

Management Committee

September 29, 2006

Motion - Agenda # 08

Proposed Motion from NRG:

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. Key issues raised by Market Participants are the need for balanced market power mitigation measures to address both the supply and demand side of the market and the lack of a long-term forward capacity market administered by the NYISO. The MC hereby recommends that the following resolution be adopted to make certain changes the NYISO Capacity market rules and design. Corresponding tariff language will be developed by the ICAP Working Group, reviewed by the Committee Chairs and Vice Chairs, and then submitted to the NYISO Board for subsequent filing with the Federal Energy Regulatory Commission.

Recommendations shall address:

Underlying Principles

- Pricing and bidding rules that prevent the distortion of prices either above or below the competitive level, including distortion due to the exercise of market power by both buyers and sellers.
- Development of a market structure that induces the right amount of competitive entry while providing reliable long run price signals that, over time, reflect the cost of competitive new resources and that attracts and supports competitive generation needed for reliability.

Implementation

Interim Measures to Address Market Power Concerns to be put in place by May 1, 2007

- Mitigation. Conduct and impact tests (C&I) will apply to all spot market offers by in-city ICAP providers.
 - Conduct. Any offer that is 5% more than its reference level is potentially subject to mitigation, if it also fails the impact test.
 - Impact. Any offer that fails the conduct test and that causes prices to be 5% more or less than the price that would have resulted had the reference level been submitted will be mitigated to its reference price.
- Reference levels for DGO offers will be developed as follows:

- 80 percent of the 2007 CONE, less FERC-approved energy and ancillary service (E&AS) offsets ((i.e. \$ 186.72 x 80% -\$ 50.92 = \$98.46/kw-year net on ICAP basis)¹
- To be converted to UCAP basis
- To be shaped to reflect summer/winter differentials
- Existing DGO offer caps eliminated upon implementation of these new reference prices
- Remove other DGO restrictions:
 - The DGO price cap will be eliminated
 - The ban on bilateral sales of DGO capacity will be eliminated.
- Reference levels for newly constructed capacity that is self-certified by and/or under contract with LSEs shall bid at the following percentages of CONE less E&AS offsets :
 - Until the end of the second capacity season following the initial commercial operation date of such a resource, its reference level shall be 100% of the then current CONE, net of the then current FERC-approved Energy and Ancillary Service (“EAS) Offset (together, “Net CONE”).
 - For the third and fourth capacity season, such a facility’s reference level shall be 80% of Net CONE
 - For the fifth and sixth capacity season, the facility’s reference level shall be 75% of the Net CONE.
 - In the seventh and all subsequent capacity seasons, the facility’s reference level shall be the same as that of DGO units
- Existing LSE self-certified (bilaterally contracted or self-owned unit) bid or mitigated to its reference price will clear in the spot capacity market and will count towards meeting the LSE’s capacity obligation. Existing generation will clear after the bilaterally contracted or self-owned generation, according to its bid level. If all existing generation does not clear, the total payment to existing generation shall be prorated among all existing generation that bids in the spot capacity market.

Longer Term Measures to be put in place by May 1, 2008

- A long term forward procurement auction that allows new entry to compete with existing resources for delivery periods three or more years in the future, with multi-year commitment periods.

¹ Based on Attachment IV to FERC Order dated Jan 7, 2005 and 4/21/05 update

- The ICAP Working Group shall look to recently approved longer term capacity market designs in other ISOs for useful applications to NYISO
- The requirements of the Demand Curve Reset Process shall be integrated with these long term changes. In particular, adjustments to the demand curve slope and self-certified LSE capacity reference price levels should be anticipated.