

109 FERC ¶ 61,023
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;
Nora Mead Brownell, Joseph T. Kelliher,
and Suedeem G. Kelly.

New York Independent System Operator, Inc. Docket No. ER03-647-005

ORDER ACCEPTING COMPLIANCE REPORT AND PROVIDING GUIDANCE

(Issued October 7, 2004)

1. Pursuant to the directive in the Commission's order dated May 20, 2003 that accepted the ICAP Demand Curve,¹ the New York Independent System Operator, Inc. (NYISO) filed on February 26, 2004 a report entitled "Report on Status of Regional Adequacy Markets Working Group" (RAM WG Status Report). In this order, we accept the report as in compliance with the May 20 Order and provide additional guidance on the issues to be addressed in future resource adequacy filings.

Background

2. In the RAM WG Status Report, the NYISO reviews progress towards the development of a central market framework with a forward auction for price determination that could be applied consistently across the NYISO, PJM, and ISO-NE control areas. NYISO states that, although the Status Report is being filed in accordance with the May 20 Order, the report reflects the joint efforts of the three ISOs/RTOs. NYISO states that drafts of the Status Report were reviewed by PJM and ISO-NE.

3. The NYISO reports that during 2003 and early 2004, the RAM WG accomplished two primary activities. First, the RAM WG contracted for an independent review by the National Economic Research Associates² (NERA) of, and recommendation for, a centralized regional resource adequacy market model. This was completed in February 2004, and NYISO attached the report to its filing. Multiple stakeholder meetings were held to discuss interim and final results of this report. Second, a continuing stakeholder review process was implemented, both region-wide and in the individual control areas to

¹ *New York Independent System Operator, Inc.*, 103 FERC ¶ 61,201, *reh'g denied*, 105 FERC ¶ 61,108 (2003) (May 20 Order).

² National Economic Research Associates (NERA), *Central Resource Adequacy Markets for PJM, NYISO, and NE-ISO*, February 9, 2004.

explore whether a centralized regional resource adequacy market could be developed. The RAM WG's original timeline when it was created in 2001 was to attempt to develop a market design during 2003 and early 2004, followed by a filing with the Commission before the end of 2004.

4. The NERA report analyzed the centralized regional resource adequacy market model that was recommended by the RAM WG. NERA supported the development of a regional resource adequacy market and recommended specific features of this market. First, NERA concluded that a minimum three-year planning horizon would be required to enable such a market to be a deciding factor in competing suppliers' decisions to construct new capacity. Second, NERA recommended a three year financial commitment period for the length of the supply commitment. Third, NERA recommended utilizing open auctions, particularly descending clock auctions,³ to determine winning bidders and bids in the market.

5. During the stakeholder review process, several issues and concerns were raised about the NERA report and other resource adequacy market issues. The RAM WG Status Report contains a summary of the most significant issues raised by stakeholders. First, market participants have expressed a number of significant concerns with the planning and commitment horizons. According to NYISO, depending upon their particular interests, stakeholders either view a three year financial commitment period as not long enough to mitigate the risks of business and revenue uncertainties or believe the proposed financial commitment period to be too long to bind loads and consumers. Second, the scope and form of any new creditworthiness requirements are of concern, particularly among smaller load serving entities that may lack the necessary financial or credit resources to enter into longer financial commitments with suppliers. Third, concerns were raised about implementing yet another capacity market so soon after the implementation of the New York ICAP Demand Curve. Fourth, some stakeholders believe that NERA's proposed "carve-out" for demand response resources would result in that market clearing separately from the overall capacity resource market and would not reflect true cost. Finally, many supply sector stakeholders are concerned that resources that do not qualify for primary auctions would be unable to participate in any reconfiguration auctions.

6. The NYISO also reports in the RAM WG Status Report that the RAM WG plans to continue the stakeholder review process during 2004, both jointly and individually, to determine whether a consensus approach can be developed, given the broad range of concerns regarding such a market that have been raised by stakeholder groups. First, each ISO/RTO will review the NERA analysis and then based on recent developments in their respective resource adequacy markets, determine whether any modifications would

³ NYISO states that a descending clock auction is a multi-round uniform price auction. See NYISO transmittal letter at 5.

be desirable. If changes are desirable, the ISOs/RTOs will determine how to adopt the changes. Second, the results of the individual ISO/RTO stakeholder reviews will be compared among the ISOs/RTOs, possibly through one or more joint RAM Group all-stakeholder meetings, and implemented if a regional consensus is achieved. The NYISO reports that any necessary tariff amendments by individual ISOs/RTOs to implement a regional capacity market would be targeted for submission to the Commission in the latter part of 2005.

7. Notice of the filing was published in the *Federal Register*, 69 Fed. Reg. 12,314 (2004), with comments, protests, and interventions due on or before March 18, 2004. NY Transmission Owners filed a motion to intervene raising no substantive issues. No other parties filed comments or protests. New York Transmission Owners were already parties to this proceeding by virtue of their timely intervention filed in April 2003.

Discussion

8. The Commission accepts NYISO's RAM WG Status Report as in compliance with the May 20 Order. The Commission is encouraged that the multi-regional process to develop a common resource adequacy market approach is progressing, and looks forward to the filings in 2004 and 2005 of the individual ISOs/RTOs (referenced in the RAM WG Status Report) to implement capacity markets that are consistent and allow capacity exchanges between the markets. The development of a common resource adequacy market approach across the three Northeastern ISOs/RTOs should provide at least three benefits: more options for customers including demand response, more competition, and regulatory certainty for investors. The Commission encourages stakeholders to continue their deliberations towards developing regional consensus and consistent resource adequacy approaches in the near future. The Commission directs NYISO to file another status report on the status of a multi-regional resource adequacy market on or before April 1, 2005.

9. Moreover, any individual or joint filings to be made with the Commission to implement the CRAM will need to address, among other things, the following issues:

- The relationship between ICAP Demand Curves being implemented in the NYISO and ISO-NE and a common resource adequacy market;
- How localized sub-ISO/RTO capacity constraints and markets can be accommodated within a common resource adequacy market;
- The potential for seams across ISO/RTO boundaries on the transferability of capacity and the potential lack of consistency on the definition of capacity products; and
- The ability of demand response resources to participate in a common resource adequacy market.

The Commission orders:

(A) The RAM WG Status Report is hereby accepted as in compliance with the May 20 Order.

(B) NYISO is hereby directed to file a status report on or before April 1, 2005, as discussed in the body of this order.

By the Commission.

(S E A L)

Linda Mitry,
Acting Secretary.