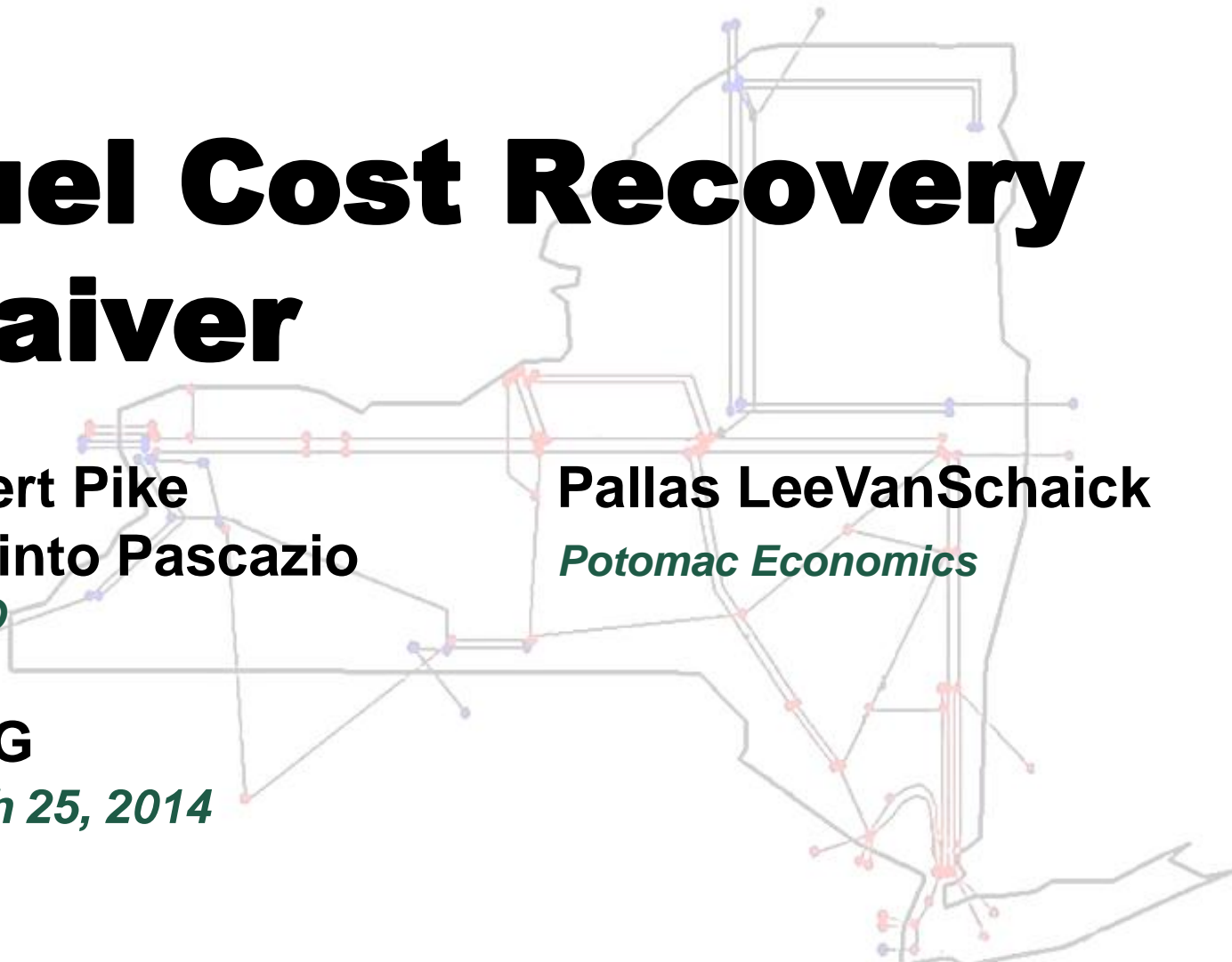


# Fuel Cost Recovery Waiver

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# Agenda

- ◆ Background
- ◆ FERC Informational Filing
- ◆ Potomac Economics Assessment
- ◆ Summary of Comments
- ◆ Next Steps

# Background

- ◆ On Jan 21st the NYISO filed at FERC seeking a temporary waiver of the NYISO's Services Tariff to permit the NYISO to:
  - *Consider Incremental Energy and Minimum Generation offers that exceed \$1000/MWh Bid Restriction, and*
  - *Pay a BPCG to Generators that includes actually incurred variable Incremental Energy or Minimum Generation costs in excess of the \$1000/MWh cap.*
  - *FERC granted the NYISO's requested waiver on January 31st.*
  - *The waiver was effective from January 22 through February 28, 2014.*
    - [http://www.nyiso.com/ViewerDocuments//Filing/Filing826/Attachments/20140122\\_NYISO\\_WaiverRqst\\_bddng\\_ntrl\\_gas\\_csts.pdf](http://www.nyiso.com/ViewerDocuments//Filing/Filing826/Attachments/20140122_NYISO_WaiverRqst_bddng_ntrl_gas_csts.pdf)
    - <http://www.nyiso.com/ViewerDocuments//FercOrders/378.pdf>

