



Enhancement of Pivotal Supplier Rules

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Agenda

- **Overview**
- **Suggested Enhancements**
 - *Impacts and timelines*
- **Other Considerations**
- **Next Steps**

Overview

- The MMU recommends enhancing the Pivotal Supplier rules
 - *“...to prevent a large supplier from circumventing the mitigation rules by selling capacity in the forward capacity auctions (i.e., the strip and monthly auctions) to avoid being designated as a pivotal supplier.”*
 - 2015 State of the Market Report at p. 31, and Recommendation #6, p. 116, and SOM Reports beginning 2012
- When the G-J Locality was created, the mitigation rules for that locality were modified to address this issue
- Because that proceeding only related to the G-J Locality, the Commission ruled that the revision could only apply to the G-J Locality. (147 FERC ¶ 61,152 (2014) at PP 36-37.)
- Therefore, different rules apply in Zone J and the G-J Locality
 - *The Zone J Pivotal Supplier test does not include capacity sold and certified in the Capability Period (strip) or Monthly Auctions for the applicable month when performing this test*

Suggested Enhancements

- The NYISO has identified two enhancements for stakeholder input; both enhancements have their own benefits and/or constraints and are not necessarily mutually exclusive
 - *First enhancement would align rules for all Mitigated Capacity Zones, (i.e., Zone J and any future NCZs) to reflect what currently exists for G-J*
 - All MW including those sold in the strip or Monthly Auction for the applicable month would be used to calculate a supplier's cumulative threshold
 - Does not take into account varied sizes of suppliers' portfolios and individual incentive to exercise market power
 - *Second enhancement would modify rules for all Mitigated Capacity Zones to reflect optimal portfolio size*
 - Would take into account the actual portfolio size with the optimal ability to affect the ICAP Spot clearing price(s)
- Both enhancements, as under the current rule, would be calculated/determined prior to the Spot Auction and therefore would change from month to month

Suggested Enhancement 1

- **The first enhancement would be accomplished by changing the existing mitigation Pivotal Control Threshold calculation inputs for Zone J**
 - *Include all capacity previously sold in the current Capability Period*
 - *This rule exist for Capacity Zone G-J and were put in place with the implementation of the NCZ filing*

Suggested Enhancement 1: Background/Example

- **Currently in Zone G-J**
 - *All Capacity sold in the current Capability Period is used to calculate the cumulative MW in a portfolio at certification for the Spot Auction*
 - Threshold for Zone G-J: 650 MWs
- **Currently in Zone J**
 - *Capacity sold in the Strip or Monthly Auction, prior to the Spot is not used to calculate the cumulative MW for the Pivotal Control Threshold*
 - Threshold for Zone J: 500 MWs
- **Enhancement 1 would include the cumulative MW as it is currently done for the G-J locality**
- **MW threshold would remain as is**

Suggested Enhancement 2

- The second enhancement would be accomplished by calculating the minimum portfolio size for which a supplier has an incentive to withhold
- This threshold would be calculated prior to each Spot Auction by dividing the forecasted ICAP Spot Market-Clearing Price by the slope of the Demand Curve
 - **Calculation; $PCT = K/s$**
 - Where;
 - PCT is the Pivotal Control Threshold
 - K is the Default Reference Price
 - s is the absolute value of the Demand Curve Slope
- Only suppliers with portfolios greater than this value would be Pivotal Suppliers and therefore would have a must offer requirement for the Spot Auction

