

Management Committee
September 29, 2006 Meeting
Motion – Agenda 08

Proposed Motion from Keyspan Ravenswood:

In support of the Motion, the *Analysis of the Joint Proposal for In-City Capacity Mitigation*, prepared by William H. Hieronymus, was presented to the Management Committee. As detailed in that analysis:

- 1) the purpose of the demand curve is to establish a single price for capacity that will be adequate to provide support for the maintenance of existing capacity and investment in needed entry;
- 2) as currently formulated the demand curve will not achieve these objectives, since revenue support for new entry will be adequate only under a narrow and likely uneconomical set of conditions;
- 3) during periods of market tightness there will not be one, but multiple prices, since DGO payments will be below the competitive market price;
- 4) the DGO offering behavior at issue facilitates rather than subverts the intended purposes of the demand curve, because without it revenue inadequacy would be greater; and,
- 5) the existing capacity market gives large in-City LSEs and others with an interest in reducing prices a strong incentive to buy capacity at above-market prices outside of the NYISO markets in order to drive down prices in the market where all of the DGO capacity is forced to transact; and
- 6) The RTOs bordering New York are establishing forward markets for capacity. New York needs to craft a forward capacity market. Such a market needs to be sufficiently forward to allow new entry of the types of resources needed for meeting reliability economically, and that the long-term market be backed by shorter term balancing

markets, particularly in view of the existence of retail access and demand response in New York.

Motion:

The Management Committee (“MC”) reviewed and considered capacity market issues presented and discussed at its September 29, 2006 meeting, as well as at Business Issues Committee meetings and ICAP Working Group Meetings. Two of the issues raised by Market Participants are the lack of long-term forward markets administered by the NYISO and the slope of the demand curve. The MC hereby recommends that the following resolution be adopted to revise the NYISO Capacity market in both the short-term and long-term. Corresponding tariff language will be developed by the ICAP Working Group, reviewed by the Committee Chairs and Vice Chairs, and then submitted to the Federal Energy Regulatory Commission for approval.

SHORT TERM MEASURES

Lengthen the Demand Curve

The slope of the in-City demand curve will be reduced by moving the zero price point from 118 percent of minimum reliability requirements to somewhere in the range of 125-130 percent of minimum reliability requirements to improve market performance.

Maintain the Concept of DGO Bid Caps

In conjunction with extending the length of the demand curve, negotiated adjustments of the DGO bid caps will be considered.

Retain Must Offer DGO Requirements

No change is proposed. DGO capacity must be offered to the market.

Impose a Floor on Bids for Certain Resources

Any new capacity built or acquired via out-of-market bilateral transactions by such parties will have a minimum bid equal to a percentage of the cost of new entry (“CONE”). This requirement would apply only to capacity acquired after the inception of the demand curve – *i.e.*, March, 2003.

Remove Other DGO Restrictions

The DGO price cap will be eliminated.

The ban on bilateral sales of DGO capacity will also be eliminated. It is acknowledged that there may be a valid concern about sham transactions that undermine the DGO bid cap. To moot such concerns, all divested generation must be bid into the capacity market at or below capped bids by any party acquiring the right to bid such capacity via bilateral

transactions. The proposed floor is related only to bids; the price paid to such capacity would be determined by the NYISO auctions and would not be discriminatory.

LONGER TERM REVISIONS TO NEW YORK CAPACITY MARKETS

The ICAP Working Group will prepare a fully articulated capacity market design over the next 12 months and implement such a market within 18 months.