

Capacity Market Power Mitigation Measures

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Intermediate ICAP Course

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Remote Learning

■ **Supplier-Side Mitigation Measures**

- **Define Mitigation Measures**
- **Define Mitigated Capacity Zones**
- **Explain two Supply-Side Mitigation Measures**
- **Describe the concept of Pivotal Supplier**
- **Explain how a UCAP Offer Reference Level is established**
- **Explain the process for requesting a Going-Forward Cost determination**

■ **Buyer-Side Mitigation Measures**

- **Identify the different Buyer-Side Mitigation Exemptions**
- **Provide a high-level review of two-part exemption test**
- **Explain the application of Offer Floors**

“ The NYISO continuously monitors its markets for opportunities to enhance its mitigation measures. Therefore, while the following represent the current ICAP Market mitigation measures, they are subject to change in accordance with the NYISO Market Services Tariff. ”

Mitigation Measures

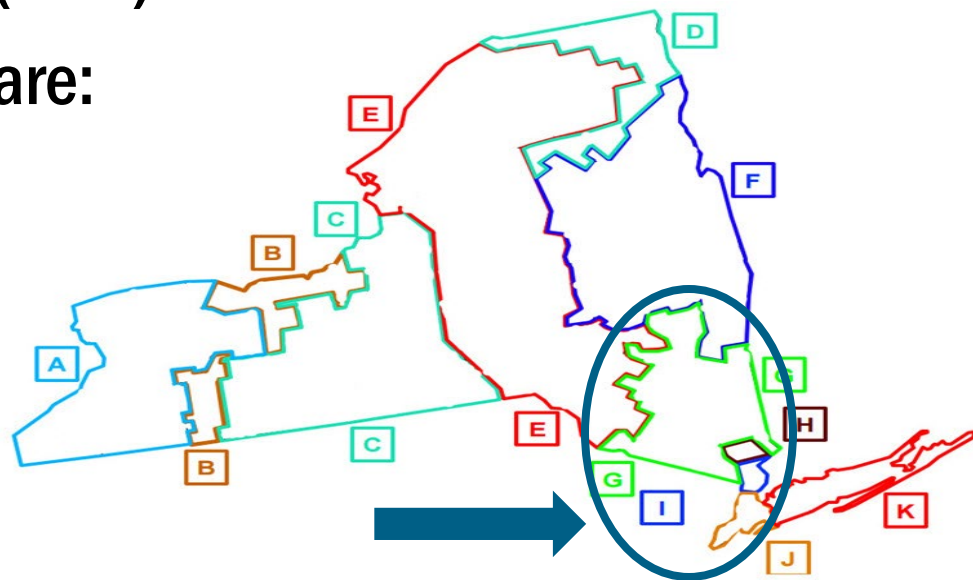
- **NYISO Market Power Mitigation Measures:**
 - Are intended to provide the means for the ISO to mitigate the market effects of conduct that would substantially distort competitive outcomes in the ISO Administered Markets, while avoiding unnecessary interference with competitive price signals

- **Capacity Market Mitigation Measures include:**
 - Supplier-Side Mitigation
 - Buyer-Side Mitigation

***Installed Capacity Market Mitigation Measures are further detailed in Services Tariff (MST) Att. H, Section 23.4.5

Mitigated Measures Applied

- Capacity market mitigation measures are applied in Mitigated Capacity Zones (MCZ)
- Mitigated Capacity Zones are:
 - NYC
 - G-J Locality



Topic 1:

Supplier-Side Mitigation

- The purpose of Supplier-Side Mitigation is to prevent physical or economic withholding by ICAP Suppliers that may have an economic incentive to raise prices

Supply Side Mitigation Measures

■ Physical withholding provision

- Specific provision on audit of decisions to retire, remove, or de-rate capacity
- Assesses whether this decision/proposal has legitimate economic justification or is based on an effort to withhold Installed Capacity.

■ Pivotal Supplier measures

- Subject to offer cap (greater of UCAP Offer Reference Level and Going-Forward Costs)
- Must offer requirement for Mitigated UCAP (UCAP subject to Control by a Pivotal Supplier)

Pivotal Suppliers

- Each month, at the close of the certification period, the NYISO will determine if a Market Party and its Affiliated Entities (together, a “portfolio”) are Pivotal Suppliers
 - At least some portion of the supplier’s resources under common Control are needed to meet the UCAP requirement (see Slide 10 for tariff definition)

