

## **Forward Capacity Market Proposal**

**Submitted on Behalf of the New York Transmission Owners, LIPA and NYPA**

### **GENERAL STRUCTURE OF FCM**

Each year, the ISO would hold a “Base Auction” in which it would purchase ICAP as necessary to meet the ICAP Obligations for an “Obligation Year,” which would begin three years after the year in which the Base Auction is conducted.

- This is consistent with neighboring markets and therefore will facilitate market participants’ ability to switch ICAP from one market to another, improving efficiency.

### **CONDUCT OF BASE AUCTION**

- The Base Auction would be conducted using a descending clock format, without a demand curve.
  - The NYISO will begin the auction process at a starting price of two times CONE (CONE is net of energy and ancillary service margins).
  - CONE will initially be based on the CONEs set in the most recent demand curve reset process. Going forward, it is important that the cost of new entry be based on cleared bids from new entrants, including new entrants other than simple cycle gas turbines, whenever reliable data is available. Criteria will be established to determine when the market is competitive.
- The IRM and LCR will be developed on a three year forward forecast basis by the NYSRC and NYISO respectively. Load forecasts will be developed

consistent with current rules for ICAP requirements, based on the TO Transmission District forecasts.

- During an agreed upon transition period, floor and ceiling prices would be established in order to minimize price volatility for capacity that clears the auction. Excess capacity offered at the price floor will be prorated consistent with the process in ISO-NE.
- All resources wishing to be counted towards ICAP requirements would need to participate in the auction.
  - Those LSEs that have bilateral arrangements and/or are self supplied will be allowed to offer their MW into the auction in order to meet their ICAP obligations, but will not receive nor make payments for awarded MW.
  - External resources that are not otherwise committed to another market could participate subject to import limitations developed three years in advance.
  - The amount of UCAP resources can provide would continue to vary seasonally, depending on their summer and winter DMNC ratings. UCAP requirements would be held constant over the course of each capability year. Owners of resources that are available only seasonally could enter into bilateral arrangements with the owners of other resources to develop composite offers that would provide a constant amount of UCAP over the course of the capability year; alternatively, such resources could offer UCAP that is available seasonally into the auction and the ISO would

select among both seasonal and year-long offers to determine the lowest as-offered combination of resources that meets a constant annual UCAP requirement.

- The NYISO will monitor the auction rounds to ensure that at the end of the auction process 100% of the required IRM has been purchased to meet the reliability standards.
  - Physical and economic withholding of capacity will be monitored by the NYISO by adapting existing market monitoring rules to a forward market structure, including in-city mitigation procedures.
- Clearing prices will be set by the offer price of the resource that clears the market pursuant to the descending clock format (subject to offer cap/auction starting point and price floors).
  - In certain cases of inadequate supply and/or insufficient competition ICAP purchases in the base auction may be deferred as necessary to ensure a competitive result. Any such deferred purchases can be satisfied in the supplemental auctions.
  - LSEs would be allocated credits toward their eventual shares of the ICAP requirement for all ICAP they self-supply. Since self-supply resources are not paid by the NYISO there would be no credit requirement for self supply (similar to the current practice). Any self-supply resource that becomes unavailable will need to be replaced by the LSE in a supplemental or monthly auction.

- All other sellers of ICAP would be paid the market-clearing price, but those payments (and associated charges to load) would not be made until the Obligation Year.
- Each LSE's share of each ICAP Obligation would be determined shortly before the Obligation Year.
- The ICAP Obligations for the Obligation Year would be fixed at 100% of the ICAP requirements. This requirement is contingent on the implementation of procedures to ensure that there are no unreasonable barriers to the participation by demand response and energy efficiency resources. New capacity would have a one-time option to voluntarily choose to lock in the market-clearing price for a period of up to 5 years beginning with the Obligation Year, with possibly a longer period in New York City.
- Demand response would receive the same price as all other suppliers. Energy efficiency resources would be permitted to participate in the auction and would be granted a price commitment for only one year, subject to verification. In subsequent years, the load reduction will be built into the load forecast. Such resources will be allowed to compete with other capacity in the auctions to satisfy the installed capacity requirements and will be appropriately accounted when establishing the requirements (i.e., no double counting).

- Transmission upgrades may be bid into the market.
  - This process requires analysis after the market closes using the offers received.

## **SUPPLEMENTAL AUCTIONS**

The ISO would hold Supplemental Auctions after the Base Auction.

- Supplemental Auctions would be held two years before the Obligation Year, one year before the Obligation Year, and monthly during the Obligation Year.
- The primary purpose of the Supplemental Auctions is to permit entities that expect to be able to provide additional UCAP above that which was transacted in the Base Auction (e.g., due to better-than-expected EFORds, or generation coming on line earlier than expected, or for other reasons) to sell that UCAP, which could be purchased by entities that do not expect to be able to meet their obligations to provide UCAP. The supplemental auctions would also permit LSEs to address potential shortfalls or excesses in capacity purchases. In particular:
  - No demand curve would be applied in these auctions.
  - The forecast IRM and LCRs developed for the base residual auction will be held constant for all Supplemental Auctions.

- Forecast load growth will be updated in the Supplemental Auction one year prior to the Obligation Year and then held constant for the following monthly auctions that occur during the Obligation Year.
- A methodology should be developed to allow UDRs to be adjusted in the Supplement Auctions consistent with accepted reliability criteria.

### **CONCERNS REGARDING POTENTIAL “BOOM-BUST” CYCLE**

- Concerns with respect to a possible “boom-bust” cycle, would be mitigated by several factors.
  - The transitional price floor and cap will mitigate the impact of price volatility.
  - ICAP can migrate from one market to another, so ICAP can move to another market if prices get too low. (This migration will be facilitated by adopting similar timelines to the adjoining markets.) Given the amount of load growth in the NE/NY/PJM region and taking retirements into consideration, it is unlikely that prices will plummet.
  - New capacity will be needed not just to meet increased load, but also to replace generation that retires, because it is inefficient, does not meet environmental standards, or is otherwise obsolescent. Therefore, the average rate at which new capacity is added will exceed the average rate of load growth. Analyses of future ICAP markets that do not recognize this understate the frequency with which entry will occur and set the price in the auction.

## Concerns About Continued Use of A Demand Curve

- The use of a demand curve would itself encourage excess supply.
- The NYISO's proposed spot market demand curves in conjunction with forward procurement will result in increased ICAP costs for consumers. Under the current market design the cost of purchasing excess supply is offset to some extent when the market clears excess supply by reducing the price paid to all resources sold in the market. Under the NYISO's proposed framework the price paid for capacity procured in the base auction is held fixed while LSE's would be required to pay for all remaining capacity that clears the spot auction at the demand curve price.
- If a demand curve is used, New York will become the "parking lot" for excess capacity in New York and New England (which does not have a demand curve). During future years when the supply situation tightens there is no assurance that these resources will continue to offer their capacity to New York. As a result of this market seam, New York consumers will over time partially subsidize the reliability of the greater region.
- Past LOLE analysis has demonstrated a rapidly declining value of excess capacity beyond the minimum requirement and thus retention of a demand curve will force loads to pay for capacity that provides little reliability value.