# Background

- ◆ The NYISO initiated stakeholder discussion at 2/10 MIWG to discuss establishing permanent tariff provisions to allow recovery of costs that exceed the bid cap and the raising the existing bid cap.
- ◆ Request made to FERC to conduct a review of the natural gas market performance
  - <http://www.nyiso.com/ViewerDocuments/Filing/Filing838/Attachments/LaFleur%20Letter%20Feb%202014.pdf>
- ◆ Winter 2013-2014 Cold Weather Operating Performance
  - [http://www.nyiso.com/public/webdocs/markets\\_operations/committees/bic\\_miwg/meeting\\_materials/2014-03-13/Winter%202013-1014%20NYISO%20Cold%20Snap%20Operations%20EGC%20W-MIWG.pdf](http://www.nyiso.com/public/webdocs/markets_operations/committees/bic_miwg/meeting_materials/2014-03-13/Winter%202013-1014%20NYISO%20Cold%20Snap%20Operations%20EGC%20W-MIWG.pdf)

# FERC Informational Filing

- ◆ As a condition of the waiver approval, FERC directed the NYISO to submit an informational filing by 3/28/14 that identifies the following:
- ◆ (1) the total amount of energy that received compensation pursuant to the terms of the instant waiver;
  - *There are no Market Participants seeking to recover actual costs in excess of \$1000/MWh from the NYISO pursuant to the terms of the waiver.*
- ◆ (2) the demonstrated costs of such energy in total and on a unit cost basis; and
  - *There are no Market Participants seeking to recover actual costs in excess of \$1000/MWh from the NYISO pursuant to the terms of the waiver.*
- ◆ (3) information detailing requests for compensation pursuant to the instant waiver that were rejected by NYISO and the reason for its rejection.
  - *The NYISO received one or more requests for compensation pursuant to the waiver. Each of the requests was later withdrawn by the submitting Market Participant when the Market Participant determined that it was not eligible to receive additional BPCG payments under the terms of the waiver.*

**REVISED: This slide has been updated as discussed at the 3/25/2014 MIWG**

# Potomac Economics Assessment

- ◆ **The MMU reviewed the cold snap period (January 22-29) to identify instances when RT LBMPs might have been affected by generators not being able to offer their full marginal costs due to the \$1,000 offer cap.**
- ◆ **The MMU found:**
  - *One interval with a generator offer scheduled in-merit at \$1,000.*
  - *Four intervals with (i) a generator partly derated/unoffered that might have been dispatchable at a marginal cost exceeding \$1000 and (ii) it contributed to a higher LBMP outcome due to shortage pricing.*
  - *These generators likely had marginal costs > \$1000 due to LDC penalties for over-burn during an OFO rather than high gas prices.*
- ◆ **The small number of affected intervals is not surprising given:**
  - *Low quantities of gas were available to generators in eastern NY, and*
  - *The limited gas supply generally goes to low heat rate units.*

# Potomac Economics Assessment

- ◆ **The review of market results from the January 2014 cold snap does not by itself provide a strong basis for raising the \$1,000 offer cap.**
  - *Furthermore, raising the offer cap would lead to higher gas prices, which depend on the level of the offer cap (since it determines generators' willingness to pay for gas).*
  - *However, if other northeastern ISOs raise their offer caps above \$1,000, the NYISO offer cap should be revisited.*
- ◆ **Notwithstanding the results in January 2014, any assessment of the NYISO offer cap should also consider:**
  - *The potential responsiveness of:*
    - **DR and price-responsive loads at prices above \$1,000; and**
    - **Curtable gas customers during periods of scarcity.**
  - *Potential disadvantages such as higher financial risk for market participants due to larger distribution of possible LBMPs.*

# Comments Received

- ◆ At the 2/10/2014 MIWG, NYISO requested comments from interested stakeholders on
  - *the need for, concerns with or support for, adjusting the bid cap, and*
  - *the need for establishing cost recovery provisions for costs that exceed the bid cap.*
- ◆ Responses received from:
  - Exelon
  - Citigroup
  - Hess/Direct
  - NYS DPS
  - City of New York
  - Multiple Intervenors
  - IPPNY
  - New York Transmission Owners



# Summary of Comments

- ◆ Market clearing prices must reflect actual market condition
- ◆ Make whole payments are an unhedgeable uplift
- ◆ Need to ensure the gas market was not manipulated before incorporated into electric prices
- ◆ Discussions on raising the bid cap should be included in the comprehensive shortage pricing review effort
- ◆ Not enough information or evidence exists to determine the need for market rule changes at this time
- ◆ Market flaws, lack of demand side responsiveness and tight supplies all supported the original need for a bid cap and still persist today
- ◆ The cap is a valuable market power mitigation measure
- ◆ Bid cap is a valuable incentive for generators to minimize fuel cost and disincentive for the gaming of the gas and electric markets
- ◆ Should consider stronger dual fuel requirements
- ◆ Efficient and accurate markets rely on bids based on suppliers' marginal costs setting the LBMP during all periods
- ◆ Generators whose operating costs exceed the bid cap should be assured recovery of costs

# Ongoing Evaluation

- ◆ At this time, NYISO staff does not have a recommendation on the requests to increase the existing offer caps.
  - *Continuing coordination with PJM and ISO-NE to evaluate winter market outcomes and consider modifications to the offer caps.*
- ◆ Potomac Economics continuing assessment of winter operating conditions as part of both the annual market review and first quarter market review.
- ◆ FERC holding a technical conference on April 1<sup>st</sup> to explore the impacts of recent cold weather events on RTOs/ISOs

The New York Independent System Operator (NYISO) is a not-for-profit corporation responsible for operating the state's bulk electricity grid, administering New York's competitive wholesale electricity markets, conducting comprehensive long-term planning for the state's electric power system, and advancing the technological infrastructure of the electric system serving the Empire State.



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