

NYISO Board of Directors / Management Committee Meeting

October 17, 2000

**Summer 2001
Outlook and Plans**

***Bill Museler
President & CEO***



***NEW YORK
INDEPENDENT SYSTEM OPERATOR***

Introduction

- ✓ **Overview of Summer 2001 Preparations**
- ✓ **“Three-legged stool”**
 - *Complete Market Enhancements*
 - *Implement Price Sensitive Load Capability*
 - *Establish “Circuit Breaker”*



Key Questions?

- ✓ **Are the NYISO's Markets always Workably Competitive?**
- ✓ **Response:**
 - *NYISO Markets are generally competitive*
 - *There are instances when market conditions provide an opportunity to exercise market power*
 - *The lack of price sensitive load exacerbates this potential situation.*



Key Questions?

✓ **When Markets are not Workably Competitive, how should prices be set?**

✓ **Response:**

- *Clearing prices could be set by one of several mechanisms in the absence of competitive market conditions*



Future Direction

- ✓ **Modify the NYISO's market design (Tariff) to permanently incorporate provisions addressing such situations.**
- ✓ **Bid caps should no longer be necessary for Summer 2001, assuming such provisions are adopted and approved by FERC**



Price Sensitive Load Development

John Buechler

October 17, 2000



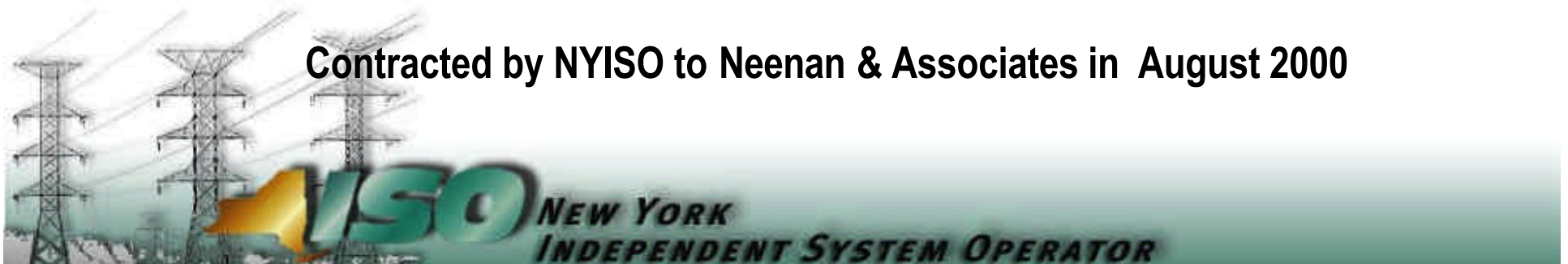
***NEW YORK
INDEPENDENT SYSTEM OPERATOR***

Price-Responsive Load Project

✓ Goals:

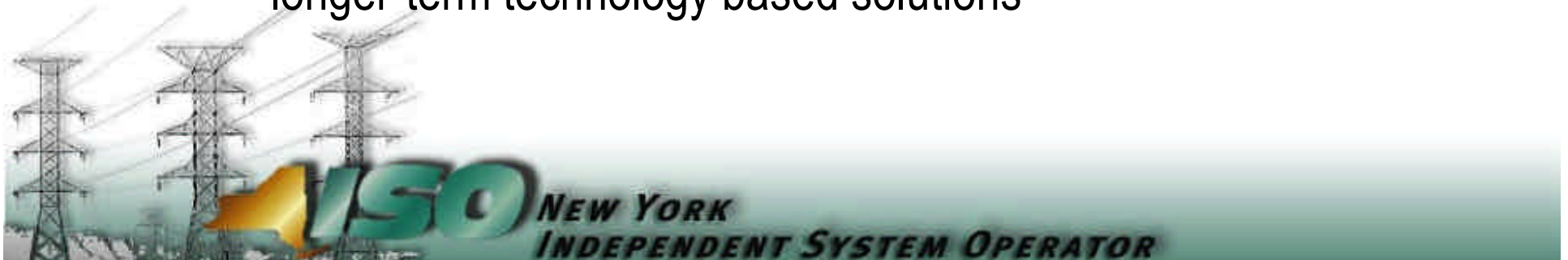
- ◆ identify existing PRL programs in US and abroad
- ◆ with MPs, develop programs that fit specific needs of NY marketplace
- ◆ conduct focus groups, develop user surveys to estimate benefits
- ◆ finalize recommendations - December 2000
- ◆ implementation target - June 2001
- ◆ may identify programs that can be implemented in Winter 2000-2001

