HQUS COMMENTS AND PROPOSAL
ON
NON-COMPETITIVE PROXY BUSES

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Comments on NYISO presentation:

- HQUS argues that negative prices in the HAM market are observed at every proxy buses which suggests that the situations described in the ISO presentation may occur at any proxy bus if the adequate conditions are set.
- The existence of negative proxy bus prices typically occurs at night, when we believe that there are fewer participants at all of the buses in question. Over the last 12 months negative prices at the individual proxy buses were observed during the following hours
  - Zone N: hours 8 – 9 - 10 – 22 -23
  - Zone P: hours 5 – 7- 10
  - Zone M: hours 20 -21-22-23
  - Zone O : 24 – 7 – 5 - 9
- When a line is derated and DAM transactions are cut, prices at the proxy bus becomes - $1 000 regardless of the price bid in the DAM at the proxy bus.
- It does not need to be a «non-competitive proxy bus».
- Because of these facts, which appear to show comparable issues at all proxy buses, HQUS still believes that the solution to the issue of «non-competitive proxy bus» should be applied to all proxy buses if certain conditions are not met.

HQ proxy bus

- The ISO labels the HQ proxy bus as being non-competitive
- Our review indicates that other participants transact at the HQ proxy bus whether in the virtual market or in physical transactions.
- A quick look at transmission reservations on TransEnergie OASIS confirmed that other parties do reserve transmission in Quebec to export from NY to Quebec.
- HQ system allows great flexibility in import and export and can be used to New York's advantage.
- Counterflow transactions offer flexibility to NYISO in managing the New York system.
- The solution that will be implemented should make sure to preserve the use of counterflow transactions at the HQ proxy bus as well as at other proxy buses so long as appropriate market protections are in place. We are concerned that bidding limitations that are unwarranted, where no market power is being exercised may work to not only adversely effect HQUS, but the New York market as well. For example, it would seem inappropriate to limit bids where counterflow at any proxy bus would complete to solve DNI constraints, even if there were only a single bid at the HQ proxy bus.

Curtailed DAM transactions do impact participants and the issue at hand should be equitable compensation, not simply trying to fit an answer into the bidding structure of the ISO models

- When the ISO curtails a DAM transaction, participants are harmed.
- The objective in resolving this issue should be on what is the proper compensation or adjustments for curtailments of firm DAM sales into the market.
- This is a market wide problem whose resolution may set precedents for other participants who may face similar harm from market actions not fully captured in the market models.
- In the case of an external participant from Quebec, the following damages are observed when imports into New York are cut :
    - Participant must still pay transmission reservation into Quebec's system
    - The reduced import schedule reduces the ability of the participant to increase its sales to New York during the following hour because of ramping constraints. In the case of an important cut, participant may need multiple hours to recover to the level of sales it had before the derate, or would have had afterward, had not derate occurred.
    - Depending on when the derate or curtailment occurs, it might not always be possible for the participant to sell its energy in another pool to mitigate damage. This is particularly true when the derate occurs very close to the HAM.

Comments on NYISO proposed solution

- The ISO proposes that when the HQ proxy bus is constrained in import, all transactions will be settled at the lower of the DAM or SCD price and when the bus is constrained in export, transactions will be settled at the higher of the DAM or SCD price.
- These rules will also apply when interface ramp constraint are binding
- Empirically, it seems to us that the true net effect of this is to curtail the transaction without any coverage of damages in most instances. This is an unreasonable result.
- Indeed we can reasonably expect that when a DAM import transaction will be curtailed for security reasons, it is most likely that SCD prices will be raised and set at a level higher than the DAM price. Consequently, for a curtailed import transaction, the participant will most likely buy the energy back at the DAM price, ending up with no compensation, regardless of the actual damages.
- Basically the ISO proposes two sets of standards which seems contradictory. When the participant cancels a DAM transaction he bears the full risk of buying the energy back in real time. However, when the ISO cancels a DAM transaction, as a practical matter, most often there will be no cost associated with the cancellation. This lack of symmetric treatment appears inequitable.
- Given the possible impact on the participant's trading when the ISO cancel DAM transactions, the solution should focus on equitable compensation to market participant, not how to force fit a «model result» . Our concern is that in addressing bidding behaviour, the ISO has lost sight of the underlying problem, the fact a firm DAM sale is being curtailed.

Proposed solutions

- Since there are damages incurred to market participants, the ideal solution should be for the ISO to track the damages and compensate the participant for them. However, such a solution may not be practical in reality.
- However, we do believe that compensation should be given to market participant in these cases. Obviously, the case we are most concerned about is the case of curtailed imports.

Consequently, HQUS proposes the following solutions:

- When the interface is constrained with respect to imports, the net real-time positions at that external proxy bus would be settled at the LOWER OF 0$/ MWh or the SCD real-time price.
- When the interface is constrained in export, the settlement proposed by the ISO would apply, i.e. the net real-time position at that external proxy bus would be settled at the HIGHER OF Day Ahead price or SCD real-time price.
- These rules would also be applied when individual ramp constraint would be binding
- These rules would not be applied when DNI ramp constraint is binding
- These rules would not be applied when 2 or more non-affiliated counter-flow transactions (each capable of resolving the constraint) would be available at the proxy bus (whether in import or export).

- This proposed solution would ensure that proper compensation is given to the participant when the ISO curtails import or export transactions for reliability purposes.
- It will also keep an incentive for participants to offer counter-flow transactions at any time without creating opportunities for undue compensation.
- It will also ensure that these special measures would only apply when no competition exists at a proxy bus.