

Proposal for In-City Capacity Mitigation

Joint Con Edison and DPS Proposal
Business Issues Committee
August 9, 2006

Outline

- Mitigation Proposal
- Longer term Capacity Market Proposal

Issue

- Existing price caps were approved and implemented before the current demand curve structure existed
- With the advent of the demand curve, additional mitigation measures are required
 - DGO market power can hold the market clearing price up at their price cap and force customers to purchase at that price at a amount of capacity that exceeds the minimum requirement
- In periods with substantial capacity in excess of locational requirements:
 - At the price cap not all DGO capacity is sold; certain suppliers maximize revenues by controlling the amount of capacity, including excess, that is sold
 - The unsold In-City capacity results in less capacity being included in the rest-of-state capacity market, which increases prices for the NYCA
 - This interrelationship did not exist before the demand curve market structure

Mitigation Proposal

- Develop a conduct and impact test for generators in the In-City Demand Curve monthly spot auction
 - Supplement the bid/price cap with an appropriate reference price
 - Identify and mitigate the potential exercise of market power to an appropriate level
 - When the conduct and impact test is violated, each generator's ICAP bid that failed the conduct and impact test will be replaced by a reference price
 - The clearing price for capacity will be determined by the Demand Curve

Mitigation Proposal

Conduct and Impact Test

- **Conduct Test**
 - All generators that bid 3% or more above their reference price would fail the Conduct Test and be subject to an Impact Test
- **Impact Test**
 - If generator owners' unmitigated bids that fail the conduct test raise the total market cost of capacity by 3% or more as compared to the total cost of capacity derived using that generator's reference price, then the Impact Test fails
- **Result**
 - In the event generators fail the Conduct and Impact test, the NYISO shall replace each failed generators' bid with that generator's reference price

Mitigation Proposal

Reference Price

- Reflect avoidable costs net of energy and ancillary services revenues appropriate for the Demand Curve monthly spot auction
- Specific components and guidelines to be developed in stakeholder process
 - Includes avoidable costs components identified in the proposed PJM Reliability Pricing Model (Section 6.8 of Attachment Y)
www.pjm.com/committees/energy-market/downloads/20051208_-item3_tariff_attachment_y_rpm.pdf
- Actual reference prices are developed by NYISO MMU with generator
- For DGO's, their reference bid must be developed consistent with the above
 - But, cannot bid or be paid more than the existing FERC-approved price cap, which remains in effect

Mitigation Proposal

Alternate Reference Price Calculation

- Process for developing the reference price could take some time, so an alternative method is required
- Alternative mitigation proposal applies to DGOs
- Alternative Reference Price Calculation
 - Use ratio of In-City CONE to NYCA CONE from Levitan study as a multiplier
 - Apply to historic NYCA DC competitive clearing prices on rolling 6-month basis
 - Summer – May through October
 - Winter – November through April

Longer Term Capacity Market Proposal

- Consider other capacity market changes in the context of minimizing seams issues with respect to capacity markets