

## **Proposed Mitigation of ROS Generators Committed for Reliability and Next Steps**

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# *Overview*

1. Background.
2. Proposed Mitigation Measure and  
Tariff Changes.
3. Next Steps.

## *Generators Committed for Reliability Possess Market Power*

- ◆ Outside of NYC, Generators that are committed for reliability outside of the normal economic dispatch
  - *Often have local market power*
    - When there is a single Supplier (or very limited number of Suppliers) that can meet the reliability need
    - When the reliability need is well understood and/or when the majority of the Generator's operation is a result of reliability commitments.
  - *These Generators receive revenues equal to their offer price (through LBMP or BPCG revenues)*
  - *Therefore, they have an incentive to raise their offer price*
    - This undermines a critical feature of the uniform price auction market design. Generators should have an incentive to offer at marginal cost in order to maximize their profits.

# *ROS Thresholds too Lenient*

- ◆ The current “Rest of State” conduct and impact thresholds are too lenient to adequately mitigate reliability committed or reliability dispatched Generators.
- ◆ ROS Thresholds:
  - *Conduct = an increase in the bid above the reference level by the lesser of \$100/MWh or 300%.*
  - *Impact =*
    - an increase of 200 percent or \$100 per MWh, whichever is lower, in the hourly Day-Ahead or Real-Time Energy LBMP at any location, or of any other price in an ISO Administered Market; or
    - an increase of 200 percent in guarantee payments to a Market Party for a day.

## *NYISO's 9/4/09 Section 205 Filing*

- ◆ Sections 1(b) and 3.2.3 of the NYISO's Market Mitigation Measures ("MMM") require the NYISO to look for abuses of market power that do not exceed the conduct and impact thresholds that must be met for the NYISO to mitigate a bid or offer, but that, nevertheless, depart significantly from the conduct that would be expected under competitive market conditions.
- ◆ If the NYISO identifies conduct;
  - *that departs significantly from the conduct that would be expected under competitive market conditions, and*
  - *causes either*
    - an increase of 100 percent in the hourly day-ahead or real-time energy LBMP at any location, or of any other price in an ISO Administered Market; or
    - an increase of 100 percent in guarantee payments to a Market Party for a day,
  - *then the NYISO is required to make a Federal Power Act ("FPA") Section 205 filing.*

## *Section 205 Filing (con't)*

- ◆ On 9/4/2009 the NYISO made a section 205 filing proposing to prospectively apply new mitigation rules to three specifically identified Generators.
  - *As explained in its filing, the NYISO and its Market Advisor believe that the Generators exceeded the 1(b) and 3.2.3(2) thresholds.*
  - *FERC agreed that the NYISO*  
*“has demonstrated that the three Specified Generators” bidding*  
*conduct during the summer of 2009 warranted mitigation*  
*pursuant to the conduct and impact tests of section 3.2.3 of*  
*Attachment H”*

## *Section 205 Filing (con't)*

- ♦ In the filing the NYISO committed to develop, with its stakeholders, an appropriate mitigation measure to apply to Generators/Suppliers that are pivotal when they are committed or dispatched for reliability.
- ♦ In its 5/20 Order, FERC states that
  - “We are concerned with the absence of a generally-applicable mitigation measure to address the exercise of market power in those instances where a generator is the only solution to a reliability need.”*  
(¶101)
- ♦ FERC also directed the NYISO to file a progress report on these efforts if it is unable to file a mitigation measure within 90 days.
- ♦ The mitigation proposal is similar to the measure approved by FERC but includes additional thresholds for:
  - *start-up time, minimum down time and max stops per day.*

# *Mitigation Proposal*

- ◆ Apply guarantee payment mitigation (substitute a reference level for the Generator's Bid) if the following conditions are met:
  1. The Generator is located outside of the Constrained Area (New York City); and
  2. The Generator was committed to protect or maintain New York Control Area or local system reliability
    - as a Day-Ahead Reliability Unit ("DARU"), or
    - via a Supplemental Resource Evaluation ("SRE"),

Or, after commitment via DARU or SRE, if the Generator was **further** dispatched above its Minimum Generation point Out-of-Merit to protect or maintain New York Control Area or local system reliability; and

# *Mitigation Proposal*

3. One of the following three (i) – (iii) conditions must be satisfied in order for mitigation to be applied\*:
  - i. the Market Party (including its Affiliates) that owns or offers the Generator is the only Market Party that could effectively solve the reliability need for which the Generator was committed or dispatched, or
  - ii. when evaluating an SRE, the NYISO only received Bids from one Market Party (including its Affiliates), or
  - iii. when evaluating a DARU, if the Market Party was notified of the need for the reliability commitment of its Generator prior to the close of the Day-Ahead Market.

**\*Changed from prior presentations – see Slides 10 & 11**

# *Mitigation Proposal*

4. One or more of the thresholds specified below are exceeded (mitigate each Bid or Bid component for which the proposed threshold is exceeded);
  - exceeded the Generator's Minimum Generation Bid reference level by the greater of 10% or \$10/MWh, or
  - exceeded the Generator's Incremental Energy Bid reference level by the greater of 10% or \$10/MWh (NOTE: The mitigation does not apply to economically dispatched MWs following a reliability commitment), or
  - exceeded the Generator's Start-Up Bid reference level by 10%, or
  - exceeded the Generator's minimum run time, start-up time and minimum down time reference level by more than one hour, or
  - exceeded the Generator's minimum generation MW reference level by more than 10%, or
  - decreased the Generator's maximum number of stops per day below the Generator's reference level by more than one stop per day, or to one stop per day.