Designation of Affiliated Entities

- **Market Parties that own or have “Control” of capacity in a MCZ are required to identify their “Affiliated Entities”, based on the criteria in the Market Services Tariff, Attachment H, Section 23.2.1**
 - MW of all capacity Resources are counted in the portfolio
 - Control may be rebutted
 - If Market Party can demonstrate that the ability to determine price and quantity of offers has been given to another, non-Affiliated Entity
 - The ICAP Event Calendar specifies the deadlines for identifying Affiliated Entities

Pivotal Supplier

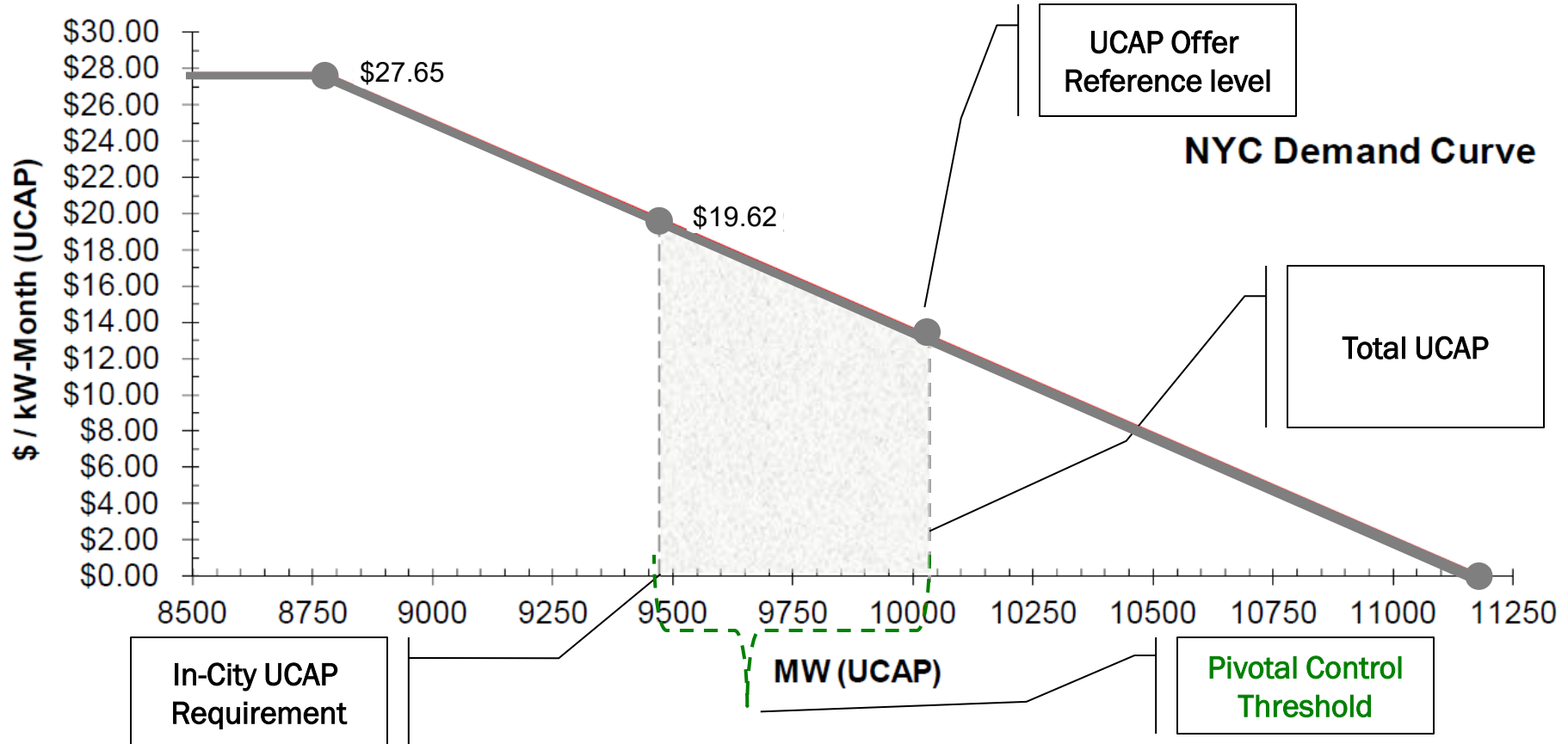
MST, Att. H, Sec 23.2.1 defines Pivotal Suppliers as follows:

