

Proposal for In-City Capacity Mitigation

Joint Con Edison and DPS Proposal
ICAPWG
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DRAFT

Outline

- Mitigation Proposal
- Longer term Capacity Market Proposal

Issue

- Existing price caps were approved and implemented before the demand curve structure existed
- With the advent of the demand curve, additional mitigation measures are required
 - DGO market power can hold the market clearing price up at their price cap and force customers to purchase at that price at a amount of capacity that exceeds the minimum requirement
- In periods with substantial capacity in excess of locational requirements:
 - At the price cap not all DGO capacity is sold; certain suppliers maximize revenues by controlling the amount of capacity, plus excess, that is sold
 - The unsold In-City capacity results in less capacity being included in the rest-of-state capacity market, which increases prices for the NYCA
 - This interrelationship did not exist before the demand curve market structure

Mitigation Proposal

- Develop a conduct and impact test for generators in the In-City Demand Curve monthly spot auction
 - Supplement the price cap with an appropriate reference price
 - Identify and mitigate the potential exercise of market power to an appropriate level
 - When the conduct and impact test is violated, each generator's ICAP bid that failed will be replaced by a reference price

Mitigation Proposal

Conduct and Impact Test

- **Conduct Test**
 - All generators that bid 3% or more above their reference price would fail the Conduct Test and be subject to an Impact Test
- **Impact Test**
 - If generator owners' unmitigated bids that fail the conduct test raise the total market cost of capacity by 3% or more as compared to the total cost of capacity derived using those generators' reference prices, then the Impact Test fails
- **Result**
 - In the event generators fail the Conduct and Impact Test, the NYISO shall replace each generators bid with that generator's reference price

Mitigation Proposal

Reference Price

- Reflect avoidable costs net of energy and ancillary services revenues appropriate for the Demand Curve monthly spot auction
- Specific components and guidelines to be developed in stakeholder process
- Actual reference prices are developed by NYISO MMU with generator
- For DGO's, their reference price must be developed consistent with the above
 - But, cannot bid or be paid more than the existing FERC-approved price cap, which remains in effect

Mitigation Proposal

Interim Solution

- Process could take some time, so an interim solution may be required
 - The NYISO will implement an interim DGO cap that will expire as soon as a reference price calculation is available
- Interim DGO Cap (Two Alternatives for Discussion)
 - Use ratio of In-City CONE to NYCA CONE from Levitan study as a multiplier to historic NYCA DC competitive clearing prices
 - Subtract Net Energy and Ancillary Services revenues for each DGO from its existing DGO capacity price cap
- Conduct and impact tests are evaluated using the DGO's bid and Interim DGO Cap for the calculations
 - Replace bid with Interim DGO Cap if conduct and impact test are violated

Longer Term Capacity Market Proposal

Intermediate Mitigation Proposal

- Maintain conduct and impact test for In-City capacity market
 - Develop and implement bottom-up reference price for all generators as soon as possible

Longer Term Development

- Consider other capacity market changes in the context of revisions to the Demand Curve that would go into effect in May 2008