# *Changes from BIC presentation*

- ◆ At the BIC Market Participants raised issues that have led to changes in the proposed Tariff Language.
  - *A market participant asked if the NYISO intended to “undo” the mitigation if a resource was incorrectly identified as the only resource designated to solve a local reliability need.*
    - The NYISO believes that this modification is appropriate and has made modification to clearly enable it to undo mitigation by removing the following measure (and renumbering the subsequent measures).
      - ii. the Generator was the only resource designated by a Transmission Owner to solve a local reliability need, or
    - Market Participant who believe they were inappropriately mitigated will be able to contact CRD and will be required to provide a written explanation of their specific concern.

## *Changes from BIC presentation*

- ◆ An internal review identified a concern that the current language could be interpreted to mean that a generator could be identified as a potential alternative solution to a reliability need, even though it would not be a viable alternative.
  - *The NYISO proposes to slightly revise Section 3.1.4(c)(2)(i) to address this concern.*
- ◆ These changes were reviewed at the 5/13 MIWG.

# *Supplier Concerns*

The following concerns were expressed during the January BIC presentation:

- Transmission Owner (TO) needs to notify the NYISO when there are multiple Generators that can satisfy a local reliability need
- There is a need for a revenue stream to meet fixed costs for units committed for reliability needs (NYCA or local)

# *Increased Transparency*

- ◆ Addressing the first concern:
  - *As part of implementing the mitigation measure the NYISO plans to provide increased transparency on Suppliers committed to address local reliability.*
    - Most reliability commitments are to address Applications of Reliability Rules
    - The Applications of Reliability Rules are listed in Appendix B.5 of the Transmission and Dispatching Operations Manual
  - *The NYISO proposes to modify its procedures so that, when a Transmission Owner requests a local reliability commitment, the Transmission Owner is required to either:*
    - Identify the Market Parties (i.e. Suppliers) that are capable of meeting the reliability need, or
    - Inform the NYISO that the requested Supplier is the only Supplier that can meet the identified reliability need.
  - *The NYISO also expects to enhance its monthly reporting to include the costs associated with reliability needs.*

# *Interim Payment Proposal*

- ◆ Addressing the second concern:
  - *The NYISO proposed an Interim Payment to address some of the concerns (MIWG 2/25)*
  - *Comments from Market Participants indicated that there is not yet concurrence on either the problem or the solution(s)*
  - *The NYISO is separating further discussions on the Interim Payment Proposal from the proposed Mitigation Measure.*
  - *This is to allow the Proposed Mitigation Measure to be acted on by stakeholders in a timely manner.*

## *Interim Payment (Con't)*

- ◆ Clarification of the process that will be used to address the proposed retirement of a Generator that is needed for reliability, including discussion of a possible interim payment mechanism will continue on a separate track.
  - *The NYISO will continue the discussions related to this matter at future stakeholder meetings.*
  - *In the filing letter for the mitigation measure the NYISO will commit to a review of the Generator retirement process and to review the need to clarify or modify the process where appropriate.*
  - *Resolving the issues outlined on the next slide are anticipated to take a significant amount of time. It is not appropriate to delay the implementation of mitigation rules addressing Generators committed for reliability outside the New York City Constrained Area until they are resolved.*

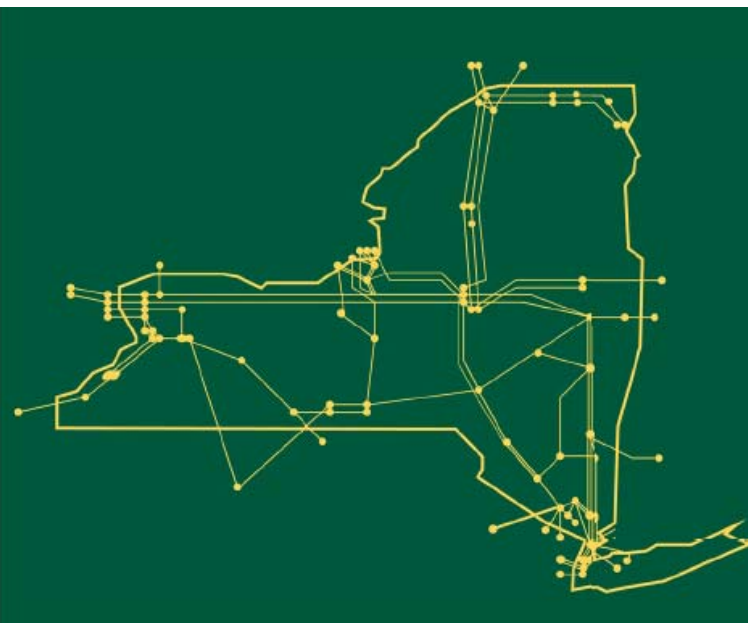
## *Interim Payment (Con't)*

- ◆ Interim payment issues raised by Market Participants
  - *Is a payment necessary or not?*
  - *When should the payment start and stop?*
  - *How does the payment interact with existing regulatory mechanisms?*
  - *What is the appropriate level of the payment and how should it be calculated?*
  - *What obligations should be taken on by each of the affected Generator, TO, NYISO, NYPSC?*
- ◆ The NYISO is currently evaluating the appropriate stakeholder committee to continue these discussions.

## *Next Steps*

- ◆ The NYISO proposes to proceed with the mitigation proposal and take the proposal for vote
  - *BIC – May 5*
  - *MC – May 28*
  - *BOD – June/July*
  - *Targeted for Fall 2010 deployment.*

The New York Independent System Operator (NYISO) is a not-for-profit corporation that began operations in 1999. The NYISO operates New York's bulk electricity grid, administers the state's wholesale electricity markets, and conducts comprehensive planning for the state's bulk electricity system.



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