

Proposal for Implementing a Demand Curve Spot Market Auction in the NYCA Installed Capacity Market

Management Committee Meeting
February 13, 2003

Development of the Demand Curve Concept

- PSC first introduced the concept on May 21, 2002.
- The ICAPWG has had numerous meetings and spent considerable time since May, 2002 working on the Demand Curve concept.
- Following the December 13, 2002 BIC denial of an initial Demand Curve proposal, some parties have worked to develop an alternative Demand Curve proposal.

Demand Curve - Objectives

- Offer an alternative method to address the flaws in the current ICAP/UCAP market.
- Increase system and resource reliability by valuing additional ICAP/UCAP above the NYCA and Locational Requirements.
- Ensure a competitive, fair, and non-discriminatory market for capacity in the NYCA.

Demand Curve Spot Market **Auction**

- Replaces current Deficiency Procurement Auction.
- Uses a Demand Curve in place of LSE Bids.
- The Demand Curves are based on a phase-in of the cost of new entry and recognize the decreasing value of ICAP/UCAP above the NYCA or Locational Requirement.
- The phase-in is designed to ameliorate rate impacts.

Demand Curve Spot Market Auction

(continued)

- The Demand Curve Spot Market Auctions for the three regions shall be conducted and solved simultaneously.
- The results of the Spot Market Auction define an LSE's ICAP/UCAP Obligation – the amount of ICAP/UCAP each LSE must obtain for the following Obligation Procurement Period (month).
- LSEs certify the amount of ICAP/UCAP they own prior to Spot Market Auction – NYISO considers all previously certified ICAP/UCAP and all Resource offers.
- The Spot Market Auction clears, and the price is set, at the point on the demand curve above or equal to the last MW of ICAP/UCAP supply bid in below or at the curve.

Demand Curve Proposal Variables

Current estimate of the
annual carrying cost of
new entry (GT) in \$/kW
year

- Statewide - \$85
- NYC - \$159
- LI - \$139

Additional ICAP/UCAP
will be valued up to a
percentage above the
NYCA or Locational
Requirement

- Statewide – 112%
- NYC – 118%
- LI – 118%

Statewide Curve Parameters

(represented in ICAP; must be adjusted to UCAP)

Statewide	\$/kW/Year at the NYCA Requirement (118%)	Equivalent \$ after S/W DMNC Adjustment	Point at Which Curve Crosses \$0 (112% of NYCA Requirement)
Year 1	\$50	\$56.24	132.00%
Year 2	\$60	\$67.49	132.00%
Year 3	X	\$	132.00%

Long Island Curve Parameters

(represented in ICAP; must be adjusted to UCAP)

LI	\$/kW/Year at the Locational Requirement (93%)	Equivalent \$ after S/W DMNC Adjustment	Point at Which Curve Crosses \$0 (118% of Locational Requirement)
Year 1	\$96	\$104.37	109.74%
Year 2	\$114	\$123.94	109.74%
Year 3	Y	\$	109.74%

In-City Curve Parameters

(represented in ICAP; must be adjusted to UCAP)*

NYC	\$/kW/Year at the Locational Requirement (80%)	Equivalent \$ after S/W DMNC Adjustment	Aggregate Shaped Summer and Winter Caps	Point at Which Curve Crosses \$0 (118% of Locational Requirement)
Year 1	\$110	\$127.89	\$10.61-S; \$6.37-W	94.40%
Year 2	\$130	\$151.14	\$10.61-S; \$6.37-W	94.40%
Year 3	Z	\$	Note 1	94.40%

* The factor used to translate from the \$105/kW/year ICAP cap to a UCAP figure shall be fixed through and including December 31, 2004, at the rate currently approved by FERC, regardless of the outcome of any pending litigation concerning this issue.

Note 1: If the \$105 cap remains in effect, the numbers will be those above. If it is raised or eliminated, these numbers will change or be eliminated.

DC Proposal - Additional Elements

- An independent review, sponsored by the NYISO, with stakeholder and NYPSC input, shall be conducted every 3 years to provide inputs for Demand Curve variables (i.e., cost of entry in NYC, Statewide and on LI, and energy and ancillary services revenues).
- Once each Review is completed, it shall be issued to stakeholders and the NYPSC, who shall be given an opportunity to provide input to the NYISO concerning the Review.
- Upon consideration of each Review and input thereon from stakeholders and the NYPSC, but prior to NYISO Board approval, the NYISO shall issue a set of proposed Demand Curves for the three regions.
- Any stakeholder, including the PSC, shall have a reasonable period of time (to be determined) within which to request an opportunity to provide the NYISO Board with supplemental information for its consideration when acting on the proposed Demand Curves.

DC Proposal - Additional Elements

(Continued)

- Upon receipt of such a request, a NYISO Board subcommittee shall be convened, upon notice to all parties, to review filed information and to hear oral arguments on the issues that have been raised.
- After considering the proposed Demand Curves and any comments related thereto, the NYISO Board shall issue a set of final Demand Curves for the three regions and shall file them for approval at FERC.
- Once Demand Curves have been approved by FERC, they shall remain binding for the 3-year period until the next Review, absent Exigent Circumstances.
- The First Review will be concluded by December 31, 2004. For the First Review, the \$0 point for the Statewide, NYC and LI curves will not be subject to change for the 2005-2006 Capability Year.
- The First Review, together with stakeholder and NYPSC input, will be used to inform the NYISO as the NYISO establishes the values for "X", "Y" and "Z" in the foregoing Demand Curve Parameter charts for the 2005-2006 Capability Year.

DC Proposal – Additional Elements

(continued)

- Strip and Monthly Auctions continue.
- LSEs and Resources continue to certify on a monthly basis.
- Supplemental Fee/Deficiency Charge set at 1.5 times the cost of new entry (i.e., cost of a GT, as set forth in this proposal).

In-City Divested Generation Elements

- Retain the Divested Generation Unit (DGU) Capacity bid and price cap, but apply it on a “shaped” basis (per the foregoing table of parameters) instead of the current method of dividing the annual cap into 12 equal monthly amounts.
- The Aggregate Shaped Summer and Winter Caps shown on the preceding chart are calculated based on aggregating the DGU Capacity portfolios of the three DGU owners. These numbers will be adjusted, by the NYISO, with input from the NYPSC, to: (1) provide each DGU owner an opportunity to reach the \$105/kW of Summer DMNC/Year bid and price cap, and (2) ensure that loads would not pay more in total than loads would have paid under the Aggregate Caps set forth on the preceding chart. If the NYISO is unable to develop acceptable numbers that satisfy the requirements of points 1 and 2 above, the Aggregate Caps shown on the table will apply to each of the DGU owners.

In-City Divested Generation

Elements (continued)

- DGU owners commit not to make any filing to raise or eliminate the DGU Capacity bid and price cap prior to January 1, 2005, provided that the Demand Curve proposal contained herein is approved by FERC without material change and remains in effect through the 2004-2005 Winter Capability Period.
- The DGU “must offer” obligation applies only to the Demand Curve Spot Market Auction.
- Eliminate the current “NYPA Shift,” whereby NYPA receives a share of the refund of payments in excess of the bid and price cap collected in connection with DGU Capacity.