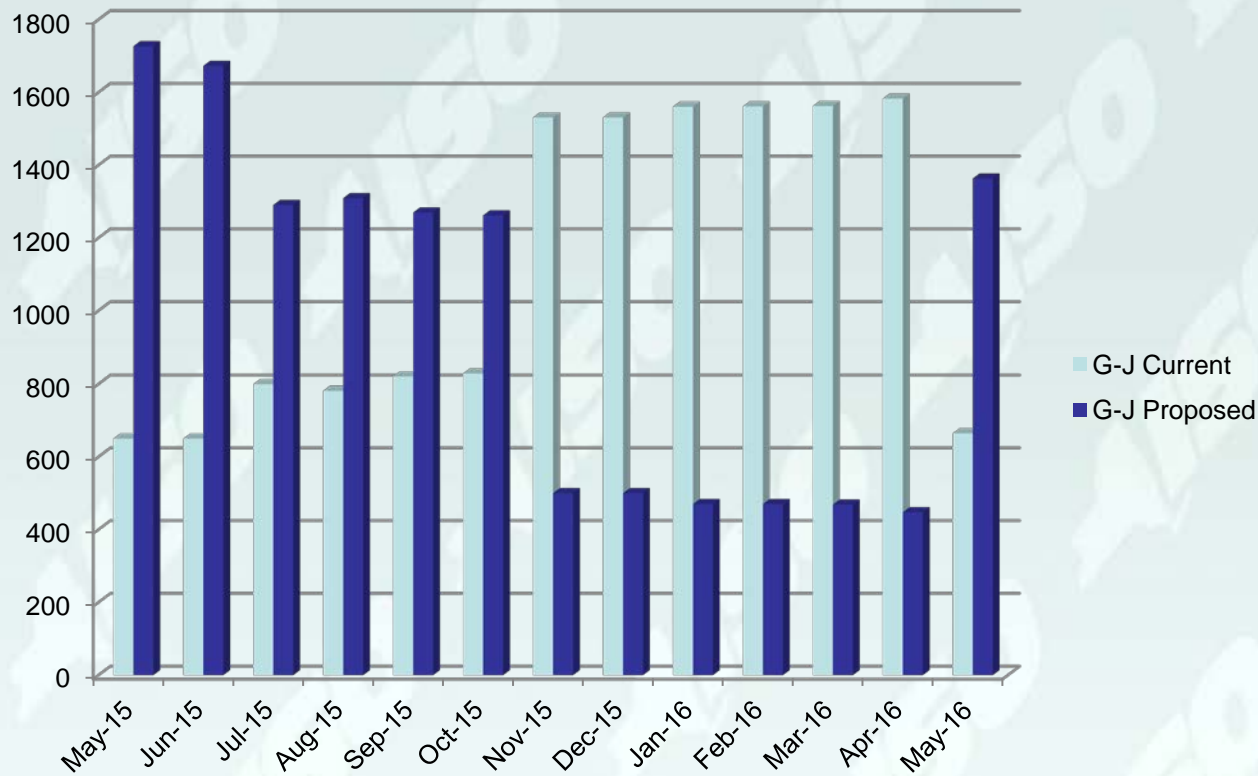
Suggested Enhancement 2: Example

- **Current and proposed values for Zone J**



Suggested Enhancement 2: Example

- **Current and proposed values for the G-J Locality**



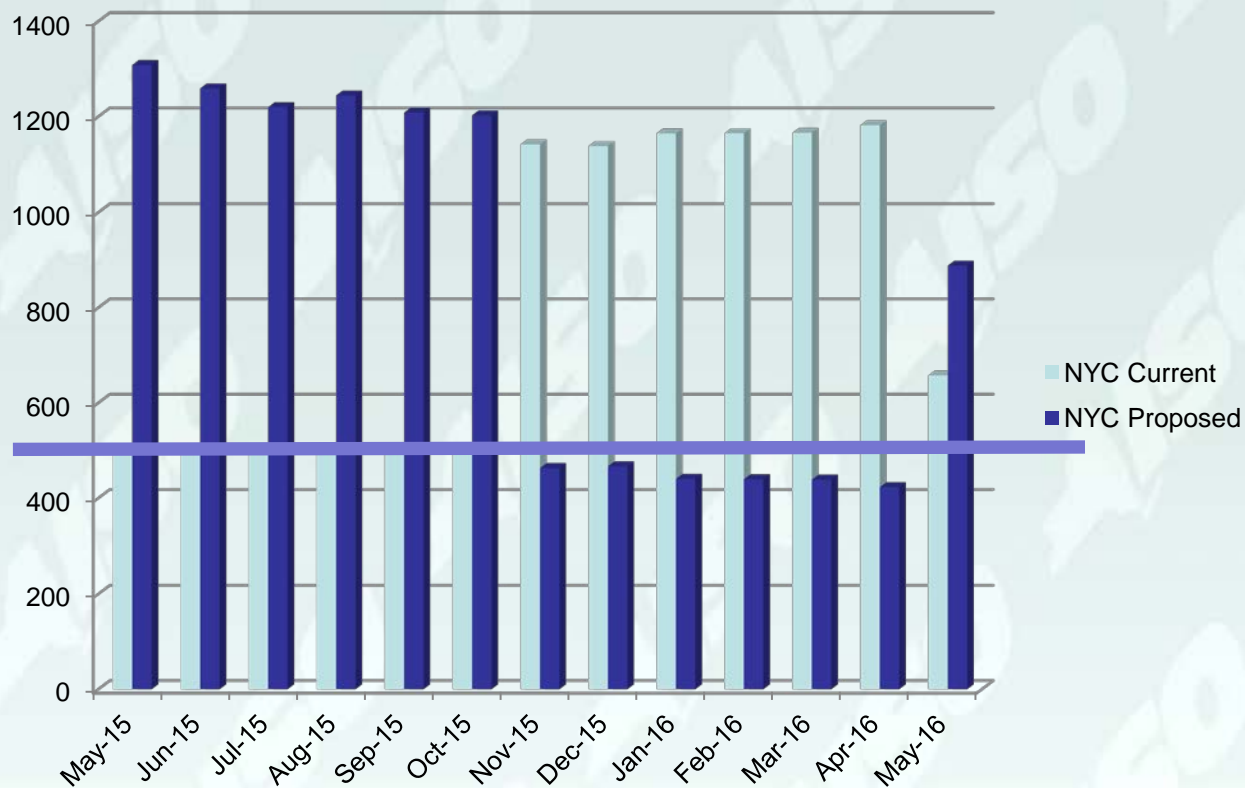
Minimum Portfolio Size

- ***NYISO has identified certain scenarios which could occur when the calculation for enhancement #2 would determine a portfolio size that would identify more Market Participants than necessary to mitigate the potential for the exercise of market power; i.e., it would over mitigate***
 - ***This could occur in both Zone J and the G-J Locality during Winter months***
- ***Would be accomplished by setting a lower bound to the Enhancement 2 calculation, example on next page***
 - ***The NYISO currently uses 500MW in Zone J and 650MW in the G-J Locality as lower bounds***
- **Example:**
 - ***CAPmin = Max(“Calculation”, “Lower Bound”)***
- **NYISO is evaluating the use of existing values as the “Lower Bound**