■ “Pivotal Supplier” shall mean

- *(i) for the New York City Locality, a Market Party that, together with any of its Affiliated Entities,*
 - (a) Controls 500 MW or more of Unforced Capacity, and*
 - (b) Controls Unforced Capacity some portion of which is necessary to meet the New York City Locality Locational Minimum Installed Capacity Requirement in an ICAP Spot Market Auction*
- *(ii) for the G-J Locality, a Market Party that, together with any of its Affiliated Entities,*
 - (a) Controls 650 MW or more of Unforced Capacity, and*
 - (b) Controls Unforced Capacity some portion of which is necessary to meet the G-J Locality Locational Minimum Installed Capacity Requirement in an ICAP Spot Market Auction and*
- *(iii) for each Mitigated Capacity Zone except the New York City Locality and the G-J Locality, if any,*
 - a Market Party that Controls at least the quantity of MW of Unforced Capacity specified for the Mitigated Capacity Zone and accepted by the Commission.*

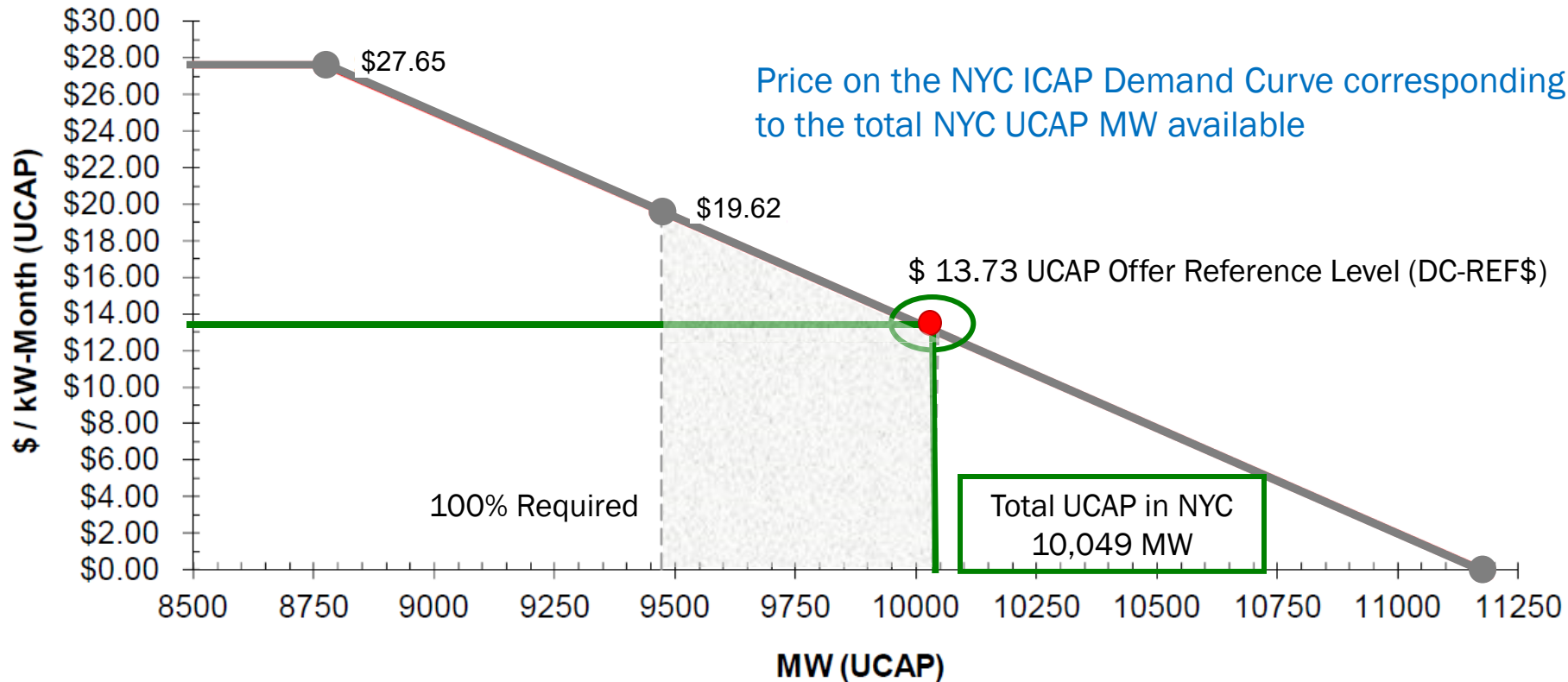
Example Pivotal Control Threshold

Reference Values for Training Use Only



Example UCAP Offer Reference Level

Reference Values for Training Use Only



Going-Forward Costs

- MCZ ICAP Suppliers may request a Going-Forward Cost (GFC) determination from the NYISO for any of its resources
 - The NYISO calculates GFCs as either
 - (a) the costs that the ICAP Supplier can avoid by ceasing to supply ICAP from the resource, or by derating or retiring it, net of anticipated Energy and Ancillary Services revenues **OR**
 - (b) the opportunity cost of foregone sales outside of the MCZ
 - A Pivotal Supplier for which the NYISO has determined GFCs can offer the resource's MW into the Spot Market Auction at the greater of the UCAP Offer Reference Level or the GFC

