NYISO STAFF
PROPOSED RESERVE MARKET ALTERNATIVES
5/12/00

After consulting with the facilitator of the Reserve Working Group concerning an efficient process for moving forward, the NYISO has prepared the following four options for the resumption of operation of the New York reserve markets. Three of the four options are alternatives to the cost-based bidding regime that has been in place since April 1, 2000. Some features of these options have been raised by Market Participants over the past few weeks; each option is presented for the consideration and comments of Market Participants. Each option presented here should allow New York's reserve markets to function efficiently and reliably during the upcoming summer period. A key feature of these options is a requirement that certain suppliers in the NYCA offer into the energy and reserve markets. We welcome other specific proposals (or variations to these) that may be implemented either in the short or long term.

The Reserves Working Group, a joint effort of the NYISO's Business Issues and Operations Committees, has been working with the NYISO staff to identify potential enhancements to those design features of the reserves markets that contributed to the very large escalation in prices beginning in late January of this year. The Reserves Working Group intends to present its findings to the BIC on May 18, with the issue going to the Management Committee at its June meeting.

The alternatives offered here are intended to facilitate the next steps in the process of the Reserves Working Group.

1. Status Quo **-** Continue the existing use of cost-based bid caps.

2. Utilize an alternative cost-based system – This option would require additional definition and development and an ultimate revision to the NYISO FERC Tariff.

3. Re-open the **10-minute synchronized reserve market (**target date June 1, 2000) subject to the following conditions (Note: current mandatory bid requirements including cost-based bid caps will remain in place for 10-minute non-synchronized reserve supplies) :

    a. The LIPA proposal identified in its FERC filing to satisfy all Long Island reserve requirements by bidding in at zero is accepted. This measure will remain in place until a long-term solution which, at a minimum, will consider the effect of new merchant capacity capable of providing 10-minute reserves on Long Island, is developed and implemented. In addition, the Long Island requirements for 10-minute synchronized and 30-minute reserves to satisfy the ISO Secured System transmission limitation will be assigned a $.01/mw violation cost in SCUC and BME. The effect of this change will be that the NYISO will schedule reserves to satisfy the Long Island requirements as long as this does not raise the cost of satisfying the "east of total-east" reserve constraints. Reserve bids higher than what would otherwise set the statewide or "east of total east" will not be accepted to meet the Long Island requirement. Absent locational reserve pricing, this change would ensure that the price of reserves required to meet the Long Island requirements would not set the state-wide price. With locational reserve pricing this change would ensure that the price of reserves required to meet the Long Island requirement would not exceed the "east of total east" reserve price. The NYISO will notify LIPA whenever a Long Island requirement isn't satisfied in SCUC.

b. **All** NYISO ICAP suppliers, except nuclear, PURPA, Special Case Resources and external resources must bid into the DAM for both energy **and reserve**, for each hour of each day, unless these units are not qualified to bid into a particular market, are on an approved maintenance outage, or are forced out and have provided the required notification to the NYISO of their status. Each of these suppliers will bid into all reserve markets in which they are qualified to participate in a quantity at least equal to their minimum required response rate times 10-minutes and/or 30 minutes. (All such qualified resources will bid into the 30-minute market and also the 10-minute synchronized or 10-minute non-synchronized market except those that are classified as 30-minute reserve units, only).

c. The NYISO will pay suppliers based on the locational clearing prices "east of total-east' and West in each of the operating reserve categories. The reserve areas are "east of total-east", and "west" while the reserve categories are 10-minute synchronized, total 10-minute reserve and 30-minute reserve. Note: the cascading method of setting clearing prices in each area will continue to be done as required by FERC. The locational clearing price will be the incremental cost of scheduling reserves to meet the requirement in each reserve area. The total of the cost of these reserves will be distributed among all NY market loads according to the current allocation methodology, until the ISO Committees agree upon another allocation of these costs. The effect of this change will be to avoid anomalous prices and schedules in hours in which the area reserve constraints are binding

d. All units scheduled to provide 10-minute reserves, whether from synchronized or non-synchronized resources, will be paid their individual real-time opportunity costs, until a longer-term solution such as a two-settlement system is implemented. The energy bids submitted in the DAM for a 10-minute non-synchronized resource accepted as a 10-minute reserve supplier, must be used in the HAM for calculation of its LOC. Class B reserve providers will be eligible for opportunity cost payments calculated based on the energy bid at which the capacity scheduled to provide reserves in the DAM or HAM was offered into the DAM or HAM energy market. Capacity not offered into the energy market will not be eligible for an opportunity cost payment. It is understood that some opportunity cost payments will be credited in after-the-fact billing adjustments until the billing system can be modified to calculate these payments on a routine basis.

4. Re-open the entire reserve market including **both the 10-minute synchronized and non-synchronized reserve markets** (target date June 1,2000) under the following condition in addition to the conditions listed under Item #3 above:

   a. The LIPA proposal identified in its FERC filing to satisfy **all** Long Island reserve requirements at zero bid is accepted. This measure will remain in place until a long-term solution which, at a minimum, will consider the effect of new merchant capacity capable of providing 10-minute reserves on Long Island, is developed and implemented. The NYISO will propose and discuss with specific Market Participants, an additional market mitigation plan, which is also a necessary condition for re-opening the 10-minute non-synchronized reserve markets.