Dear ICAP WG Members,

The attached Memo is being sent to you for your information:

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Memo:

To Jim Savitt and John Charlton - NYISO

Jim and John,

This letter is a follow-up to a discussion I had with John Charlton at the Joint Capacity Adequacy Group in Hartford, CT on January 25th. John Charlton was explaining how the capacity market works under NYISO rules and explained that owning capacity is a "final call" on energy. In addition, it is the responsibility of UCAP sellers to bid, schedule, and notify the NYISO when energy would be flowing to the control area.

In the Q&A session, I asked John if units that are importing UCAP into NY will be bound by the same bidding rules on energy. In other words, will the external UCAP generators have a reference price that is based on their cost curve and will these generators be subject to the AMP in the same way as in state generators?

If it is true that capacity is a final call on energy, it is not consistent to have capacity rules that are the same for all generators and yet have a difference in energy bidding rules. Consider the in state generator with a Reference Price of $50. During conditions when demand for energy is high, a generator in New York must respect the bidding limitations imposed by the AMP or risk automatic mitigation. In this case, the generator would be limited to a bid of $150 per MWhr under the AMP. However, a generator located in New England or PJM with a similar reference price or variable costs to my in state generator could bid up to $1000 per MWhr without fear of mitigation. Thus, the out-of-state generator gets the same price for its UCAP or the sale to New York of a "call option" but the strike price for its energy is far greater since the AMP does not impose the same bidding limitations on its energy.

As we move forward to break down the barriers to conducting UCAP transactions between the regions, it is extremely important that out of state resources not be given an unfair competitive advantage. In this case, the NYISO has effectively bought two different calls with different strike prices and therefore the underlying value is different. The out of state generator has more flexibility to bid his energy "out of the market" and use that energy to capture higher energy values in other flanking markets (yet he gets the same capacity price as the in state generator). The in state generator will have less options on volatile days given that the AMP effectively imposes a bid cap on in state generators that is at a lower price than the out of state counterpart. The NYISO will point out the fact that energy imports are not subject to the AMP provision. However, Dynegy believes that there is a clear distinction between imported energy and energy backed by a UCAP commitment to NY load.

While this may seem like a very subtle issue, you should not underestimate how capacity prices are truly dependent on the underlying energy strike price. We are very interested in your views and David Patton's views on this issue. I spoke with Matt Picardi of Dynegy, who also happens to be the Chair of the ICAP Working Group. He suggested that this was an issue that needed to be resolved by the AMP/ICM Task Force and probably should at least be discussed at the ICAP Working Group.

Please e-mail me when you get a chance or you can call me at the number below as I would be interested in your thoughts on this issue before asking to have it added to the agendas for the AMP/ICM and the February 13th ICAP working group meeting.

Thanks for your prompt consideration.