



Independent Power Producers of New York, Inc.

Principles for the Design of a NYISO Forward Capacity Market

Presented to the NYISO ICAP Working Group
February 27, 2008



Who We Are

The Independent Power Producers of New York, Inc. "IPPNY"
- Founded 1986

- IPPNY represents more than 100 companies including: electric generators, power marketers, and suppliers of goods and services to the power industry
- IPPNY plays a major role in the ongoing development of competitive energy markets in New York
- IPPNY members generate over 75 percent of New York's electricity
- IPPNY members produce power from coal, natural gas, hydro, nuclear, wind, biomass, waste-to-energy and oil



Background

- For the past several months ICWG has been discussing possible structures for an ICAP forward market
- Proposals ranged from purely voluntary market to a fully mandatory market
- IPPNY and its members believe that a mandatory forward market structure is the only construct that will provide incentives and market signals for significant new investment in generation in NY



Background

- We offered to present our thoughts at this meeting, which this presentation is intended to do
- We offer here some broad design principles for consideration by market participants and the NYISO
- These principles have unanimous agreement of IPPNY's membership



Guiding Principles

- The purpose of IPPNY's proposed mandatory forward capacity market (FCM) is to procure sufficient resources in a timely manner to meet CRPP needs by relying on market mechanisms and to develop a long term pricing signal for capacity resources and LSE obligations to inform future capacity and LSE decisions
- Adopting a mandatory FCM will minimize seams between the NYISO and its adjoining regions to prevent New York from becoming a last call market for capacity that is not already obligated to the neighboring forward markets



Guiding Principles

- Adopting a mandatory FCM will allow developers to evaluate New York's markets on comparable terms with the adjoining regions, thus allowing New York to effectively compete for limited investment dollars for the construction of new infrastructure
- Absent a mandatory FCM construct, New York may more easily default to regulated backstop or alternative regulated solutions to meet its CRPP identified reliability needs



Guiding Principles

- As much of the existing market design as possible would be retained
 - EFORd measurements,
 - UCAP purchases and Sales
 - Locational requirements
 - Any others

- Results of competitively procured new merchant generation entry would supplant the current administrative reset process to determine the net cost of new entry (“Net CONE”)



Elements of Market Design

- Structure would be mandatory, not voluntary
- Auction will be conducted every year. Periodic reconfiguration auctions will utilize Demand Curves with a final auction held shortly in advance of the Obligation Period
- Auction will be held four years prior to the first delivery year
- The provision of UCAP will be an obligation that becomes effective upon the close of the auction



Elements of Market Design

- ISO will continue to set the peak load forecast as it does today for the CRPP and will act as the clearing house. Suppliers are paid in the month after performance. The existing rules for the allocation of capacity costs to LSEs would be retained
- Auctions will be conducted annually based on summer ratings with obligations in each month of the year. Composite offers (i.e., entities with more summer than winter capability combine with entities that have less summer than winter capability) will be permitted



Elements of Market Design

- Structure will include the option for a new entrant to ensure prices for an appropriate period of time. SCRs have the option, but not the obligation, to either participate in the forward auctions and/or the reconfiguration auctions. The use of the Demand Curves in the reconfiguration auctions allows these parties to have access to the market on a current basis
- The level of external capacity from the adjoining regions that can participate in the NYISO's market will be set prior to the time that the forward capacity market auctions are run. Imports will be permitted to bid into the forward capacity market. Except for grandfathered rights, imports cannot lock up transmission in advance



Elements of Market Design

- Balanced mitigation will be applied to both the buy side and supply side of the market taking guidance from the order issued by the FERC in Docket No. EL07-39-000 (In City ICAP Proceeding). Appropriate delisting procedures will be developed
- CRPP gap solutions ultimately serve as mechanism to address any shortages.

Questions / Comments?



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