

Resource Adequacy Assurance Mechanism

New York State
Department of Public Service
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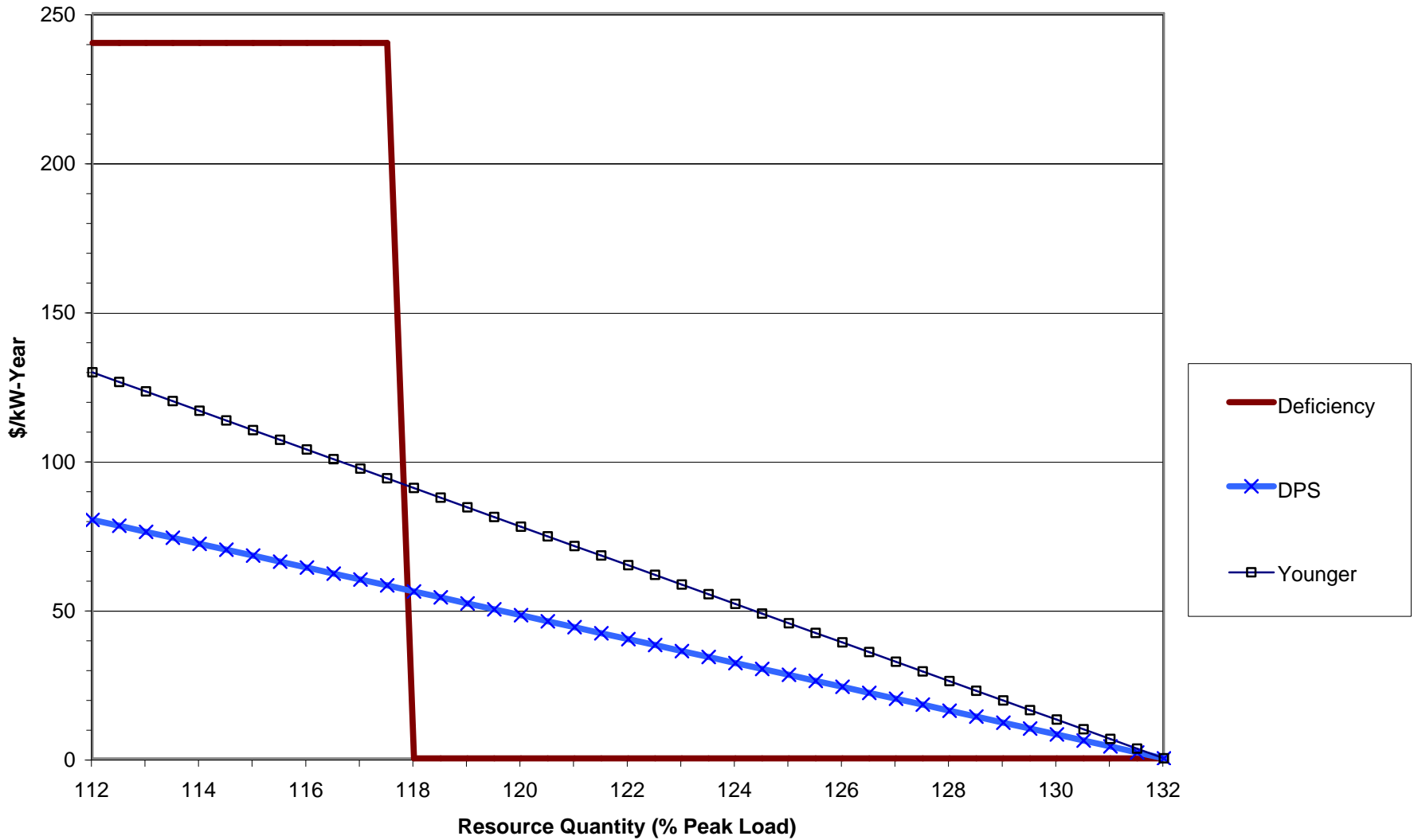
Components (DPS Proposal)

- Forward Markets (no change)
 - Bilateral purchases
 - NYISO Strip Auctions (semi-annual)
 - NYISO Monthly Auctions
- NYISO Centralized Spot Auction (monthly)
 - Demand Curve replaces Deficiency Charge
 - Locality Requirements incorporated
- NYISO Emergency Measures (if supply projected to be below 118%)
 - Emergency purchases charged to appropriate LSEs
 - Would not set market-clearing price
 - Would trigger review of level of demand curve

Auction Design

- Spot auctions replace Deficiency (and monthly?) auctions
- NYISO submits Demand Curve for all load in Spot auctions
- LSEs submit bilaterals as supply bids in Spot Auctions
- NYISO operates strip auctions as before (does not enter bids for market participants)

Proposed Statewide Resource Demand Curves



Proposed Demand Curves

(\$ per kW-year)

Supply (% of peak load)	Deficiency Charge	DPS Proposal	Younger Proposal
117.99%	240	56	91
123% (NYS only)	0	36	58
126%	0	24	39
129%	0	12	19
132% (Max imports)	0	0	0

Recent Capacity Market Prices

- **Primarily affects about 14,000 MW upstate capacity**
 - NYC divested generation under price caps
 - Nuclear units sold under long-term contracts
 - Self-supply is generally a wash
- Most capacity purchased under bilateral contracts
- Contract prices tend to reflect prior auction prices
- **Auction prices appear to be crashing**
 - Winter 2001 ICAP cleared at **\$2.00** per kW-month
 - Summer 2002 UCAP cleared at **\$1.75** per kW-month
 - Winter 2002 UCAP cleared at **\$0.65** per kW-month
- **14,000 MW @ \$2 per kW-month yields \$336 million/year**

Preliminary Estimate of Upstate Capacity
Costs under Demand Curves
 (\$millions per year)

Supply	Deficiency Charge	DPS Proposal	Younger Proposal
117.99%	3360	784	1269
123% (NYS Only)	Low	561	907
\$30 Imports	Low	481	500
\$20 Imports	Low	337	350

Statewide Market Power Analysis

- Suppose statewide market clears at \$30 (at 124.5% of peak load) if all supply bids in.
- Supplier with 3000 MW earns \$90 million.
- Withholding 785 MW (2.5% of peak load) would drive price to \$40 (at 122%).
- Supplier sells 2215 MW at \$40, earns \$88.6 million, less than before.