10-Minute Operating Reserves Mitigation Measures
Comments of the New York Transmission Owners, LIPA, and NYPA

October 18, 2011

At the September 16, 2011 meeting of the Market Issues Working Group, the NYISO presented a proposal to eliminate mitigation provisions in the day-ahead market that currently:

- Limit GTs to a $2.52/MWh reference price for 10-minute non-spinning reserve.

- Require steam units in NYC to submit $0/MWh offers for 10-minute spinning reserve.

The New York Transmission Owners are not taking a position on this proposal at this time. Instead, we believe that additional information is required. Specifically:

- We would like to have a better understanding of the potential that eliminating these mitigation provisions might expose the NYISO's energy or ancillary services markets to the exercise of market power by suppliers of these services, and we would like to have a better understanding of the potential financial impact of any such exercise of market power.

    - The market power analyses included in the Sept. 16 presentation were inconclusive as to whether there is reason for concern.

        - Some HHIs were fairly low, others were high, and many were in the inconclusive range.

        - The pivotal supplier analysis was limited and did not assess whether groups of suppliers were pivotal.

    - The presentation did not attempt to assess financial impact.

- We would also appreciate a clearer explanation of the benefits that are anticipated as a result of the elimination of these mitigation provisions.

    - In some cases, when day-ahead prices generally exceed real-time prices, it seems unlikely that eliminating these mitigation provisions would increase convergence between day-ahead and real-time prices, so we do not understand what benefits would be gained in those circumstances.

    - In other cases when real-time prices generally exceed day-ahead prices, an explanation of the degree of convergence between day-ahead and real-time prices that the ISO expects to observe as a result of the removal of these mitigation provisions, and a clearer illustration of the production cost savings that are expected to result from increased convergence, would be beneficial.

- As has been discussed, the NYISO's new Consumer Interest Liaison, Tariq Niazi should address with the NYISO stakeholders whether it would be appropriate to conduct an analysis of the expected impact of the removal of this mitigation on end use consumers. At this point, given that this proposal involves the removal of bid caps designed to protect consumers from market power, it appears that a consumer impact analysis would be appropriate.

Although the NYTOs believe that the NYISO has not provided sufficient justification and analysis to support its proposal, we suggest that it should also consider the following:

- The NYISO should describe what costs would be eligible for inclusion in supplier bids in the absence of these mitigation measures and relevant bid history,

- The NYISO should assess whether market concentrations justify revising its existing bid mitigation process such that operating reserve bids would be automatically mitigated if a multiple of the applicable reference level is exceeded, rather than requiring a consultation before a bid is mitigated,

- The NYISO should explore the continued efficacy of the mitigation trigger mechanism at least on an interim basis, given the proposed changes, and

- The NYISO should consider updating the 10-minute non-synchronous reference cap and the $0 bid requirement to better reflect current cost estimates, rather than eliminating them.