



Locational Capacity Exports Mitigation

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Locational Capacity Exports – Mitigation

- ◆ **The MMU has voiced two concerns regarding the mitigation of exports:**
 - I. The methodology used to determine whether External Sale UCAP has been withheld (Att. H 23.4.5.4.1) does not match the formula used to calculate the associated penalty*
 - II. The \$2.00/kW-month ‘impact threshold’ for withholding via uneconomic capacity exports is significantly greater than (4x) the impact thresholds for other types of withholding, and may need to be revisited*
- ◆ **The NYISO agrees that both these concerns should be examined, and has identified a solution to issue (I)**
 - *The NYISO does not believe it can adequately consider the issues surrounding item (II) under the timeframe required of this proposal*

Penalty Calculation – *Current Rules*

- ◆ **The determination of withholding is based on a comparison between:**
 - *The net revenues from UCAP sales that would have been earned by the sale of External Sale UCAP in a Mitigated Capacity Zone (“MCZ”), and*
 - *The net revenues earned from the External Sale of Capacity*
- ◆ **The penalty calculation stipulates an amount equal to 1.5x the lesser of:**
 - *The difference between the average MCP in the Spot Auction for the MCZ with and without the External Capacity Sale, and*
 - *The difference between that average price and the clearing price in the External Reconfiguration Auction*

Penalty Calculation – Concerns

- ◆ **This difference in the calculations has raised concerns because:**
 - *With the implementation of ‘pay-for-performance’ type initiatives in the Neighboring Control Areas, the clearing price of an External Reconfiguration Auction may reflect an implicit risk premium for anticipated performance penalties*
 - *Thus, a comparison of clearing prices alone may tend to overstate the net revenues earned by a capacity export and comparatively reduce the calculated penalty amount*
 - *Because this difference is correctly captured in the ‘Export Test’ methodology – but not the penalty calculation – under the previously proposed language the NYISO may find itself limited to assessing \$0.00 penalties to entities deemed to have been withholding External Sale UCAP*

Penalty Calculation – *Proposed Solution*

- ◆ **The NYISO therefore proposes:**
 - *To remove the ‘lesser of’ language from the penalty calculation.*
 - *This would bring the penalty in-line with every other penalty for withholding, and*
 - *This would ensure that an entity deemed to have been withholding will always be penalized in an amount larger than their ill-gotten gains.*
- ◆ **Notes:**
 - *The NYISO already has a process to address concerns regarding ‘unpredictable’ or ‘surprise’ auction results (Att. H 23.4.5.4.3)*
 - *An entity seeking to export from an MCZ may request a forecast of ICAP prices from the NYISO in advance of submitting offers into an External Reconfiguration Auction*
 - *The External Sale of Capacity is then given safe harbor, provided that it is offered into that auction in a manner such that, if accepted, will produce more net revenues than would have been earned in the MCZ under the NYISO’s forecast*
 - *An alternative to this proposal would be to alter the penalty calculation such that it retains the ‘lesser of,’ but is dependent on the difference in net revenues, rather than the difference in average clearing prices.*

Next Steps

- ◆ The NYISO welcomes stakeholder feedback on this proposal.
- ◆ The NYISO will consider input received during today's ICAPWG meeting. Stakeholders may submit additional feedback in writing to lseirup@nyiso.com or deckles@nyiso.com

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- *Maintaining and enhancing regional reliability*
- *Operating open, fair and competitive wholesale electricity markets*
- *Planning the power system for the future*
- *Providing factual information to policy makers, stakeholders and investors in the power system*

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