

# **Resource Adequacy Market: RAM Update**

**By**

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**Agenda #10**

**NYISO**

**BIC Meeting**

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# Background

- NYISO, PJM and ISO-NE (and IMO) began meeting in December 2001 as the Joint Capacity Adequacy Group (JCAG)
- JCAG process developed the concept of a Centralized Resource Market Model (CRM) in mid-2002.
- JCAG was renamed to the Resource Adequacy Model (RAM) group later in 2002.
- NYISO, PJM and ISO-NE made a Joint FERC Filing – January 10, 2003
- An independent study of the CRM Model was proposed to optimize the design and recommend an auction model to minimize market power/gaming potential.
  - *An RFP was issued in April 2003*
  - *Contract was awarded to NERA in June 2003*
  - *Sept 8<sup>th</sup> RAM Meeting (Hartford) – Initial NERA presentation*
  - *Oct 29<sup>th</sup> RAM Meeting (Wilmington) – Second NERA presentation*

# RAM/CRM Proposal

- A centralized auction was proposed on behalf of all load to commit Resources & set LSE prices for a future commitment period.
  - *Coordinated auctions for each Northeast ISO region*
  - *Minimize, but allow for, area differences*
- **UCAP will used throughout the region**
- **Resource requirements set well in advance**
- **Supply and Demand Resources to be included**
- **Support retail access programs**
- **Bilateral agreements encouraged**
- **All three Northeast ISOs would transition existing capacity markets to CRM**

# Preliminary NERA Recommendations

- **Planning Horizon – 3 years is recommended**
  - *One and two year horizons do not assure adequacy, are biased toward short lead-time resources, increase price volatility and preclude more efficient resources*
  - *Risks are greater with shorter (less than one year) planning horizons*
  - *Four or Five year planning horizon is marginally better but not enough to overcome other considerations*
  - *Three year horizon represents the best balanced choice.*

# Preliminary NERA Recommendations

(cont.)

- **Commitment Period – 3 years is recommended**
  - *3-year rolling option with a fixed 3-year commitment period*
  - *A 1 or 2-year commitment period could meet the objectives — but at potentially higher prices and without as much protection from transition events*
  - *Will provide improved revenue certainty and induce providers to bid at lower prices*
  - *Differing commitment periods would be preferred by some resource providers*
    - ▶ Longer periods desired by those with capital investments
    - ▶ Shorter commitment periods preferred by those without significant investment but with need for flexibility

# Preliminary NERA Recommendations

(cont.)

## ➤ Auction Model – Descending Clock

- *Among Open Auctions, Clock Has Strong Advantages*
  - ▶ Strategic Simplicity, can learn rules easily, more likely to enter
- *Most sensible design when products are very similar*
- *Clock Preserves Other Important Benefits of Open Auctions*
  - ▶ Bidders learn during the auction. Additional information lessens risk
- *Clock Auction with careful design on information revealed to bidders provides strong protection against withholding and against coordination*

# Offer Cap Tied to Auction Format and Linked to Mitigation Measures

- A starting price must be set and is effectively an offer cap.
- *Link to mitigation measures*: if qualification indicates a lack of competition at the auction, NERA recommends that one course of action is a specific offer cap called a reserve price

*An offer cap as a starting price is an intrinsic part of a clock auction. NERA makes recommendations to:*

- *Set an administered price when qualified supply is inadequate*
- *Possibly set a reserve price when qualification indicates concerns that competitiveness will not discipline price*

# Variable Resource Requirement

- NERA's preliminary proposal does not integrate VRR but could be made compatible with VRR
- VRR is compatible with the clock auction format
- Both alternatives address and provide solutions to the same issues in different ways
  - *Both should be effective at ensuring that price is not too low with moderate oversupply*
  - *Both require some estimates of a competitive standard for entry*
  - *Both require periodic updates of standards to reflect market information*



# Next Steps

- Meeting/conference call to complete NERA presentation from October 29<sup>th</sup> - TBD
- NERA to submit Final Report
- RAM Meeting with NERA– Date TBD
- ISOs/Stakeholders begin to develop tariff proposals
- February 28, 2004 – File Status Report with FERC
- Individual ISO Tariff Filings
- Hold Initial Forward Auction(-s)