



Reliability Pricing Model (RPM) Overview

NYISO ICAP Working Group
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- Over 150 individuals representing more than 65 parties engaged in more than 25 days of settlement discussions with direct Settlement Judge involvement
- The settlement has broad support across diverse stakeholder groups
- Settlement filed on Sept 29, 2006. It will be contested since there is a small group in opposition
- Settlement agreement is original RPM filing with modifications

- Settlement Agreement resolves all issues in Docket Nos. ER05-1410-000 & 001, and EL05-148-000 & 001
- To enable PJM and market participant systems and business practice changes for RPM auctions that will start in April 2007, the Settling Parties ask FERC to approve the settlement, without change, by December 22, 2006.

- **Locational Signals**
 - Integration with transmission planning
 - Resolve locational deliverability issues
- **Forward Auction**
 - 100% of Capacity obligation committed 3 years forward
 - Need forward information for reliability
 - Permits planned generation and DSR to participate
- **Sloped Demand Curve**
 - Reduces volatility
 - Set shortage price cap
 - Quantifies value of excess capacity

- Implement on June 1, 2007
- Base Auction held 3 years prior to Delivery Year
- Incremental auctions – allow participants to reconfigure positions
- 3 year transition period with 4 Locational Deliverability Areas (LDAs), (Eastern MAAC, SW MAAC, AP & MAAC, rest of market)
- After transition, full locational model as proposed by PJM (23 LDAs)

- Transition to Empirical Net Cost of New Entry parameter for Demand Curve
- Persistence Pricing alternative for new generation (up to three years)
- Explicit performance metric for generators to deliver energy during peak period hours

Two methods to satisfy capacity obligation within PJM

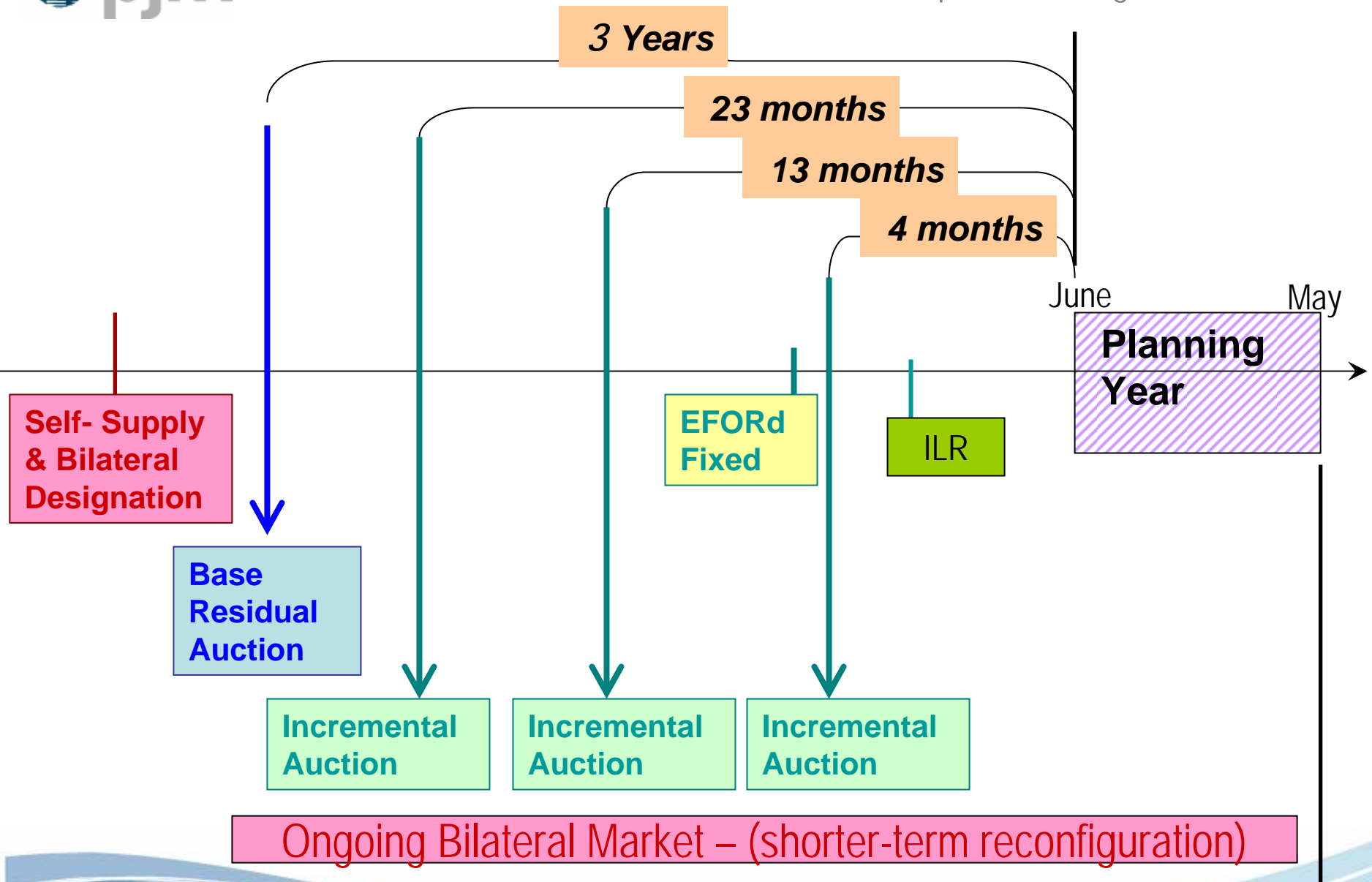
1. RPM Auction with sloped Demand Curve

- Residual auction
- Accommodates flexible self-supply

2. Alternative Capacity Plan

- utilities will submit long term supply plan (e.g. 5 year) with specified self-supply or long-term contracts

These two alternatives will accommodate both retail choice states and states with traditional regulation



- Products that may be offered into forward RPM Auction:
 - existing and **planned** generation;
 - planned transmission upgrades
 - existing and **planned** demand response
- Demand Response can offer into near-term incremental auction
- Demand Response can avoid capacity payment by offering Interruptible capability in delivery year

- Demand Curve acts as overall capacity price cap
- Market power mitigation mechanism in place if market shares fail pivotal supplier test
- Addition of a market power test for net buyers in a constrained area
- Energy offer cap remains at \$1000 / MWh
- Demand curve includes net energy and ancillary service revenue offset