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Proposed Tariff Provisions Regarding NYISO Price Corrections

~~November 17,~~December 16, 2005

Introduction

Correctly calculated prices are essential to the operation of the NYISO-administered markets, and frequent price errors and corrections can undermine confidence in those markets, potentially leading to decreased participation. Price errors and corrections are a subject of concern for both the NYISO and its market participants.

In its May 9, 2005, order allowing a 10-day period for the NYISO to make price corrections through September 30, FERC directed the NYISO to file a report no later than October 31, 2005, for informational purposes only, that includes a plan and schedule for shortening the time periods both for posting notices of possible price errors and for correcting prices under the Temporary Extraordinary Procedures (“TEP”) as well as eventually phasing out the TEP altogether.

This document describes proposed changes to the NYISO tariffs regarding: (i) the substantive criteria for determining that an Energy or Ancillary Services price has been calculated in error and requires correction, (ii) the manner in which the NYISO will calculate corrected prices, and (iii) procedural requirements and limitations pertaining to price corrections.

Guiding Principles

The NYISO must achieve an acceptable level of initial price accuracy. Clear and effective rules regarding price reservations and corrections are important, but do not diminish the need for improved performance in initial price calculation. The NYISO is dedicating substantial resources to addressing the root causes of price errors, which were detailed in the Action Plan discussed with Market Participants on September 1.

The rules pertaining to all price reservations and corrections should be clearly established in the NYISO tariffs. The NYISO tariffs should be revised to resolve any ambiguity regarding the NYISO’s price correction responsibilities. The TEPs must be phased out of the NYISO tariffs, as ordered by FERC.

The NYISO’s price review and correction process must be transparent to NYISO market participants. Subject to appropriate restrictions to protect confidential information, the NYISO should make available sufficient information to allow market participants to understand and monitor the NYISO’s price review and correction processes and determinations.

Price certainty is a function of both price accuracy and finality. The NYISO’s price review and correction rules should strike an appropriate balance.

Consistent with competitive electric market principles, the NYISO tariffs require the scheduling, commitment, and dispatch of supply resources on a least total cost basis. To be determined in accordance with the NYISO tariffs, Energy and Ancillary Service clearing prices must be: (i)

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calculated correctly and (ii) based on the appropriate price-setting resource (*i.e.*, the marginal resource, except as otherwise provided by the tariffs).

An Energy or Ancillary Services clearing price that is found not to be calculated in accordance with the NYISO tariffs must be corrected in accordance with the price correction provisions of the NYISO tariffs and must not be corrected otherwise except as ordered by FERC or a court of competent jurisdiction.

Settlement errors, such as errors in the calculation of uplift charges or errors in the calculation of Bid Production Cost Guarantee payments, are distinct from price errors and must be addressed separately by the NYISO through its settlement correction process (*i.e.*, bill corrections).

Key Terms of Proposed Provisions

I. Scope

Tariff provisions regarding price corrections, including notice requirements and time limits for correction, shall apply to the calculation and corrections of Energy and Ancillary Services clearing prices that are posted on OASIS and used in NYISO settlements.

- *This eliminates the current distinction between “TEP” and “non-TEP” or “filed rate doctrine” corrections.*
- *This excludes from the scope of these rules advisory prices and any other price information that is not posted on OASIS and used in NYISO settlements.*
- *Includes Day-Ahead, Hour-Ahead, and Real-Time Energy prices, to the extent they are posted on OASIS and used in NYISO settlements.*
- *After seeking stakeholder input, the NYISO would, in appropriate cases, seek waiver of these provisions for a finite period of time in connection with major software deployments.*

II. Price Errors Requiring Correction

An Energy or Ancillary Services clearing price that the NYISO finds not to be calculated in accordance with the NYISO tariffs shall be corrected in accordance with the price correction provisions of the NYISO tariffs and shall not otherwise be corrected except as ordered by FERC or a court of competent jurisdiction.

- *The changes to the NYISO tariffs proposed here do not substantially change **the substance of** the NYISO’s current price correction practices. They are intended to clearly establish in the NYISO tariffs what constitutes a price error that requires correction by the NYISO and the manner in which the NYISO will make such correction.*

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A. Calculation Errors

~~Prices~~ A price that ~~are~~is found to have resulted from ~~a~~a miscalculation ~~are~~is erroneous and shall be corrected by the NYISO. In addition, ~~a~~a missing ~~prices~~price is erroneous and shall be corrected by the NYISO.

- *Calculation errors occur when, notwithstanding the selection of the correct price-setting unit, prices are computed incorrectly.*
- *Calculation errors result from most software errors including the “generator bus modeling anomaly,” and unexplained model solutions and non-convergence. Calculation errors also include price errors that result from incorrect treatment of a TLR. In addition, calculation errors include instances when no prices are calculated or when prices are not correctly posted on the OASIS web site.*

B. Errors in Selecting the Price-Setting Resource

~~Prices~~ A price that ~~are~~is found to have been calculated based on a material error in selecting the appropriate price-setting resource ~~are~~, resulting in a dispatch or commitment that is inconsistent with good utility practice or creating a significant market inefficiency, is erroneous and shall be corrected by the NYISO. The appropriate price-setting resource is generally the marginal, least total cost resource, except as provided otherwise by the NYISO tariffs.

Suppliers with bids above the true marginal cost that were erroneously dispatched by the NYISO shall receive Bid Production Cost Guarantee payments for the energy produced in accordance with the NYISO tariffs.

