

# **Proposed Tariff Provisions Regarding NYISO Price Correction - Part II**

## **For Discussion Purposes Only**

**October 4, 2005**

### **Introduction**

This document describes proposed changes to the NYISO tariffs regarding the substantive criteria for determining that an Energy or Ancillary Services price has been calculated in error and requires correction. In addition, this document describes proposed changes to the NYISO tariffs to address the manner in which the NYISO will calculate corrected prices. A related document, *Proposed Tariff Provisions Regarding NYISO Price Corrections - Part I*, addresses proposed changes to the NYISO tariff provisions regarding the procedural aspects of NYISO price corrections.

The changes to the NYISO tariffs proposed here do not substantially change the NYISO's current price correction practices. They are intended, instead, to clearly establish in the NYISO tariffs what constitutes a price error that requires correction by the NYISO and the manner in which the NYISO will make such correction.

### **Guiding Principles**

Consistent with competitive electric market principles, the NYISO tariffs require the scheduling, commitment, and dispatch of supply resources on a least total cost basis.

To be determined in accordance with the NYISO tariffs, Energy and Ancillary Service clearing prices must be: (i) calculated correctly and (ii) based on the appropriate price-setting resource (*i.e.*, the marginal resource, except as otherwise provided by the tariffs).

An Energy or Ancillary Services clearing price that is found not to be calculated in accordance with the NYISO tariffs shall be corrected in accordance with the price correction provisions of the NYISO tariffs and shall not be corrected otherwise except as ordered by FERC or a court of competent jurisdiction.

Settlement errors, such as errors in the calculation of uplift charges or errors in the calculation of Bid Production Cost Guarantee payments are addressed separately by the NYISO through its settlement correction process (*i.e.*, bill corrections).

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### Key Terms of Proposed Provisions

#### I. Price Errors Requiring Correction

##### A. Calculation Errors

Prices that are found to have resulted from miscalculation and missing prices are erroneous and shall be corrected by the NYISO.

- *Calculation errors occur when, notwithstanding the selection of the correct price-setting unit, prices are computed incorrectly.*
- *Calculation errors result from most software errors including the “generator bus modeling anomaly,” and unexplained model solutions and non-convergence. Calculation errors also include instances when no prices are calculated or when prices are not correctly posted on the OASIS web site.*

##### B. Errors in Selecting the Price-Setting Resource

Prices that are found not to have been calculated based on the appropriate price-setting resource are erroneous and shall be corrected by the NYISO. The appropriate price-setting resource is generally the marginal, least total cost resource, except as provided otherwise by the NYISO tariffs.

Suppliers with bids above the true marginal cost that were erroneously dispatched by the NYISO shall receive Bid Production Cost Guarantee payments for the energy produced in accordance with the NYISO tariffs.

- *Errors in selecting the price-setting resource occur when a price is computed correctly but is not based on the correct price-setting resource.*
- *Errors in selecting the price-setting resource may result from input errors, including bad generator input data, bad load metering, operational input errors and TLRs. These errors may also result from software issues, for example, Out of Merit resources incorrectly setting prices.*
- *Bid Production Cost Guarantee payments to suppliers actually dispatched on the basis of a bid exceeding the corrected clearing price provide a measure of protection for those suppliers.*
- *The pricing rules for non-competitive proxy buses are an example of a price calculation based on a unit other than the marginal unit.*

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### **II. Price Effects of Mitigation Errors**

The NYISO shall not correct a clearing price that results from the incorrect mitigation of a supplier's bid. A supplier shall be paid for energy produced by an incorrectly mitigated unit as provided in the Services Tariff, Attachment H, Section 4.2.2(c). The NYISO shall not correct clearing prices that result from an incorrect failure to mitigate a supplier's bid, except as may be authorized by the Commission.

- *Applies to both over-mitigation and under-mitigation.*
- *NYISO staff is not proposing to change provisions regarding the price effects of mitigation errors at this time.*

### **III. Methodology of NYISO Corrections**

#### **A. Alternate Correction Methodology**

When practicable, the NYISO will calculate price corrections in accordance with the NYISO tariffs. In the event that the NYISO cannot practicably calculate a price correction in accordance with the NYISO tariffs, due to the unavailability of necessary data or otherwise, the NYISO shall construct prices as close as reasonably possible to the prices that should have resulted from the operation of the relevant tariff provisions consistent with system conditions by drawing from prices calculated for electrically similar points (PTIDs), prices in surrounding intervals, Real-Time Commitment prices, or Day-Ahead Market prices for the affected interval(s). The NYISO will indicate the price correction method used to correct an erroneous price in its notice of the price correction.

- *This is more explicit and specific than the current tariffs.*

#### **B. System Emergency / Catastrophic Software Failure**

In the event of a system emergency or catastrophic failure of the NYISO's price calculation software that prevents the NYISO from calculating prices in accordance with the provisions above, the NYISO shall provide notice of the problem to the FERC and market participants as soon as possible, but in no event later than the beginning of the next business day. Within two additional business days, the NYISO shall inform the FERC and market participants regarding the nature of the problem and the schedule for determining the procedures to be used by the NYISO to construct prices as close as possible to the prices that should have resulted from the application of the market rules established in the tariffs to prevailing system conditions.

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