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Allocating ICAP Import Rights

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Introduction

The purpose of this document is to outline proposed revisions to the NYISO's Installed Capacity ("ICAP") Import Right Allocation methodology and the obligations that are associated with Import Right holders.

The NYISO currently allocates the ICAP Import Rights via a first-come first-served basis that is done by having market participants fax their reservation requests to the NYISO starting at a predetermined date and time. Whenever an ICAP Import Limit is binding the entities that have reserved ICAP Import Rights are required to show that they have entered into bilateral contracts with New York Load Serving entities or are obligated to be price takers in an ICAP Spot Auction.

The current methodology has several problems. First It is subject to mechanical malfunction with faxes not being delivered or fully delivered. The NYISO has experienced problems with the faxing process with the spring 2005 allocation experiencing numerous problems.

Second, the current process allocates a limited resource (import capability) without assuring that the allocation is to the entities that value the limited resource the most.

Third, the requirement that entities that are allocated ICAP Import Rights either enter into a bilateral contract or act as price takers in a NYISO ICAP Spot Auction serves to create a seam between the NYISO ICAP market and the ICAP market in its neighboring areas. In cases where the NYISO market is clearly more desirable than its neighbors, as has been the case recently, the contract requirement has not resulted in a seam. However, as capacity values in other areas begin to rise, the requirement to back an import right with a bilateral (or obligation to be a price taker in the NYISO markets) creates a barrier between the NYISO ICAP market and its neighbors. It is analogous to setting all imports and exports for the NYISO in the Day Ahead Market and not allowing any changes to the interface flows in the Real-Time Market. This would inevitably create divergence between the markets that could have been avoided by letting the Real-Time market revise the DAM schedules.

Nonetheless, the NYISO needs to be able to allocate Installed Capacity Import Rights so that those entities that want to enter into bilateral contracts can finalize those contracts knowing that they will be able to import the capacity and qualify as a New York Capacity Resource.

Proposed Solution

The NYISO needs to implement a solution that allows market participants to enter into agreements for external capacity sources but that also allows the NYISO ICAP markets to equilibrate with its neighboring areas. This can be accomplished by: 1) replacing the current ICAP Import Right allocation system to an auction based allocation system; and, revising the obligation of ICAP Import Right holders so that they do not create seams. A proposal to address this is outlined below.

- The NYISO would replace its current first-come first-served allocation system with an auction. The Auctions would be held under similar timing that the NYISO currently uses for its current first-come first-served allocation (i.e. roughly 2.5 months before the beginning of the capability period).
- An entity that wishes to procure an ICAP Import Right would be required to provide documentation to the NYISO ahead of the auction showing that it has external capacity resources that would meet the ISO requirements to qualify as a NYISO Installed Capacity resource.
- The Resource would qualify as being provided across a specific interface depending upon its location.
- In the ICAP Import Right auction an entities bids would be limited by the total amount of qualified resources that it had demonstrated to the NYISO.
- Entities that have received ICAP import rights would be free to enter into bilateral contracts knowing that they had reserved import rights.
- They would also be able to sell in either the strip or monthly ICAP auctions knowing they had reserved import rights.
- Preceding the Monthly Spot Auction, the holders of ICAP Import Rights would be required to notify the ISO whether they had used those Import Rights to support an the import of an ICAP Resource either for a bilateral contract or for the NYISO's Capability Period or Monthly Auction. Documentation would be consistent with the NYISO's current timing and other requirements preceding the ICAP Spot Auction
- Preceding the ICAP Spot Auction the NYISO will notify Market Participants how much Import Capacity has not been utilized across each interface and for the NYISO as a whole.
- ICAP Import Rights holders that had not used their ICAP Import Right before a Spot Auction would be required to offer capacity consistent with the Import Right into the Spot Auction.
- The Capacity could be offered at any price.
- If an ICAP Import Right holder bids at a price that is higher than the Spot Auction clearing price for its import area then the ICAP Import Right holder forfeit's its import right and the Import Right is granted to those bidders that bid low enough to have their capacity accepted in the Spot Auction.
- If an ICAP Import Right holder bids at a price that is equal to the Spot Auction clearing price for its import area then the capacity will be allocated first to the ICAP Import Right holders on a pro-rata basis up to each ICAP Import Right

- holding bidders offer quantity and then to non-ICAP Import Right holders on a pro-rata basis up to their bid quantity.
- Allowing the capacity to be offered at any price allows the ICAP Import Right holder to offer at its perceived opportunity cost for selling into the NYISO market.
 - Allowing other bidders into the Spot Auction to displace the ICAP Import Right holder protects against hoarding of the ICAP Import Rights

Benefits of the Proposed Methodology

- The requirement to provide documentation before the auction assures that the auction results are final.
- Allocating the ICAP Import Rights through an auction allows the ICAP Import Rights to be allocated to those entities that value them the most.
- Replacing the current obligations on ICAP Import Rights with one that requires them to either use the right or offer into the spot auction at some price facilitates the convergence of the NYISO and neighboring ICAP markets.
- The Proposal could be implemented easily with minor changes to the NYISO ICAP Auction software.