

HQUS PROPOSAL ON ALLOCATION OF INSTALLED CAPACITY RIGHTS FOR EXTERNALS

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During the month of April, HQUS and its customers encountered problems in getting the import rights necessary to accompany their ICAP¹ deals. This situation, in which the ISO was involved, highlighted the fact that the current rules governing the Installed Capacity Rights for Externals² and that was developed for reliability purposes, interfere with the competitive aspect of the ICAP market.

HQUS is proposing to modify the rules so as to remove its negative impact on ICAP market while maintaining the reliability goal of the rule.

1. PRELIMINARY INFORMATION

Objective of the ICAP Import Rights

The rules governing the Import Rights have been developed as a tool for the ISO to manage the quantity of ICAP coming from neighbouring Control Areas. The ISO wants to make sure that no more ICAP is sold from externals than the quantity allowed in New York. Another goal of the rules is to ensure that no participant can hoard the rights by reserving them without holding an ICAP contract between an external supplier and an entity in NY.

Although HQUS is in favour of these objectives, it believes that the means to achieve them are too stringent and have negative commercial implications that were not foreseen when the rules were developed.

2. CURRENT RULES AT STAKES ON IMPORTS

Rule 1: Obligation to sell ICAP to an LSE

When a request for ICAP Import Rights is made, the requesting entity must show a contract between an external supplier and an entity in NY (LSE or marketer). However, when this entity is a marketer, it has the obligation to resell the ICAP to an LSE before the start of the next auction (for the same capability period) in order to secure the rights.

¹ ICAP is used in this text as a generic term for ICAP/UCAP

² Ref: ICAP Manual, Section 4.9.3

Once done, the LSE must confirm the purchase prior to the auction.

If not done, the ICAP is automatically sold by the ISO in the auction at a price of 0\$.

So the net effect of the rule is that external ICAP must ultimately be sold to an LSE in NY.

The rules of the ICAP Manual are as follows:

Confirmation by LSE

- «By 5:00 pm, 2 business days prior to the Capability Period strip auction, the LSE must confirm the ICAP purchase by sending:
 - *Documentation of bilateral agreement between the requesting entity and either:*
 - i. *A load in NYCA (LSE) or*
 - ii. *A qualified External ICAP supplier (generator, marketer)*
 - *The name and location of the Resource*
 - *The Control Area in which the Resource for which the Installed Capacity Supplier seeks rights is located*
- «By 5:00 pm, 2 business days prior to the Pre-Capability Period Monthly Auctions, all External ICAP rights should be matched between a Load in NYCA and an External ICAP supplier».

Enforcement of the sale to an LSE

- «ICAP supplied by external ICAP suppliers that have claimed external ICAP rights, but have not entered into bilateral arrangements with an LSE serving NYCA Load by that time, will be offered for sale into those Auctions at a price of 0 \$/MW».

Rule 2: Import rights can only be requested during certain time frames :

The rules specify that the rights will be allocated on a first come first serve basis during specific period of times. Outside these windows, no rights can be requested. The time frames are the following:

- «from 8:00 am, 7 business days prior to the Capability Period strip auction to 5:00 pm, 3 business days prior to the same auction»
- «from 8:00 am, on the 5th business day prior to any monthly auction to 5:00 pm, on the 3rd business day prior to the same auction»

3. COMMERCIAL IMPACT OF CURRENT RULES AND PROPOSED MODIFICATIONS

1. Obligation to sell ICAP to an LSE

Negative commercial impacts:	Proposed modification:
<ul style="list-style-type: none"> • It imposes an obligation on external ICAP deals that is absent for internal deals. A marketer that buys external ICAP must sell it to an LSE while the obligation does not exist for internal ICAP. • It prevents marketers from buying external ICAP to cover a short position. • It downgrades external ICAP in the trading market (obligation to sell to LSE, obligation to confirm contract to ISO) • It is inconsistent with auction rules because a marketer can buy external ICAP in an auction without having the obligation to resell it to an LSE. 	<ul style="list-style-type: none"> • Eliminate the obligation to sell to an LSE • Eliminate the obligation of certification by the buying entity and allow both request and certification to be made by the requesting entity • Eliminate the «sanction» for not selling to an LSE. <p>Impacts:</p> <ul style="list-style-type: none"> • Makes it a level playing field with internal ICAP • Enable marketers to cover short position • No negative impact on reliability. All ICAP sold to NY must comply with the bidding requirement whether it is sold to an LSE or a marketer • <u>Example:</u> LSE meets their ICAP obligation by securing 36 000 MW of ICAP. If all LSEs meet their requirement and 38 000 MW of ICAP is sold to NY participants (i.e. 2 000 MW sold to non LSEs), the bidding requirement to NY is 38 000 MW, which is 2 000 MW more than the ICAP requirement.

2. Time frame to request Import Rights

Negative commercial impacts :	Proposed modification:
<ul style="list-style-type: none"> • It downgrades external ICAP by introducing an unnecessary risk to external ICAP purchase • The short window available to request import rights prevents participants from securing import rights immediately when making a contract outside this window. 	<ul style="list-style-type: none"> • Eliminate the time frame for the request and allow import rights to be requested at the time of the contract, on a first come first served basis.

<ul style="list-style-type: none"> • <u>Example:</u> An external supplier making an ICAP contract with an LSE in January cannot get the import rights before April 	<p>Impacts:</p> <ul style="list-style-type: none"> • Eliminate the risk associated with the present rules • Put external ICAP on a level playing field with internal ICAP
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4. CONCLUSION:

By adopting the proposed modifications, the ISO is not making the NYCA less reliable than before. It will create a level playing field for the trading of external and internal ICAP in New York. External and internal ICAP products (for example ROS) will become undifferentiated from each other and will be traded on an equal basis (for an LSE, these products are already undifferentiated as far as ICAP requirement is concerned).

Finally, the proposed modifications will not modify the ability of the ISO to control the quantity of ICAP originating from externals.

Modifications proposed:

- Eliminate the obligation to sell to an LSE
- Eliminate the obligation of certification by the buying entity and allow both request and certification to be made by the requesting entity
- Eliminate the «sanction» for not selling to an LSE.
- Eliminate the time frame for the request and allow import rights to be requested at the time of the contract, on a first come first served basis.