- *Errors in selecting the price-setting resource occur when a price is computed correctly but is not based on the correct price-setting resource.*
- *Errors in selecting the price-setting resource may result from input errors, including but not limited to bad generator input data, bad load metering, and operational input errors ~~and TLRs~~. These errors may also result from software issues, for example, Out of Merit resources incorrectly setting prices.*
- *The pricing rules for non-competitive proxy buses are an example of a correct price calculation based on a unit other than the marginal unit.*
- *Bid Production Cost Guarantee payments to suppliers actually dispatched on the basis of a bid exceeding the corrected clearing price provide a measure of protection for those suppliers.*

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- *Changes in Bid Production Cost Guarantee payments are beyond the scope of this proposal. The issue has been referred to the Market Structures Working Group for further discussion.*
- *It has been proposed in stakeholder discussions that correction of these kinds of errors should be limited to instances when the NYISO took steps within a defined period of time to address the underlying error in selecting the appropriate price setting resource. The NYISO supports this approach in principle, but could not adopt such a rule without 24 hour price validation staff and supporting resources.*

C. Price Effects of Mitigation Errors

Clearing prices that are found to result from the incorrect mitigation of a supplier's bid shall not be corrected, however, a supplier shall be paid for energy produced by an incorrectly mitigated unit as provided in the Services Tariff, Attachment H, Section 4.2.2(c). The NYISO shall not correct clearing prices that result from an incorrect failure to mitigate a supplier's bid, except as may be authorized by the FERC.

- *Applies to both over-mitigation and under-mitigation.*

III. Price Correction Methodology

A. Normal Price Correction Methodology

The NYISO will calculate price corrections in accordance with the NYISO tariffs. In the event that the NYISO cannot practicably calculate a price correction in accordance with the NYISO tariffs, due to the unavailability of necessary data or otherwise, the NYISO shall construct prices as close as reasonably possible to the prices that should have resulted from the operation of the relevant tariff provisions consistent with system conditions by drawing from prices calculated for electrically similar points (PTIDs), prices in surrounding intervals, Real-Time Commitment prices, Day-Ahead Market prices, or Real Time Dispatch prices for the affected interval(s). The NYISO will indicate the price correction method used to correct an erroneous price in its notice of the price correction.

- *This is more explicit and specific than the current tariffs.*

B. Price Correction Methodology to Respond to System Emergency or Catastrophic Software Failure

In the event of a system emergency or catastrophic failure of the NYISO's price calculation software, the NYISO shall provide notice of the problem to the FERC and market participants as soon as possible, but in no event later than the next business day. Within two additional business days, the NYISO shall inform the FERC and market participants regarding the nature of the problem and the schedule for determining the procedures to be used by the NYISO to construct prices as close as possible to the prices that should have resulted from the application of the market rules established in the tariffs

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to prevailing system conditions.

IV. Procedures for Price Corrections

A. Deadlines

The NYISO shall provide notice reserving a potentially erroneous Hour-Ahead or Real-Time price not later than 17:00 of the calendar day following the operating day for which the price was calculated.

The NYISO shall provide notice reserving a potentially erroneous Day-Ahead price not later than the start of the operating day for which the price was calculated.

The NYISO shall correct a price it has timely reserved and determines to be erroneous and shall provide notice of the correction as soon as possible, but not later than five additional business days after the price reservation deadline. The NYISO shall provide additional information, including a brief description of the price error, the required correction, and supporting tariff references, as soon as possible within ten days of a price correction unless extraordinary circumstances necessitate additional time to provide this notice, in which case the NYISO shall provide additional information as soon as possible thereafter, but in no event later than 30 days following a price correction.

- *The NYISO will assess whether shorter reservation and correction deadlines might be appropriate and report to stakeholders not later than June 30, ~~2005~~2006. In making this assessment, the NYISO will take into account the progress of the Price Error Elimination Team and related Lean Six Sigma efforts. If the NYISO determines that shorter reservation and correction deadlines are not possible or desirable, it shall provide an explanation of its finding in its report to stakeholders.*
- *This schedule is more explicit and, in some regards, faster than what is required under the TEPs in the current tariffs, which require reservation by the following calendar day and correction within five additional calendar days. In addition, these provisions establish more extensive notice requirements than the current tariffs.*
- *When possible, the NYISO will make price corrections prior to the reservation deadline but will provide notice of those corrections along with the reservation and correction notices.*
- *Price reservation and correction notices shall be subject to appropriate confidentiality restrictions.*

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B. Quarterly Reports

The NYISO shall provide quarterly reports to Market Participants regarding the cause of each error requiring correction and steps taken or planned by the NYISO to eliminate or diminish the incidence of the error in the future. In its quarterly reports, the NYISO shall also detail any price errors of which it becomes aware after the deadlines for reservation or correction of the price error.

- *Quarterly reports shall be subject to appropriate confidentiality restrictions.*

C. Limitation on Price Corrections

Erroneous prices not reserved and corrected within these times shall not be corrected by the NYISO absent FERC or judicial intervention; *provided, however*, that nothing herein shall be construed to restrict any stakeholder's right to seek redress from the Commission in accordance with the Federal Power Act.

- *This is broader and more explicit than the current provisions.*

V. Limitation of Liability

The NYISO shall not be liable for errors of commission or omission relating to price errors that are left uncorrected by operation of these rules, except in cases of gross negligence or intentional misconduct.

- *The current tariffs do not contain this provision.*

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