Contracted by NYISO to Neenan & Associates in August 2000



Activity to Date

- ✓ Price-Responsive Load Working Group formed in Sept. 2000 to provide forum for MP input
- ✓ PRLWG solicited initial strawman input by Sept. 22 - ongoing refinement, prioritizing of programs
- ✓ Wide range of programs investigated:
 - emergency load reduction
 - day ahead & real time load bidding
 - longer-term technology-based solutions



Project Schedule

- ✓ Focus group meetings with market sectors conducted on Sept. 27 and Oct. 4
- ✓ Regional focus group meetings with targeted end-users to be conducted in late October
- ✓ Program recommendations finalized by end of 2000 - possible implementation of some programs during winter 2000-2001



Towards a Continuous Workably Competitive Electricity Market

Alternatives to Price Caps

**NYISO Board/Management
Committee Meeting
October 17, 2000**

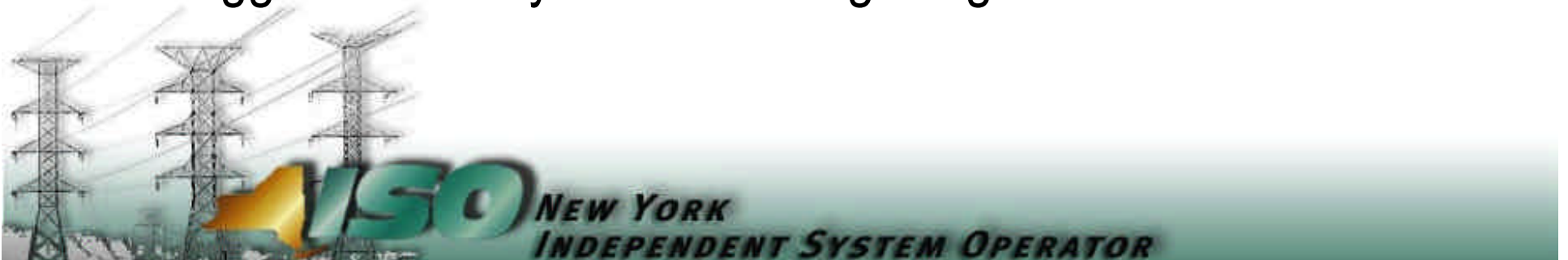
***Charles A. King, PE
Vice President Market Services***

***NEW YORK
INDEPENDENT SYSTEM OPERATOR***



Alternatives to Bid Caps

- ✓ **Bid caps** limit the offers all participants can make under all conditions.
- ✓ Alternatively, **bid mitigation** limits the offers only participants with market power can make.
- ✓ Existing NYISO mitigation plan is prospective not retroactive.
- ✓ Participants with market power can “steal the golden egg” for one day under existing mitigation.



Alternatives to Bid Caps

- ✓ During times when market conditions are no longer workably competitive, clearing prices do not reflect the reasonable interaction of supply and demand.
- ✓ A mechanism is needed that reasonably reflects prices that would occur under competitive conditions.
- ✓ One such mechanism is the “Circuit Breaker” approach.



Definition of a Circuit Breaker

- ✓ A “Circuit-Breaker” is a selective bid mitigation mechanism which is activated when conditions are not workably competitive.