Minimum Portfolio Size, con't

- **Example:**

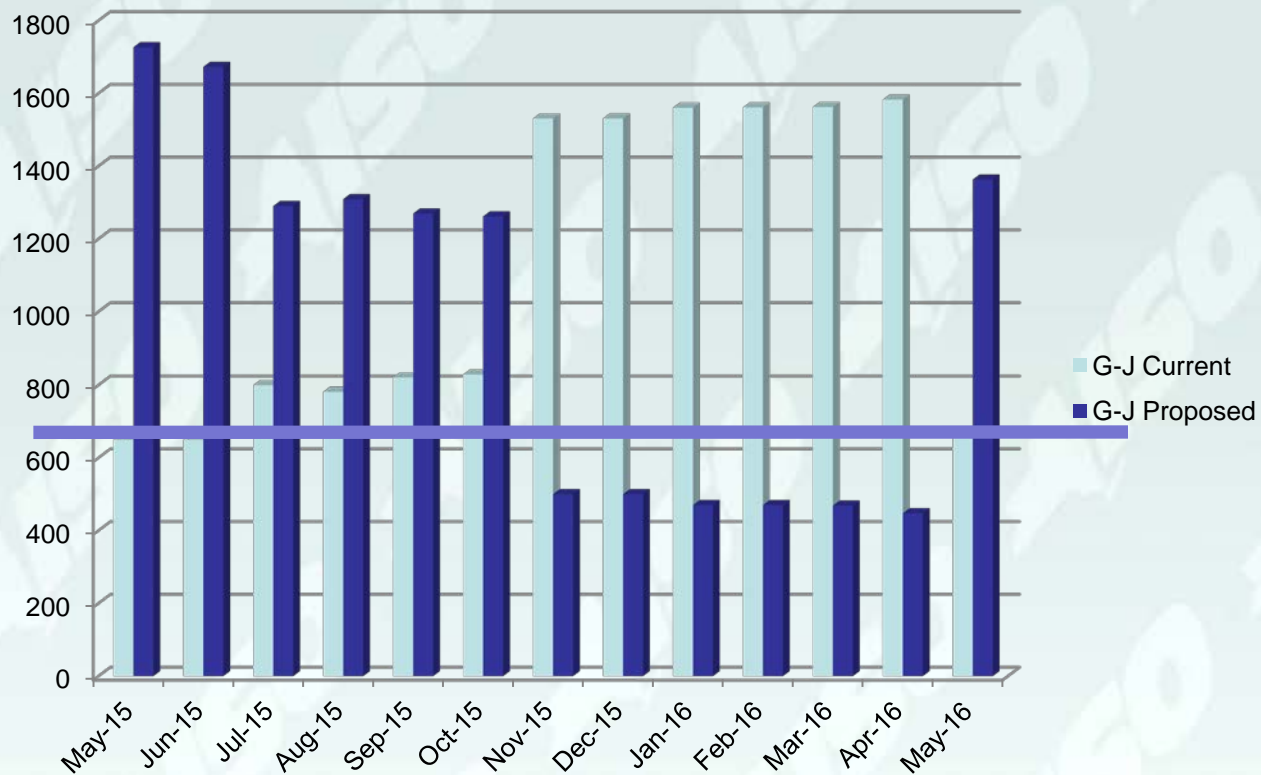
- *J Locality: 500* —————



Minimum Portfolio Size, con't

- **Example:**

- **G-J Locality: 650**



Suggested Enhancements, con't

- **Impacts and Timeline**
 - ***Enhancement 1:***
 - Requires Tariff changes but not software changes
 - ***Enhancement 2:***
 - Requires Tariff changes and software changes
 - Software changes will need to be prioritized and scheduled
 - ***Combined Enhancement:***
 - Implement changes for both Enhancement 1 and Enhancement 2 at same time
 - Requires Tariff changes and software changes
 - Software changes will need to be prioritized and scheduled

Additional Concept for Discussion

- **It has been suggested that the NYISO consider cascading price effects on capacity located outside of Mitigated Capacity Zones**
 - *These would be used in its calculation of the Pivotal Supplier threshold as per the methodology in Enhancement 2*
 - *The NYISO is not including an implementation of this concept in its proposed enhancements at this time; however it is inviting feedback from stakeholders*
 - *If there is interest, the NYISO will return at a later date with additional detail on this concept*

Next Steps

- The NYISO will consider input received during today's ICAPWG meeting
- Stakeholders may also provide additional comments in writing to deckels@nyiso.com or to mlavillotti@nyiso.com by July 22, 2016
- Further review of the proposal at a future ICAPWG meeting

The New York Independent System Operator (NYISO) is a not-for-profit corporation responsible for operating the state's bulk electricity grid, administering New York's competitive wholesale electricity markets, conducting comprehensive long-term planning for the state's electric power system, and advancing the technological infrastructure of the electric system serving the Empire State.



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Appendix

- Tables used for charts;

Example For NYC

Auction Month	Default Reference Price (\$/kW-month)	Total UCAP	Slope	NYC Calc'd Portfolio	NYC Proposed Portfolio	Net Difference
May-15	\$15.96	9,632.10	1.22	500	1308	808
Jun-15	\$15.36	9,681.70	1.22	500	1259	759
Jul-15	\$14.88	9,720.80	1.22	500	1220	720
Aug-15	\$15.18	9,696.10	1.22	500	1244	744
Sep-15	\$14.74	9,732.40	1.22	500	1208	708
Oct-15	\$14.67	9,738.40	1.22	500	1202	702
Nov-15	\$6.11	10,057.50	1.32	1141.4	463	-678
Dec-15	\$6.16	10,054.10	1.32	1138	467	-671
Jan-16	\$5.81	10,080.70	1.32	1164.6	440	-724
Feb-16	\$5.80	10,081.00	1.32	1164.9	440	-725
Mar-16	\$5.79	10,081.90	1.32	1165.8	439	-727
Apr-16	\$5.58	10,097.70	1.32	1181.6	423	-759
May-16	\$12.30	9,246.70	1.38	657.7	888	231

Example for G-J

Auction Month	Default Reference Price (\$/kW-month)	Total UCAP	Slope	G-J Calc'd Portfolio	G-J Proposed Portfolio	Net Difference
May-15	\$10.88	14,297.40	0.63	650	1727	1077
Jun-15	\$10.54	14,352.50	0.63	650	1673	1023
Jul-15	\$8.13	14,734.10	0.63	799.7	1290	491
Aug-15	\$8.25	14,715.90	0.63	781.5	1309	528
Sep-15	\$8.00	14,755.40	0.63	821	1270	449
Oct-15	\$7.95	14,763.40	0.63	829	1262	433
Nov-15	\$3.34	15,069.00	0.67	1530.9	500	-1031
Dec-15	\$3.34	15,069.20	0.67	1531.1	500	-1031
Jan-16	\$3.14	15,098.70	0.67	1560.6	470	-1090
Feb-16	\$3.14	15,099.30	0.67	1561.2	470	-1091
Mar-16	\$3.13	15,100.50	0.67	1562.4	469	-1094
Apr-16	\$2.99	15,120.90	0.67	1582.8	448	-1135
May-16	\$9.26	14,179.00	0.68	664.5	1363	699