



Summary of Proposals

- I. Allow Special Case Resources (SCR) to bid directly into the ICAP market instead of requiring bilateral contracts with LSE's.
- II. Provide for SCR to receive the real time market price for load curtailment supplied in response to ISO dispatch.

Public Policy Rationale for MetroGen Proposal

- There is a national consensus that greater demand side response is needed to stabilize wholesale markets. In addition, for load pockets such as NYC, demand side response constitutes the only capacity resource available in the near term.
- A substantial amount of dispatchable demand side resources will be lost to the marketplace by ISO or utility-based procurement mechanisms that rely on retail customers simply signing up. Reason: the potential reward on a per customer basis is too small or too uncertain relative to entry barriers (i.e. cost of interval meters and other capital investments, complexity of market, plain old “hassle factor”). These resources will only be captured efficiently by third parties who can reap economies of scale in bringing the resources to market through aggregation.
- In order to enter the market, third party demand side resource providers such as MetroGen need reasonably predictable mechanisms for fixed and variable cost recovery.

Proposal I

Allow special case resources to bid directly into the ICAP market instead of requiring bi-lateral deals with LSE's.

The Problem

- Current rules give LSE's credit towards annual capacity obligations for purchases of capacity from SCR. LSE should have incentive to purchase from SCR at any price less than capacity deficiency price.
- However, the relatively small number of sizeable LSE's and inability to know their capacity deficiencies creates a pseudo-monopsony situation (i.e. SCR is prevented from obtaining incentive value of capacity). The situation is made worse by the provision of the ISO Services Tariff that forbids LSE's from reselling SCR. See tariff section 5.12.8(a).
- The current bilateral sales requirement coupled with the deficiency rebate filing pending before FERC (if made applicable to future obligation periods) ensures that SCR will only receive the base price of \$8.75/kw/month without any additional incentive. This runs contrary to the clear purpose of the deficiency payment requirement which is to create an incentive for market entry by new capacity resources.
- Allowing direct bidding of SCR into the ICAP market removes monopsony problem and allows price discovery for capacity resources.
- The proposed change only affects resource acquisition mechanisms **not** operational reliability (i.e. if SCR counts towards LSE capacity obligations under existing rules, it makes no difference from a reliability standpoint if SCR can be acquired through market bidding as well as bilaterally).

MetroGen Proposal I (continued)

Tariff Issues

- Bidding by SCR in the ICAP market already appears to be allowed/required by the ISO Services Tariff in second phase and deficiency auctions. For example, the tariff states that in the Initial Deficiency Procurement Auction “[t]he ISO *shall* solicit bids from qualified In-City Generators *and from any other entity that owns excess In-City Locational Installed Capacity.*”(Tariff section 5.14.1 emphasis added). The only other tariff bidding requirement is that the seller be an ISO “Customer” (i.e. sign a service agreement) and meet the OATT creditworthiness requirement (unclear how it would apply in this instance).(See tariff section 5.13.1)
- Query: Should SCR be able to bid in phase 1 of the Obligation Procurement Period Auctions as well? The tariff currently limits bidding to generators.
- By limiting SCR to bilateral deals, the ICAP Manual (explicitly) and the Installed Capacity Auction Description (implicitly) conflict with the ISO Services Tariff. The Installed Capacity Auction Description is on file with FERC and will probably require a FERC filing in order to be modified.

Implementation of Proposal

- In order to bid in ICAP auctions SCR sellers will have to deal with the ISO directly.
 - Submission of written and electronic bids in ISO-prescribed format.
 - Maintain 24x7 telephone and internet connection to ISO in order to receive dispatch instructions. SCR will continue to be dispatched by the ISO “only when the [Day Ahead

MetroGen Proposal I (continued)

Market] indicates serious shortages of supply for the next day.”(ICAP Manual 4.8.4)

- Verification of performance remains after-the-fact. ISO doesn't have to “see” SCR.
- SCR seller provides ISO with certifications currently required from LSE's for use of SCR. (e.g. ICAP Manual 4.8.6)
- SCR seller executes service agreement and becomes an ISO “Customer”.
- Creditworthiness requirements imposed by the ISO Services Tariff under section 11 of the OATT appear unnecessary or won't apply by their terms. OATT provisions appear to be oriented towards parties that may owe money to the ISO for transmission services received.
- New provisions
 - Limit ISO dispatch to weekdays 0900-1700 and no more than 250 hours per year in order to enhance marketability of program to building owners and other owners of SCR.
 - Penalty for non-compliance in response to dispatch would follow California ISO Demand Relief Program: reduction of awarded bid price amount by 25-100% on a sliding scale for availability less than 90%.
 - These limitations do not materially diminish the capacity value of SCR.
- In all other respects the SCR program would be unchanged.

Proposal II

Provide for Special Case Resources to receive the real time price when dispatched by the ISO.

The Problem

- There is currently no ISO mechanism for recovery of variable costs of operation for SCR. Other capacity resources recover these costs through bids into the energy markets. Under the current system a seller of SCR is forced to factor in variable costs (including a substantial risk factor related to the number of times of expected dispatch) into the prices it seeks for capacity.
- An LSE purchasing capacity bilaterally from SCR will be willing to pay for the variable cost of load reduction incurred in response to ISO dispatch *only* when the reduction is for load that the LSE serves.

Tariff Issues

- The proposal would require a tariff filing.

Implementation

- Implementation would be straightforward.
- There is precedent for the MetroGen proposal in the California ISO's Demand Relief Program. In that program load curtailment resources receive the prevailing energy imbalance price per MWH of load reduction whenever the resources are dispatched by the ISO.
- **Pros:** The proposal keeps administrative compliance easy and simple. After-the-fact reconciliation as under the present system can be employed. No need for the ISO to be able to "see" the SCR in real time. Solves the disincentive to SCR inherent in the existing system.

MetroGen Proposal II (continued)

- **Cons:** No competitive effect from SCR in setting hour ahead prices. However, at least for the present SCR is not likely to be of sufficient magnitude to have any significant price setting effect.

PRESENTATION OF METROGEN LLC PROPOSAL IN NEENAN ASSOCIATES MATRIX

Program Feature	Modified Special Case Resource (SCR)
Type	ISO Dispatch
Compliance	Mandatory—Penalty for non-compliance
Eligible	Aggregated load or distributed generators equal or greater than 100kw
Term	Same as ICAP auction
Metering	Hourly interval
Telemetry	None
Event Declaration	When the Day Ahead Market indicates “serious shortages of supply for the next day” per the ICAP Manual
Event Notification	Phone and Internet allowing 24x7 communication
Events	
Window	Weekdays 0900-1700 *
Notice	24 hour with 2 hour confirmation
Duration	Lesser of period requested or four hours
Frequency	Implicitly one per day
Exposure Limits	250 hours/year *
Benefits	
Curtailment Capacity Commitment	MW bid into ICAP auction *
Capacity Payment	ICAP auction market price *
Delivered Energy Payment	ISO real time price *
Delivered Energy Payment Basis	Metered load reduction or metered generator Output *
Non-compliance Penalty Charge	25-100% of monthly payment if compliance < 90% *

* Denotes change from existing SCR program.