

# **Interval-Level Bid Production Cost Guarantee for Price Corrections Conceptual Straw Proposal**

MSWG

October 27, 2006

# Presentation Outline

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- ◆ Background
- ◆ Alternatives Considered
- ◆ Draft Market Rules
- ◆ Implementation Considerations
- ◆ Benefits
- ◆ Next Steps

# Background

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- ◆ Issue Summary:
  - *Generators who act in accordance with NYISO dispatch signals should not be subject to financial harm by a subsequent price correction. Although current BPCG rules protect suppliers from losses in a given day, the cost incurred during price correction intervals could erode profits earned in other hours.*
- ◆ FERC instructed NYISO (ER06-1014) to initiate a stakeholder process to design a resolution
  - *As noted at MSWG on 8/03/06, NYISO began internal discussions in August with the intention of presenting a straw proposal for stakeholder discussion at MSWG*

# Alternatives Considered

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- ◆ Preventative Measures
  - *Reduce the number of price errors to minimize, ideally prevent, the occurrence of price corrections*
    - NYISO efforts continue to identify and eliminate reoccurring causes of price errors
  - *Implement tools and staff to enable monitoring of market prices in near real-time, preventing persistent errors that lead to extended correction periods*
    - NYISO has initiated the Enhanced Price Validation project to develop new Price Validation tools with near real-time monitoring capabilities

# Alternatives Considered (ctd.)

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## ◆ Remedial Measures

- *Do not correct price errors that persist beyond a pre-determined period of time (e.g. 15-min)*
  - As discussed at the 8/03/06 MSWG, NYISO has determined that this is not an appropriate measure at this time
- *Provide a targeted Bid Production Cost Guarantee payment for periods of price correction*
  - **Today's presentation is intended to provide a straw proposal of the high-level rules and implementation requirements associated with this new settlement mechanism**

# Draft Market Rules

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- ◆ Institute an interval-level Bid Production Cost Guarantee calculation in the real-time market for all intervals subject to price correction
  - *These periods would be excluded from existing daily-level BPCG calculation*
- ◆ Treatment would be applied across the NYCA
  - *Apply to all units at all pricing nodes who are otherwise eligible to receive BPCG, based on existing criteria*

# Implementation Requirements

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- ◆ A new market system “flag” that can be applied to intervals that should receive this treatment
- ◆ A new mechanism to apply the “flag” to intervals with price corrections
  - *Integrated with Enhanced Price Validation tools*
- ◆ Modify conditional logic in the Billing and Accounting System to apply existing, special case, interval-level BPCG settlement rules to intervals with the new price correction “flag”
- ◆ Potential changes to the invoice and / or DSS to provide transparency of this settlement

# Benefits

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- ◆ Protects suppliers from eroded profits in the daily BPCG calculation due to financial impacts of extended price corrections
- ◆ Eliminates an undesirable financial motivation for suppliers to question NYISO dispatch instructions
  - *NYISO wants to ensure that suppliers can follow ISO instructions without risk of financial harm*
- ◆ Solution design leverages existing settlement logic, helping to expedite implementation
- ◆ Consistent with long-term BPCG related design concepts that are currently under consideration



# Next Steps

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- ◆ Continue MSWG discussions on proposed rules
- ◆ Estimate cost and resources required for implementation
  - *Determine feasible implementation schedule*
- ◆ Determine requirements for tariff modification
- ◆ Initiate implementation phase of the project