

Forward Capacity Market Proposal for Discussion

New York Transmission Owners

NYISO ICAPWG April 9, 2009

General Structure of FCM

- Base Auctions with three year forward procurement
- Supplemental Auctions in years 2&3 with monthly auctions during the obligation year
- CONE based on cleared bids once auction results are competitive
- No Demand Curve in any of the auctions

Conduct of Base Auction

- Base Auction using descending clock format
- Starting point 2 X CONE
- Procures 100% of Requirements three years forward
 - Examine potential barriers to entry for demand response and energy efficiency in forward auctions
- IRM and LCRs developed on a forecast basis for Obligation Year
- Load forecast developed consistent with current process.
- During a transition period floor and ceiling prices would be established.
 - Excess capacity offered at the floor price would be prorated consistent with the process in ISO-NE

Conduct of Base Auction

- All ICAP resources would need to participate in the auction
 - New capacity would have a one-time option to voluntarily choose to lock in the market clearing price for a period up to five years
 - Possibly longer commitment period in NYC
 - Self-supply allowed and does not receive payment nor incur credit requirement.
 - Seasonal DMNC calculated and seasonal offers allowed
 - UCAP requirements held constant for the year
 - Bilateral composite offers allowed
 - Auction also capable of selecting among both seasonal and year-long offers subject to meeting constant annual requirement
 - Demand response and energy efficiency allowed to participate
 - Energy efficiency granted a price commitment of one year
 - Transmission upgrades allowed to bid into market.

Conduct of Base Auction

- Clearing price set by offer price of resource that clears the market
 - Price subject to offer cap/auction starting point and price floors
 - Physical and economic withholding of capacity will be monitored by NYISO by adapting existing rules to forward market structure, including NYC bid mitigation
 - In case of inadequate supply and/or insufficient competition ICAP purchases in the base auction may be deferred to ensure a competitive result.
 - All sellers would be paid the market clearing price with payments made during the obligation year

Supplemental Auctions

- Held 1&2 years before the obligation year and monthly during the obligation year
- Allow reconfiguration of supply offers
- No demand curve
- Forecast IRM and LCRs set for base auction held constant
- Forecast load growth updated in auction one year prior to obligation year
- Self supply would need to replace any unavailable resources
- Methodology to be developed to allow UDRs to be adjusted consistent with reliability standards

Concerns Regarding “Boom-Bust” Cycle

- Transitional price floor and cap will mitigate the impact of price volatility
- ICAP can migrate between regional markets to serve regional load growth
- Average rate of new capacity should exceed average rate of load growth due to retirements

Concerns with a Demand Curve in a FCM

- Demand curve would itself encourage excess supply
- Seam issue with NE would create “parking lot” for excess capacity in NY until excess supply is needed for reliability then some capacity will migrate back to NE
- LOLE curves demonstrate a rapidly declining value for excess capacity beyond IRM
- Disconnect between FCM clearing price and spot demand curves increases total consumer costs.

Questions?

On more detailed TO proposal provided
and/or summary presentation.