

Proposal for In-City Capacity Mitigation

Joint Con Edison and DPS Proposal
NYISO Management Committee
September 29, 2006

Background

- Existing price caps were approved and implemented before the demand curve structure existed
- With the advent of the demand curve, additional mitigation measures are required
 - DGO as pivotal supplier can keep the market clearing price at their price cap and force customers to purchase at that price, which now also includes an amount of capacity that exceeds the minimum requirement
 - Any 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
- It is recognized that the mitigation measures being adopted herein today address the potential exercise of market power by sellers
- It is further recognized that some parties believe that the current ICAP market structure may permit the exercise of market power by buyers

Mitigation Proposal

- Develop a conduct and impact test for DGOs in the In-City Demand Curve auction
 - Supplement the existing price cap with an appropriate reference bid
 - Identify and mitigate the potential exercise of market power to an appropriate level
 - When the conduct and impact test is violated, each DGO's ICAP bid that failed will be replaced by a reference bid

Mitigation Proposal

Conduct and Impact Test

- **Conduct Test**
 - All DGOs that bid 3% or more above their reference bid would fail the Conduct Test and be subject to an Impact Test
- **Impact Test**
 - If, when tested jointly as a group, the DGOs 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 those generators' reference bids, then the Impact Test fails
- **Result**
 - In the event generators fail the Conduct and Impact Test, the NYISO shall replace each generators bid with that generator's reference bid

Mitigation Proposal

Reference Bid Calculation

- Reference bid for DGOs will be developed as follows:
 - 75 percent of the 2005 CONE, less Energy and Ancillary services revenue for the new entrant
(i.e. $\$176 \times 75\% - \$50 = \$82/\text{kw-year}$ net on ICAP basis)
 - To be converted to UCAP basis
 - To be shaped to reflect summer/winter differentials
- Any update to the reference bid to be considered as part of the 2008 Demand Curve resetting process
- Current DGO price cap remains

Longer Term Capacity Market Proposal

- Consider other capacity market changes in the context of minimizing seams issues with respect to capacity markets
- Parties agree to work collaboratively to further address the concerns of some parties with respect to the potential exercise of market power by sellers and buyers
- Parties agree to consider, in the course of the 2008 demand curve reset process, removal of or modification to the existing DGO bid and price caps