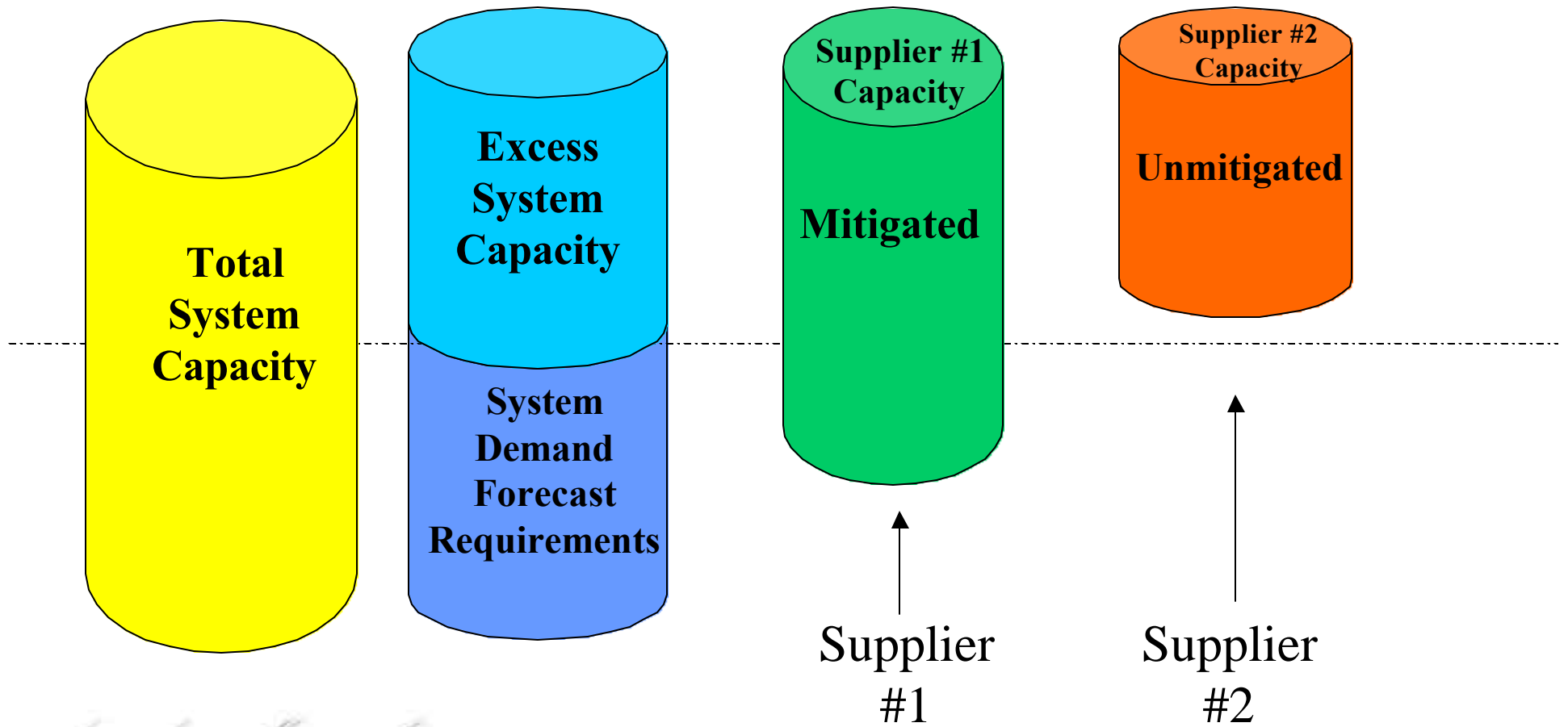


Multiple Strawmen Approaches

- ✓ Strawman #1 : Excess Capacity Comparison
- ✓ Strawman #2 : Mitigated Price Comparison
- ✓ Strawman #3 : Variation Using Out-of-Merit Status
- ✓ Others ???



Circuit Breaker Strawman # 1



CB Strawman #1 :

Excess Capacity Comparison

- ✓ Difference between total system capacity and system demand forecast is classified as **excess capacity**
- ✓ Any supplier with capacity greater than excess is deemed to have market power and therefore subject to mitigation
- ✓ Suppliers subject to mitigation are automatically mitigated to **reference offers** during times of system stress



Circuit Breaker Strawman #2

Difference Between Mitigated and Unmitigated Clearing Prices

\$/MW

Unmitigated
Price

Mitigated Price

Demand (MW)

