid applies;
- (iv) Whether the Installed Capacity must be located in a specific Locality, and if so, which Locality; and
- (v) Whether the Installed Capacity can be located in a Control Area outside the NYCA, and if so, which Control Area(s).

The minimum number of MW that must be specified in each bid to purchase Installed Capacity shall be set forth in the ISO Procedures.

Each Offeror also may submit multiple offers. Each offer to sell Installed Capacity submitted by an Offeror must include the following information:

- (i) The total amount of Installed Capacity it offers to sell in association with that offer, in MW;
- (ii) The minimum price it is willing to accept for the Installed Capacity it is offering to sell in its offer, in \$/kW-month;
- (iii) The sub-auction (i.e., the month and year) to which the offer applies;
- (iv) The name of the resource providing the Installed Capacity offered for sale;



- (v) Documentation of that resource's DMNC (described above);
- (vi) Whether that resource is located in a Locality, and if so, which Locality; and
- (vii) Whether that resource is located in a Control Area outside the NYCA, and if so, which Control Area.

The minimum number of MW that must be specified in each offer to sell Installed Capacity shall be set forth in the ISO Procedures.

## **8. DETERMINATION OF SELECTED BIDS AND OFFERS**

The ISO will determine which bids to purchase and which offers to sell Installed Capacity are selected by maximizing total gains from trade in each sub-auction, i.e., by maximizing the sum of the maximum prices bid by Bidders whose bids to purchase Installed Capacity in that sub-auction were selected minus the sum of the minimum prices specified by Offerors whose offers to sell Installed Capacity in that sub-auction were selected, subject to the constraints on the location of the Installed Capacity that have been specified in the selected bids. This maximization will be performed jointly for all locations in each sub-auction, so separate sub-auctions will not be conducted for Installed Capacity located in a given Locality or in a given external Control Area(s).

All, part, or none of a bid to purchase or an offer to sell Installed Capacity may be selected in any given sub-auction. As a result, if a Bidder offers in a bid to purchase a given amount of Installed Capacity at a given price, it may be awarded that amount of Installed Capacity, or it may be awarded any amount less than the amount it offered to purchase (including zero). Neither Bidders nor Offerors will be permitted to submit bids or offers which specify that either all or none of a bid or offer can be selected. Bids to purchase or offers to sell Installed Capacity in a given sub-auction cannot be made contingent on the outcome of another sub-auction; e.g., an Offeror will not be permitted to offer Installed Capacity within one month's sub-auction contingent upon its sale of that Installed Capacity in another month's sub-auction. Also, initially, bids to purchase or offers to sell Installed Capacity in a given sub-auction cannot be made contingent on whether another bid or offer is accepted in the same sub-auction. However, the ISO will evaluate the feasibility of making the acceptance of a bid or offer in a given sub-auction contingent on the acceptance of other bids or offers in that sub-auction.

In cases in which multiple Bidders bid to pay the same price for Installed Capacity in a given location (or group of locations, if there is no price difference between those locations), and some but not all of those bids can be selected, the amount of Installed Capacity awarded to each of those Bidders in association with each of those bids shall be proportional to the amount of Installed Capacity that Bidder bid to purchase in that location (or group of locations, if there is no price difference between those locations) at that price. Likewise, in cases in which multiple Offerors offer to sell Installed Capacity in a given location (or group of locations, if there is no

price difference between those locations) for the same price, and some but not all of those offers can be selected, the amount of Installed Capacity selected from each of those Offerors in association with each of those offers shall be proportional to the amount of Installed Capacity that Offeror offered to sell in that location (or group of locations, if there is no price difference between those locations) at that price.

ISO Procedures may call for all selected bids or offers to be rounded to a given increment (e.g., to be rounded to the nearest whole MW).

## **9. DETERMINATION OF MARKET-CLEARING PRICES**

As a result of each sub-auction, the following market-clearing prices will be determined:

- (i) Prices for each Locality.
- (ii) Price for the portion of the NYCA that is not located in any other Locality.
- (iii) Prices for each Control Area outside the NYCA.

In general, the market-clearing price of Installed Capacity in a given location in a given sub-auction shall be determined by the least-bid cost method of meeting a price-insensitive demand for a small amount of Installed Capacity in that location. In cases where there are no locational constraints, this will be either the lowest \$/kW-month offer submitted by an Offeror whose offer was not fully selected in the sub-auction or the lowest \$/kW-month bid submitted by a Bidder whose offer was partially selected in the sub-auction, whichever is lower.

However, market-clearing prices determined for each of the above locations may differ if locational constraints are binding in the sub-auction. For example, if enough Bidders required Installed Capacity to be located in a given Locality, Offerors of Installed Capacity that is located in that Locality may be selected, even though the prices specified in their offers are higher than the prices specified in offers submitted by Offerors not located in that Locality that were not selected. In this case, the market-clearing price for Installed Capacity located in that Locality would be higher than the market-clearing price of Installed Capacity not located in that Locality.

