

On Ramps and Off Ramps: **ICAP Market Power Mitigation**

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Agenda

- **Supplier Side Mitigation In New Localities**
 - Proposed design based on the “incentive to withhold”
 - Minimum threshold criteria
- **Buyer-side Mitigation in Newly Created Zones**
 - Revised proposal
- **Supplier Side & Buyer-side Mitigation: Locality Elimination**

Supply Side Mitigation

Supplier Side Mitigation In New Localities

Existing Methodology:

- The existing framework consists of:
 - The formula to determine a portfolio size threshold
 - The software which applies the formula and enforces mitigation

Proposed Methodology:

- “Generalizing” the framework to accomplish the design objective for any new Locality (and all existing Mitigated Capacity Zones) would consist of modifying the formula such that:
 - Given some Locality parameters (which can be determined on a month-to-month basis,) the formula returns a portfolio threshold equal to the minimum size necessary to have an economic incentive to withhold capacity
 - Determining an appropriate “lower bound;” as in, the price – or equivalently, the portfolio size – below which it is not necessary for that month to apply SSM

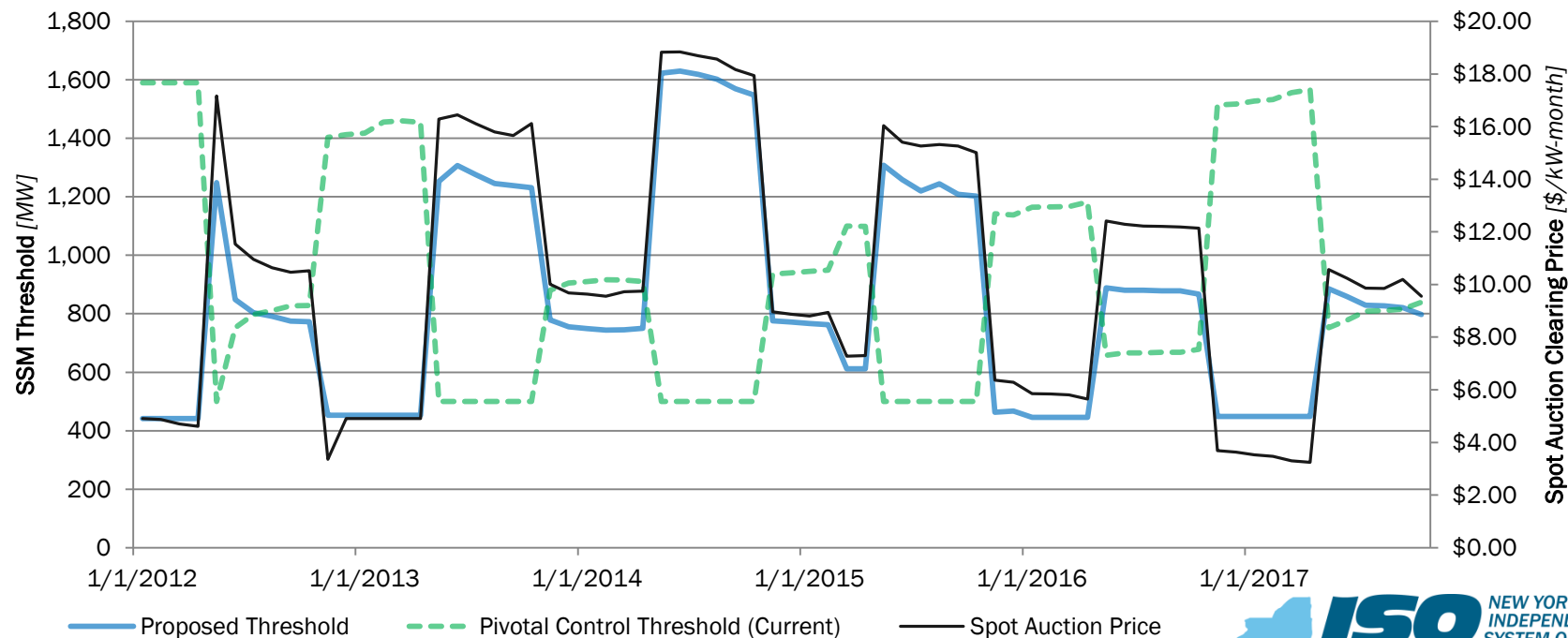
Supplier Side Mitigation In New Localities

Proposed Methodology, cont.:

- **The Supply-side mitigation threshold would be calculated for each mitigated Locality as the minimum portfolio size for which a supplier has an incentive to withhold capacity in order to increase prices**
 - This minimum portfolio size can be shown to be equal to the forecasted market clearing price (i.e., the default reference price in the ICAP Automated Market System) divided by the slope of the Demand curve
 - Additionally, there would be a lower bound for the minimum portfolio size so that mitigation is only applied to those portfolios that comprise at least 5% of the UCAP Requirement
 - This equates to roughly ~450MW in Zone J and ~650MW in the G-J Locality

Supplier Side Mitigation In New Localities

Example: Comparison of Supply-side Mitigation Thresholds
New York City; January 2012 - Present



Buyer-side Mitigation

Buyer-side Mitigation in New Localities

Based on stakeholder feedback, and internal discussions, the NYISO has removed the previously discussed NPV framework from its proposal

- Buyer-side Mitigation will continue to apply in Zone J and the G-J Locality and also apply to all new Localities
- In addition, the NYISO is proposing to revisit and enlarge the 1,000MW Renewable Exemption cap each time a new Locality is created
 - The new Renewable Exemption Cap would be filed by November 30 in the year the new Locality is filed with FERC
 - The NYISO would discuss with stakeholders, and consider their input on, its proposed adjustment and its supporting rationale with stakeholders prior to filing
- The Competitive Entry Exemption and Self Supply Exemptions would continue to be available for Examined Facilities proposing to enter the new Locality

Buyer-side Mitigation in New Localities

- **Implementation: BSM will apply to the first Class Year with a Start Date following the (May 1) filing of the new Locality**
 - Projects that remained in prior or on-going Class Years at the time of their completion would be grandfathered and exempt from BSM
 - This approach would eliminate the “Commenced Construction” language and NCZ Indicative Buyer-side Mitigation process currently in Attachment H
 - The NYISO believes this represents a streamlined process and considerable enhancement to its tariff, and would eliminate a considerable amount of unnecessary complexity and uncertainty

Mitigation: Locality Elimination

Proposed Framework:

Provided the broader Locality does not have mitigation (*i.e.*, Locality within a Locality):

- I. Cease to enforce Supply Side Mitigation measures
 - II. Cease performing Buyer-side Mitigation evaluations for new resources
 - III. Cease enforcing Offer Floors for mitigated resources
 - IV. Do not allow facilities subject to an Offer Floor to be counted in the criteria or methodology used to assess whether to eliminate the Locality
- Deterring uneconomic new entry targeted at premature Locality elimination is the driving concern behind provision (IV)
 - Consistent with this objective, provision (IV) will be applicable to facilities receiving Offer Floors in CY2017 onward; facilities in Class Years 2015 or prior with an Offer Floor are “grandfathered”

The Mission of the New York Independent System Operator, in collaboration with its stakeholders, is to serve the public interest and provide benefits to consumers by:

- Maintaining and enhancing regional reliability
- Operating open, fair and competitive wholesale electricity markets
- Planning the power system for the future
- Providing factual information to policy makers, stakeholders and investors in the power system



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