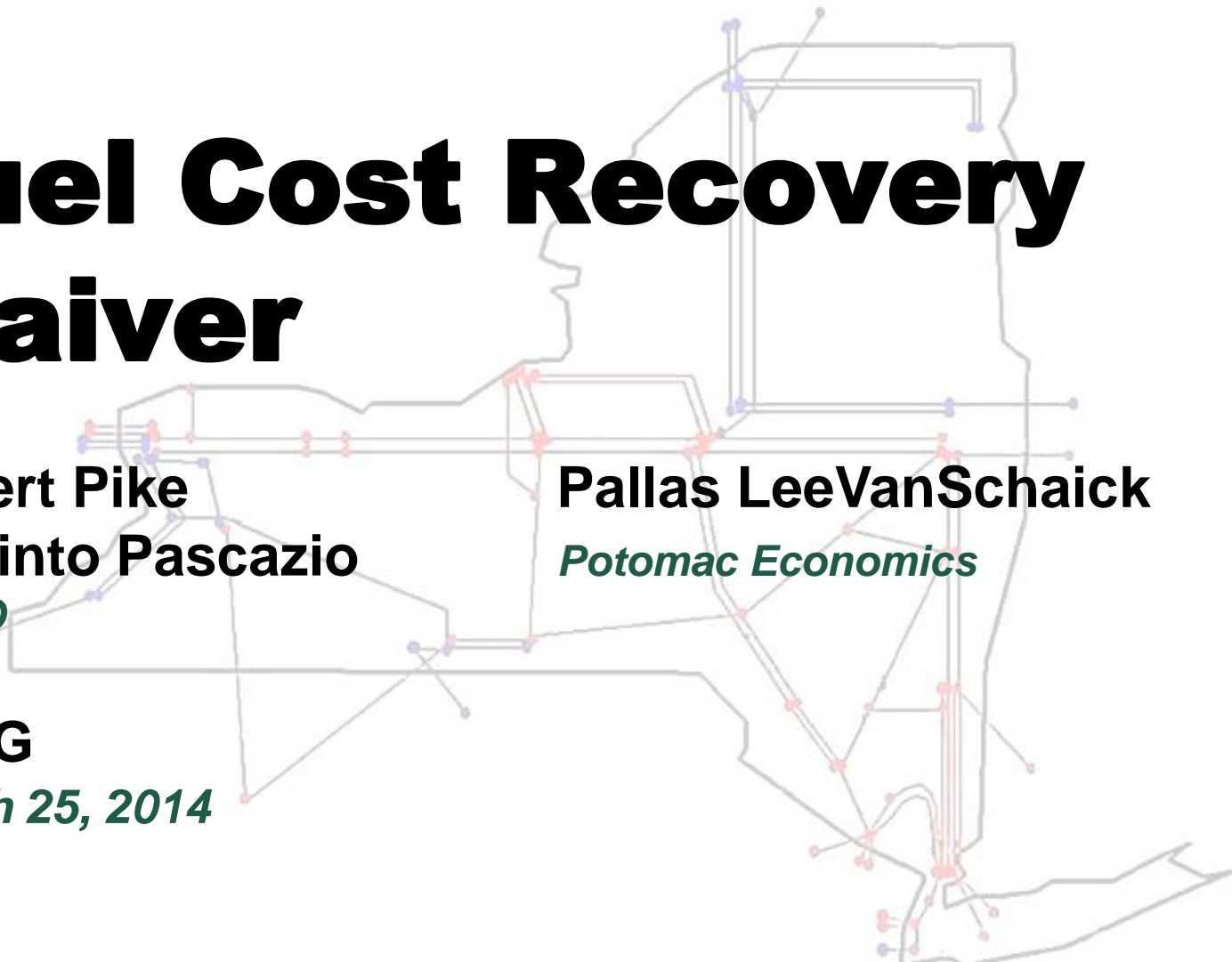


Fuel Cost Recovery Waiver

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MIWG
March 25, 2014
KCC



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//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

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;
 - *A total of 3,150 MWh of Energy were provided at a cost in excess of \$1000/MWh.*
- ◆ (2) the demonstrated costs of such energy in total and on a unit cost basis; and
 - *\$3,226,667 in total demonstrated costs and \$1024/MWh on a unit cost basis.*
 - *Of the total demonstrated cost, only \$76,622 reflects the portion of the total cost paid for Energy that exceeded the \$1000/MWh Bid Restriction.*
- ◆ (3) information detailing requests for compensation pursuant to the instant waiver that were rejected by NYISO and the reason for its rejection.
 - *All of the requests to recover costs in excess of the \$1000/MWh Bid Restriction (that applies to Incremental Energy and Minimum Generation offers) were accepted.*

FERC Informational Filing

- ◆ Additional information
 - *All of the accepted offers from Generators with costs in excess of \$1000/MWh represented impact minimum generation offers that could set LBMP*
 - *All of the accepted offers from Generators with costs in excess of \$1000/MWh were for local reliability commitments in New York City. The associated uplift will be charged to Zone J loads.*

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**
 - **Curtailable 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

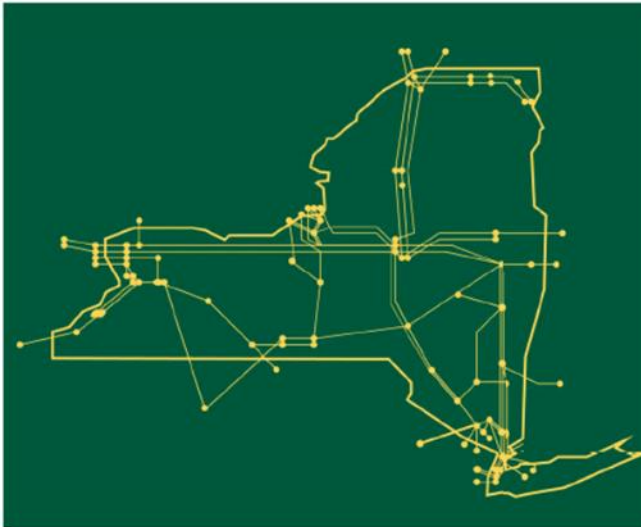
Summary of Comments

- ◆ 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 1st to explore the impacts of recent cold weather events on RTOs/ISOs

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