In cases in which these locational constraints bind, the market-clearing price for a Locality shall reflect the least-bid cost method of meeting a price-insensitive demand for a small amount of Installed Capacity in that Locality; the market-clearing price for the portion of the NYCA that is not in any Locality shall reflect the least-bid cost method of meeting a price-insensitive demand for a small amount of Installed Capacity that must be located within the NYCA, but which is not required to be in any Locality; and the market-clearing price for external Control Areas shall reflect the least-bid cost method of meeting a price-insensitive demand for a small amount of Installed Capacity that can be located within the NYCA or in that Control Area.

Market-clearing prices will be calculated independently within each sub-auction. As a result, the market-clearing price for Installed Capacity at a given location may vary among the sub-auctions conducted for different months at the same time. Additionally, the market-clearing price for Installed Capacity at a given location and in a given month determined in one Auction may differ from the market-clearing price for Installed Capacity at that same location and in that same month determined in another Auction; e.g., the market-clearing price for August Installed Capacity in a given Locality determined in the June Auction may not be the same as the market-clearing price for August Installed Capacity for that same Locality determined in the July Auction.

## **10. SETTLEMENT**

The ISO will pay each Offeror whose offer to sell Installed Capacity is selected in a sub-auction the market-clearing price determined in that sub-auction at the location of each of its resources that have been selected in that sub-auction to provide Installed Capacity, for each MW of Installed Capacity that resource has been selected to supply. Each Bidder for Installed Capacity whose bid to purchase Installed Capacity is selected in a sub-auction will pay to the ISO the market-clearing price at the location specified in the bid(s) that have been selected, for each MW of Installed Capacity that it purchased in that sub-auction.

## **11. ALLOCATION OF WINNING BIDS**

Each Bidder whose bid to purchase Installed Capacity in the Auction is selected will be allocated a pro rata share of the Installed Capacity purchased in the Auction, subject to the locational constraints specified in that Bidder's bid, using the following procedure:

- (i) Bidders of Installed Capacity whose bids specified that the capacity must be located in a Locality will be awarded Installed Capacity in that Locality.
- (ii) Bidders of Installed Capacity whose bids specified that the capacity could be located in a particular Control Area outside the NYCA, and who paid a lower market-clearing price as a result, will be allocated Installed Capacity located in that external Control Area.
- (iii) Any remaining purchasers of capacity whose bids specified they could accept capacity from outside the NYCA will be allocated Installed Capacity for all remaining capacity sold in the sub-auction that is located outside the NYCA. This allocation shall be performed on a pro rata basis, without violating any locational constraints specified by those bidders.
- (iv) All remaining capacity located inside the NYCA shall be allocated on a pro rata basis among all remaining purchasers of capacity in the sub-auction.

## **12. POSTING OF RESULTS**

The ISO will post the results of each Auction within five business days of that Auction. These results shall include:

- (i) The market-clearing price determined for each Locality in each sub-auction that formed part of the Auction;
- (ii) The total amount of installed capacity in each Locality, in the portion of the NYCA not included in any Locality, and in each external Control Area that was sold in each sub-auction; and
- (iii) The total amount of installed capacity purchased in each sub-auction, broken down by the constraints placed upon the location of that capacity by the Bidders placing those bids.

The ISO shall publish all bids and offers made in each Auction six months after the conclusion of that Auction. The names of Offerors or Bidders will not be revealed publicly; however, the ISO will post these data in a way that permits the identity of a given Offeror or Bidder to be tracked over time.

## **13. REPORTING BY AUCTION PARTICIPANTS**

All Sales of Installed Capacity located in the NYCA must be reported to the ISO. In particular, all Bidders of Installed Capacity in the Auction must notify the ISO of the sale of any Installed Capacity purchased in the Auction.

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

Central Hudson Gas & Electric Corporation )  
Consolidated Edison Company of New York, Inc. )  
Long Island Lighting Company )  
New York State Electric & Gas Corporation ) Docket No. \_\_\_\_\_  
Niagara Mohawk Power Corporation )  
Orange & Rockland Utilities, Inc. )  
Rochester Gas & Electric Corp. )  
Power Authority of the State of New York )  
New York Power Pool )

NOTICE OF COMPLIANCE FILING

Take notice that on August 10, 1999, the New York Independent System Operator, Inc. (“NYISO”) submitted a detailed proposal for an installed capacity auction. The NYISO requests an effective date of September 15, 1999.

A copy of this filing was served upon all persons on the Commission’s official service lists in Docket Nos. ER97-1523-000, OA97-470-000 and ER97-4234-000 (not consolidated), and the respective electric utility regulatory agencies in New York, New Jersey and Pennsylvania.

Any person desiring to be heard or to protest this filing should file a motion to intervene or protest with the Federal Energy Regulatory Commission, 888 First Street, NE, Washington, DC 20426, in accordance with Rules 211 and 214 of the Commission’s Rules of Practice and Procedure (18 C.F.R. §§ 385.211 and 385.214). All such motions or protests should be filed on or before \_\_\_\_\_. Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make protestants parties to the proceeding. Any person wishing to become a party must file a motion to intervene. Copies of this application are on file with the Commission and are available for public inspection.

David P. Boergers  
Secretary

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, D.C. this 10<sup>th</sup> day of August 1999.

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