

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

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# Agenda

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- **Supplier Side Mitigation In all Mitigated Capacity Zones**
  - Proposed design based on the “incentive to withhold”
  - Response to stakeholder feedback
- **Buyer-side Mitigation in Newly Created Localities**
  - Commenced Construction and NCZ Examined Projects
- **Supplier Side & Buyer-side Mitigation: Locality Elimination**
  - Zone elimination criteria: Treatment of partially exempt resources

# Supply Side Mitigation

# Supplier Side Mitigation In Mitigated Capacity Zones

## Proposed Methodology:

- **Would apply to all Mitigated Capacity Zones; *i.e.*, NYC, G-J, and any new Localities**
- **The Supply-side mitigation threshold will 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 Mitigated Capacity Zones

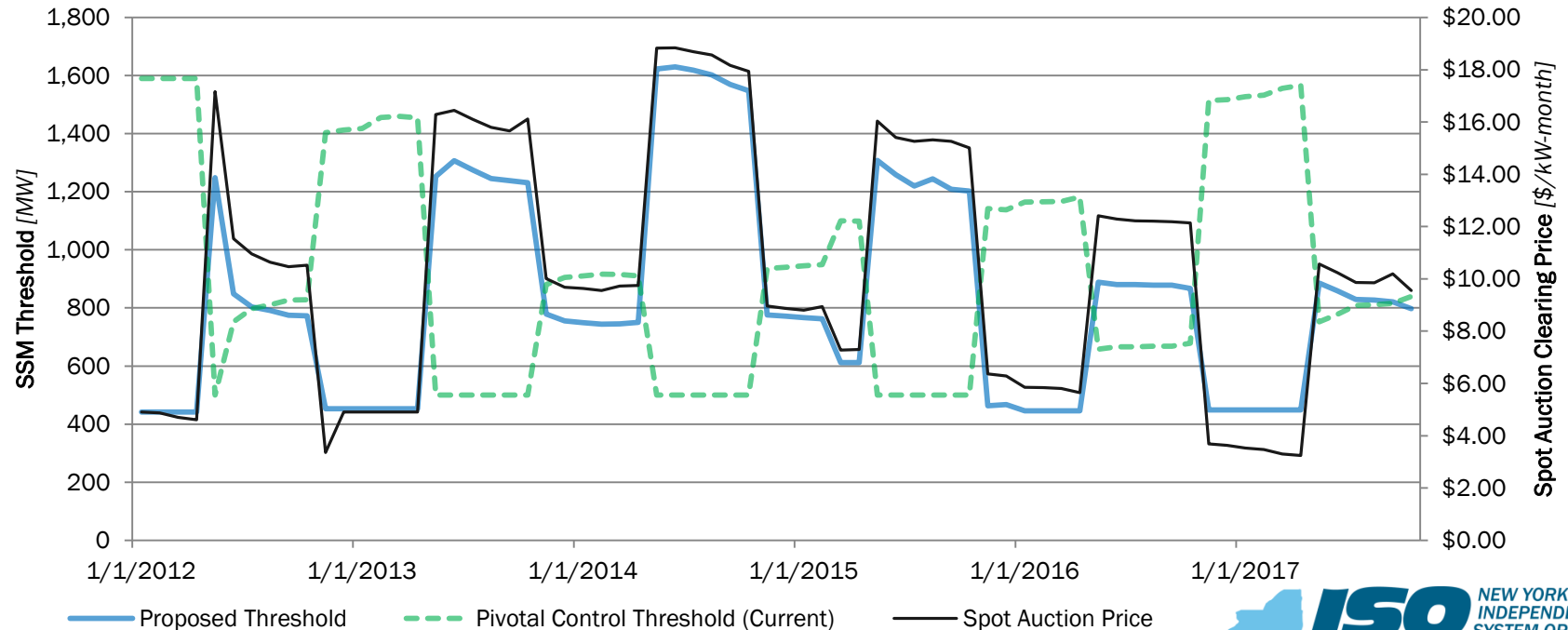
- **Stakeholder feedback on the proposed lower bound**
  - Some stakeholders have expressed concern that the proposed lower bound would exempt some suppliers that have a financial incentive to withhold capacity
  - These stakeholders have suggested that the lower bound be determined formulaically by considering:
    1. The level of price impact due to withholding that can be considered *de minimis*
    2. The price below which an attempt by a supplier to withhold capacity would induce sufficient supply response to counteract any impact

# Supplier Side Mitigation In Mitigated Capacity Zones

- **NYISO response to stakeholder feedback**
  - At this time, the NYISO is not proposing to modify its proposal to reflect (1) and (2) in the derivation of the lower bound
    - The NYISO does not believe that there is sufficient historic evidence of inappropriate market behavior to suggest that the proposed lower bounds provide insufficient protection, or that more stringent supply-side mitigation measures are necessary for the suppliers that would be affected by such a rule
    - However, the NYISO is not opposed to performing the necessary studies to determine (1) and (2) and developing enhanced rules for the determination of the lower bounds at a later date, should stakeholders identify such a project during the annual project prioritization process

# Supplier Side Mitigation In New Localities

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



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# Buyer-side Mitigation



# Buyer-side Mitigation in New Localities

## NYISO Proposal

- Buyer-side Mitigation will continue to apply in Zone J and the G-J Locality and also apply to all new Localities; *i.e.*, Mitigated Capacity Zones
- In addition, the NYISO considers it important to revisit, and if necessary, enlarge the 1,000MW Renewable Exemption cap each time a new Locality is created
- The Competitive Entry Exemption and Self Supply Exemption would be available for Examined Facilities proposing to enter the new Locality

# Buyer-side Mitigation in New Localities

- **Implementation: BSM will apply to any projects not having “Commenced Construction,” and any Class Years starting after the (May 1) filing to create the new Locality**
  - Projects that have Commenced Construction will be grandfathered and exempt from BSM
  - “NCZ Examined Projects” that have not Commenced Construction will receive an exemption or Offer Floor determination concurrent with the determinations of “regular” Examined Facilities, if a Class Year is on-going at the time the NYISO first posts the ICAP Demand Curve for the NCZ
  - Otherwise (*i.e.* if it remains a member of a completed CY), an NCZ Examined Project will receive an Offer Floor Determination prior to the NYISO issuing determinations for any Class Years that start following the filing to create the NCZ
  - This approach will retain the function of the current grandfathering provisions, but will eliminate the NCZ Indicative Buyer-side Mitigation process currently in Attachment H

# 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 and onward; facilities in Class Years 2015 or prior with an Offer Floor are “grandfathered”
  - In response to stakeholder feedback, the NYISO has modified its proposal and is now proposing to include the portion of exempt MW for facilities that are partially subject to an Offer Floor

# 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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