

NY ISO Market Structures Working Group Proposal to the Business Issues Committee

Market Modifications to Accommodate Flexible Bidding and Bilateral Transactions

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Background

The New York Independent System Operator (NY ISO) staff needs to eliminate the existing software constraints in order to permit ISO customers to submit both buy and sell bids in the Day Ahead Market (DAM) for each zone within New York. Presently the rules restrict sell bids to generation suppliers (owners of physical generation resources) and buy bids to Load Serving Entities (LSEs). Additionally, all bilateral transactions must be between a physical generator and a physical load. These bidding and transaction restrictions result in the New York markets being "totally physical" markets. This "physicality" characteristic is one of a number of factors restricting market liquidity in New York.

Without an efficient way for market participants to choose between scheduling supply or load in the DAM or Real-Time (RT) market, the markets will struggle to converge. For example, LSEs are currently restricted from offering (bidding) and selling excess physical supply into the DAM. This restriction causes LSEs to do one of two things with their excess supply of generation:

- sell it to a wholesale supplier (cash-out) using a bilateral transaction (outside the ISO), or
- over-schedule their demand in the DAM and end up selling the excess supply in the RT market.

Likewise, market participants in general have no way to take a long or short position in the DAM. This inability to arbitrage between the DA and the RT markets, or freely move supply and load between the DA and RT markets limits the markets' ability to reach equilibrium.

Expanding the ability of the NYISO systems to permit all market participants to submit both buy and sell bids in the DAM should help to alleviate some of the illiquidity in the New York market, as would allowing all market participants to enter into bilateral transactions.

As part of this activity, the Market Structures Working Group has agreed that it is necessary to ascertain whether the proposed changes would trigger a tariff filing, as tariff changes would add significantly to the amount of time to implement the solution. Furthermore, it is possible that the NY ISO can implement the changes using multiple paths of implementation. For example, it may be possible to allow some additional flexibility in the bidding of load and generation that does

not require tariff changes, before implementing all aspects of the proposal. This implementation must commence immediately.

This issue was recognized as a problem prior to day one of the markets. The Business Issues Committee (BIC) also voted at their January 2000 meeting to have the resolution to this issue implemented by April 1, 2000. It is a concern that these types of bidding restrictions continue to exist. This issue needs to be addressed and appropriate changes made to eliminate the inefficiencies of the New York markets.

Discussion

The end state market design changes proposed here would allow all market participants to bid in generation and load at any location in the DAM. DAM prices would be calculated based upon the as-bid loads and generation. The first phase of the DAM simulation (SCUC-1 run) would therefore more closely represent a financial market. As such, it would be possible for market participants to take positions in the DAM that are not necessarily backed by physical supplies or loads. That is, all market participants would have the option of bidding so as to go short or long in the DAM and clear this position in the RT market.

The NYISO would use the second part of its SCUC to ensure that there are sufficient resources available to reliably serve the load that it expects. For this check, the NYISO will determine whether the physical generators that were committed in the SCUC-1 run will be able to reliably serve the load that the NYISO forecasts. The NYISO will commit the capacity of additional resources as necessary to assure it can reliably meet its forecast.

The bid production cost guarantee (BPCG) for the SCUC-1 would be spread across the loads that were scheduled in the DAM. Generators committed in the reliability step (i.e., after SCUC-1) would also have a BPCG, but these BPCG payments would be quantified using real-time prices, and the associated uplift charges would be paid by market participants in proportion to their load in the real-time market, i.e., real-time energy purchases from the LBMP market.

The market design changes proposed here would also allow all market participants to submit bilateral contracts specifying any location modeled in the market system and any market participant counter-party in either the DAM or RT market.

Multiple Path Implementation

This issue needs to be resolved in as short a timeframe as possible. At the same time, it is recognized that there may be tariff impacts to the implementation of the resolution to this issue. To this end, multiple paths, all commencing as soon as possible, will be used to implement the resolution to this issue:

- The first path will involve the modification of the appropriate NY ISO systems that can be completed without the need for tariff revisions and that can be implemented prior to the summer peak period. At a minimum, the ISO needs to allow participants other than LSEs to bid as load in the DAM in each of the zones and to allow LSEs with excess generation to offer to sell energy in the DAM.
- The second path will involve the modification of the appropriate NY ISO systems that can be completed without the need for tariff revisions but involve a more complex implementation than that of the first path and that will be completed as soon after the summer peak period as practical.
- The third path will involve the modification of the appropriate NY ISO systems that require tariff revisions prior to their modification. This will first entail determining the applicable tariff issues and obtaining approval for the tariff revisions in conjunction with implementing the appropriate system modifications.

It is the responsibility of the ISO to identify exactly which functions can be implemented for each path. It is expected that the determination of the applicable tariff issues will commence immediately so that the remainder of the resolution can be implemented as delineated above.