

Proposed NYISO Services Tariff

Stage 2 Tariff on an Installed Capacity Market Design

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Agenda #10

Business Issues Committee 6/10/03

5.14.1(b) Demand Curve and Adjustments

Three ICAP Demand Curves will be established: one to determine the locational component of LSE Unforced Capacity Obligations for each of the two Localities, and one to determine the total LSE Unforced Capacity Obligations for all LSEs. The ICAP Demand Curves will be phased in over three Capability Years, beginning in 2003. The localized, levelized cost of a gas turbine is determined to be \$159/kW of Installed Capacity per Capability Year in New York City, \$139/kW of Installed Capacity per Capability Year in Long Island and \$85/kW of Installed Capacity per Capability Year in all other LBMP Load Zones in the NYCA without taking into consideration Energy or Ancillary Services offsets. In the first two years, the ICAP Demand Curves shall be established at the following points:

5.14.1(c) Supplemental Supply Fee

Any LSE that has not met its share of the NYCA Minimum Installed Capacity Requirement or its share of the Locational Minimum Installed Capacity Requirement after the completion of an ICAP Spot Market Auction shall be assessed a supplemental supply fee equal to the applicable Market-Clearing Price of Unforced Capacity determined in the ICAP Spot Market Auction multiplied by the number of MWs the LSE needs to meet its share of the NYCA Minimum Installed Capacity Requirement or its share of the Locational Minimum Installed Capacity Requirement.

The ISO will attempt to use these supplemental supply fees

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to procure Unforced Capacity at a price which shall not exceed the applicable Market-Clearing Price of Unforced Capacity determined in the ICAP Spot Market Auction from Installed Capacity Suppliers that are capable of supplying Unforced Capacity including: 1) Installed Capacity Suppliers that were not qualified to supply Capacity prior to the ICAP Spot Market Auction; and 2) Installed Capacity Suppliers that offered Unforced Capacity at levels above the ICAP Spot Market Auction Market-Clearing Price. The ISO will give preference to Installed Capacity Suppliers that were not qualified to supply Capacity prior to the ICAP Spot Market Auction.

Offers from Installed Capacity Suppliers are subject to review pursuant to the NYISO Market Monitoring Plan-Market Mitigation Measures (Attachment H to the Services Tariff). Installed Capacity Suppliers selected by the ISO to provide capacity after the ICAP Spot Market Auction will be paid a negotiated price, subject to the standards, procedures and remedies in the NYISO Market Monitoring Plan-Market Mitigation Measures.

The ISO will not pay an Installed Capacity Supplier more than the applicable Market-Clearing Price of Unforced Capacity determined in the ICAP Spot Market Auction per MW of Unforced Capacity, or, in the case of In-City generation that is subject to capacity market mitigation measures, the annual mitigated price cap per MW of Unforced Capacity, whichever is less, pro-rated to reflect the portion of

the Obligation Procurement Period for which the Installed Capacity Supplier provides Unforced Capacity. Any remaining monies collected by the ISO pursuant to this section will be applied in accordance with Section 5.14.3 of the Services Tariff.

5.14.2 Installed Capacity Supplier Shortfalls and Deficiency Payments

In the event that an Installed Capacity Supplier sells in the Capability Period or Monthly Auctions more Unforced Capacity than it is qualified to sell in any specific month due to a de-rating or other cause, the Installed Capacity Supplier shall be deemed to have a shortfall for that month. To cover this shortfall, the Installed Capacity Supplier shall purchase sufficient Unforced Capacity in the relevant Monthly Auction or through Bilateral Transactions, and certify to the ISO consistent with the ISO Procedures that it has covered such shortfall. If the Installed Capacity Supplier does not cover such shortfall or if it does not certify to the ISO in a timely manner, the ISO shall prospectively purchase Unforced Capacity on behalf of that Installed Capacity Supplier in the appropriate ICAP Spot Market Auction or through post-ICAP Spot Market Auction Unforced Capacity purchases to cover the shortfall.