Unmitigated
Supply

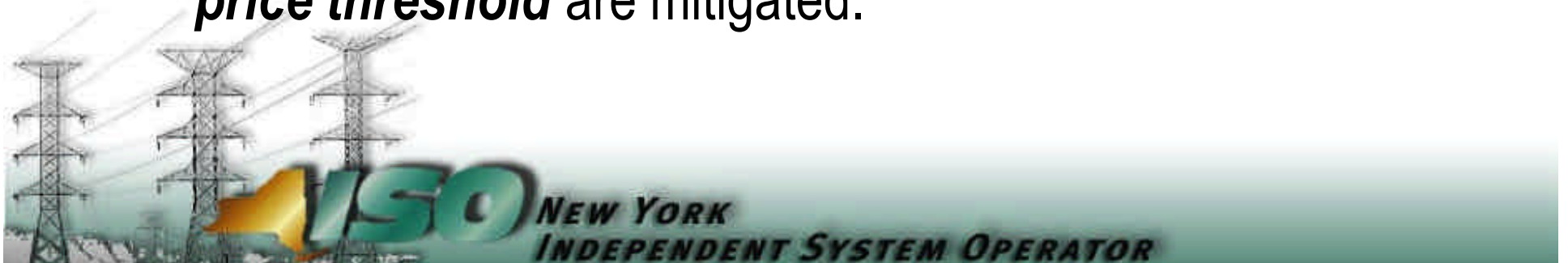
Mitigated
Supply



CB Strawman #2 :

Mitigated Price Comparison

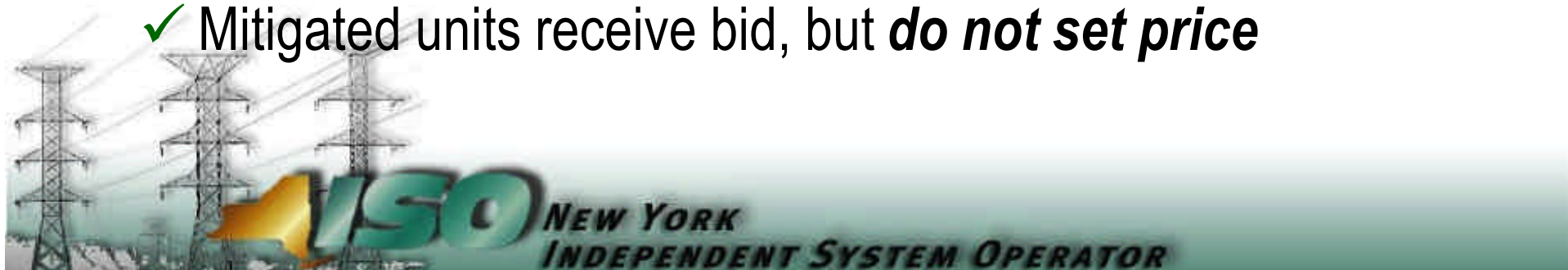
- ✓ Based on differences between mitigated and unmitigated market clearing prices.
- ✓ Differences are greater during high load/low supply periods.
- ✓ Threshold based on historical patterns of noncompetitive high demand
- ✓ All generating unit bids ***above mitigation reference price threshold*** are mitigated.



CB Strawman #3 :

Variation with Out-of-Merit Status

- ✓ Based on differences between mitigated and unmitigated market clearing prices.
- ✓ Differences are greater during high load/low supply periods.
- ✓ Threshold based on historical patterns of noncompetitive high demand
- ✓ All generating unit bids ***above mitigation reference price threshold*** are set out-of-merit.
- ✓ Mitigated units receive bid, but ***do not set price***



Going Forward....

- ✓ Engage Stakeholder input to develop & refine existing and/or new strawman proposals.
- ✓ Obtain MC & NYISO Board endorsement of consensus CB proposal.
- ✓ Identify software/procedure specifications & Tariff/Mitigation Plan changes.
- ✓ Initiate implementation to ensure needed functionality by **Summer 2001**.



Conclusions

- ✓ Bid Caps apply to all participants at all times not only those with market power and not only during periods when the market is no longer workably competitive.
- ✓ Alternatively, a Circuit Breaker mechanism selectively impacts only those with market power and only during periods when the market is no longer workably competitive.



Conclusions *continued*

- ✓ Circuit Breaker prevents the one day gap in current mitigation procedure.
- ✓ NYISO should proceed to develop and deploy a CB mechanism in preparation for Summer 2001

