

EDRP and Market Pricing

At the last Price Responsive Load Working Group and Market Structures Working Group Meetings I raised a concern about the interaction between EDRP activation and the calculation of NYISO energy prices.

By its nature, EDRP is only to be activated during times of scarcity. A requirement for the activation is that it be to avert a forecast of an operating reserve shortage within the NYISO, essentially the epitome of scarcity conditions.

The pricing for the EDRP program is set at a price that is consistent with scarcity: the greater of \$500/MWh or the market clearing price for energy. However, the cost of EDRP is not included in any direct way in the market prices. The potential for a disconnect between the scarcity conditions that lead to calling EDRP and the representation of scarcity prices in the market became abundantly clear last summer when we experienced a number of occasions where the EDRP program was called and the market clearing price for energy was significantly below levels that would represent scarcity conditions.

While the NYISO has made efforts to revise the operating procedures to attempt to assure that scarcity is represented in the market prices, there exists a significant possibility that the current policy of treating EDRP as being outside the market will result in relatively low prices during periods when there is scarcity in the market as represented by the need to call EDRP. The possibility of EDRP to depress market prices has increased from last summer as the program has grown to 900 MW with an expectation that it may grow to over 1000 MW.

As the NYISO develops pricing mechanisms that are intended to assure scarcity is represented in the clearing price we need to make sure that the activation of EDRP is consistent with those mechanisms. This could include strict rules on when and how much EDRP is called so that it does not controvert the attempts to represent scarcity in the market prices. It could also directly incorporate EDRP into the pricing determination. This could be done by including both the EDRP "generation" and the EDRP "load" in the hybrid pricing. This would result in EDRP being part of the price setting anytime the activation of EDRP is needed to avert scarcity. There may also be other ways to directly include EDRP in price setting.

These issues need to be addressed for this summer and certainly needs to be addressed as part of any extension of the EDRP program.