In the event that an External Installed Capacity Supplier fails to deliver to the NYCA the Energy associated with the Unforced Capacity it committed to the NYCA due to a failure to obtain appropriate transmission service or rights, the External Installed Capacity Supplier shall be deemed to have a shortfall from the last time the External Installed Capacity Supplier “demonstrated” delivery of its Installed Capacity Equivalent (“ICE”), or any part thereof, until it next delivers its ICE or the end of the term for which it certified the applicable block of Unforced Capacity, whichever occurs first, subject to

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the limitation that any prior lack of demonstrated delivery will not precede the beginning of the period for which the Unforced Capacity was certified. An External Installed Capacity Supplier deemed to have a shortfall shall be required to pay to the ISO a deficiency charge equal to one and one-half times the applicable Market-Clearing Price of Unforced Capacity determined in the ICAP Spot Market Auction for the applicable month, prorated for the number of hours in the month that External Installed Capacity Supplier is deemed to have a shortfall (*i.e.*, $((\text{deficiency charge} \div 12 \text{ months}) \div \text{total number of hours in month when shortfall occurred}) * \text{number of hours the shortfall lasted}) * \text{number of MWs of shortfall}$).

The ISO shall submit a Bid, calculated pursuant to Section 5.14.1 of this Tariff, in the appropriate ICAP Spot Market Auction on behalf of an Installed Capacity Supplier deemed to have a shortfall as if it were an LSE. Such Installed Capacity Supplier shall be required to pay to the ISO the applicable Market-Clearing Price of Unforced Capacity established in that ICAP Spot Market Auction. In the event that the ICAP Spot Market Auction clears below the NYCA Minimum Installed Capacity Requirement or the Locational Minimum Installed Capacity Requirement, whichever is applicable to the Installed Capacity Supplier, the Installed Capacity Supplier shall be assessed a deficiency charge equal to the applicable Market-Clearing Price of Unforced Capacity determined in the ICAP Spot Market Auction, times the amount of its shortfall.

If an Installed Capacity Supplier is found, at any point during a Capability Period, to have had a shortfall for that Capability Period, *e.g.*, when the amount of Unforced Capacity that it supplies is found to be less than the amount it was committed to supply, the Installed Capacity Supplier shall be retrospectively liable to pay the ISO the monthly

deficiency charge equal to one and one-half times the applicable Market-Clearing Price of Unforced Capacity determined in the ICAP Spot Market Auction for each month the Installed Capacity Supplier is deemed to have a shortfall.

Any remaining monies collected by the ISO pursuant to Section 5.14.1 and 5.14.2 will be applied as specified in Section 5.14.3.

5.14.3 Application of Supplemental Supply Fees and Installed Capacity Supplier Deficiency Charges

Any remaining monies collected by the ISO through supplemental supply fees or Installed Capacity Supplier deficiency charges pursuant to Section 5.14.1 but not used to procure Unforced Capacity on behalf of LSEs or Installed Capacity Suppliers deemed to have a shortfall shall be applied as provided in this Section 5.14.3.

5.14.3(a) General Application of Deficiency Charges

Except as provided in Section 5.14.3(b), remaining monies will be applied to reduce the Rate Schedule 1 charge in the following month.

5.14.3(b) Installed Capacity Rebates

(i) New York City

If an Unforced Capacity shortfall exists during any month , the ISO shall rebate any remaining unspent deficiency charges or supplemental supply fees collected for that month for the New York City Locality, allocated among all LSEs in that Locality in proportion to their share of the applicable Locational Minimum Installed Capacity Requirement. Rebates shall include interest accrued between the time payments were collected and the time that rebates are paid.

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(ii) Long Island

If an Unforced Capacity shortfall exists during any month , the ISO shall rebate any remaining unspent deficiency charges or supplemental supply fees collected for that month for the Long Island Locality, allocated among all LSEs in that Locality in proportion to their share of the applicable Locational Installed Capacity Requirement. Rebates shall include interest accrued between the time payments were collected and the time that rebates are paid.

(iii) Rest of State

If an Unforced Capacity shortfall exists during any month, the ISO shall rebate any remaining unspent deficiency charges or supplemental supply fees collected for that month for the Rest of State requirements, allocated among all LSEs in each of the two Localities, New York City and Long Island, and in Rest of State, in proportion to each LSE's share of the NYCA Minimum Installed Capacity Requirement less that LSE's Locational Minimum Installed Capacity Requirement. Rebates shall include interest accrued between the time payments were collected and the time that rebates are paid.

5.15 Payment and Allocation of Installed Capacity Auction Rebates

The ISO shall rebate to all LSEs, with Locational Minimum Installed Capacity Requirements in the New York City Locality, except NYPA, any Excess Amount that remains after the completion of an auction. Such rebates shall be allocated among all New York City LSEs except NYPA in proportion to their share of the Locational New York City Installed

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Capacity Requirement, regardless of whether they actually took part in the Capability Period Auctions or Monthly Auctions . The ISO shall allocate such rebates among In-City LSEs except NYPA on a monthly basis. Rebates shall include interest accrued between the time they were collected and the time that they are paid.