***Going-Forward Cost determination detailed in the Services Tariff (MST) Att. H, Sec 23.4.5.3

Going-Forward Costs

- **GFC-Input Template requires, among other things**
 - Basic unit information
 - PTID/Min Gen/age of plant
 - Historical and projected revenues, fixed costs, variable costs
 - Capital expenses

	(D), Historical						(E), Projected					
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenues												
21 Energy												
22 Ancillary - Spinning and Non-Spinning Reserves												
23 Ancillary - Regulation												
24 Ancillary - Voltage Support Service												
25 Ancillary - Black Start Service												
26 Other												
Variable Costs												
27 Fuel												
28 NOX												
29 SO2												
30 CO2												
31 Startup/Shutdown Gas/Station Light & Power												
32 BOP Maintenance, Materials, Services & Consumables												
33 Long Term Service Agreement (LTSa) Variable												
34 Other												
Fixed Costs												
35 Plant Labor												
36 Plant Labor - Overtime												
37 Contract Labor/Services												
38 Labor Benefits												
39 Maintenance												
40 LTSa Fixed												
41 Balance of Plant												
42 Environmental/Security/Safety												
43 Plant Utilities & Aux Load												
44 Administrative Expense												
45 Property Tax Expense												
46 Employee Expenses												
47 Travel & Entertainment												
48 Office Expense												
49 Training												
50 Information Technology												
51 Insurance												
52 Lease payments												
53 Legal												
54 Procurement												
55 Other												

File found at <https://www.nyiso.com/market-monitoring>

Recap-Pivotal Supplier Measures

- **Each month, at the close of the certification period, the NYISO determines which Market Parties are Pivotal Suppliers based on the thresholds described on slide 10**
 - For each portfolio, the MW are calculated as the sum of all MP adjusted market positions for the month, for the Affiliated Entities in that portfolio
 - A Market Party, together with its Affiliated Entities, is a Pivotal Supplier if its Control MW exceeds the greater of the quantity in (a) and (b) in the Pivotal Supplier definition on slide 10
 - Pivotal Control Threshold is the greater of (a) and (b) above
 - If a Market Party and its Affiliated Entities are determined to be Pivotal Suppliers they:
 - Are subject to an offer cap that cannot exceed the greater of UCAP Offer Reference Level* or the resource's Going-Forward Costs (as determined by the NYISO)
 - Have a must offer requirement for Mitigated UCAP

**This value on the MCZ UCAP Demand Curve corresponding to the Total UCAP MW for the month for that MCZ*

Summary of Supplier-Side Mitigation Activities

MCZ ICAP Suppliers make:
additions and deletions to the list of Affiliated Entities

MCZ ICAP Suppliers may request:
Going-Forward Cost determinations

Suppliers certify:
during the certification period

Certification closes:
NYISO identifies Pivotal Suppliers

Spot Auction offer period opens:
Pivotal Suppliers have a must offer obligation

Topic 2:

Buyer-Side Mitigation Measures

- The purpose of Buyer-side mitigation is to prevent uneconomic entry from artificially suppressing capacity prices

Buyer-Side Mitigation Measures

- **Resources subject to the BSM rule are:**
 - Proposed new MCZ generators in a MCZ, and UDR projects with a terminus in a MCZ, that request CRIS or a transfer of CRIS from a different location, or seek a transfer CRIS from the same location
 - Existing generators or UDR projects that seek to increase CRIS (“Additional CRIS MW”) either through a Class Year or a transfer
- **BSM analysis is done concurrent with the Class Year in which the CRIS request is evaluated, or if a transfer of CRIS at the same location, in the specified study period**
- **Proposed new generators and UDR projects are examined in a two-part test to determine whether an Offer Floor is applicable, or if they request it, they are examined for a Competitive Entry Exemption.**

****Proposed new generators, UDR projects, and Additional CRIS MW are referred to as “Examined Facilities”*

Application of Offer Floors

■ Generators and UDR projects

- If the Examined Facility does not receive an exemption, it may only offer into the Spot Market Auction.
 - Offer Floors are established for projects at the time the Class Year is completed
 - A summer and winter value is established
 - Offer Floor is adjusted to the year of entry, and inflated each year thereafter based on the inflation rate in the accepted ICAP Demand Curves
 - The Offer Floor will apply except for the MW amount that has cleared for any 12, not necessarily consecutive months

***Application of Offer Floors detailed in the Services Tariff (MST) Att. H, Sec 23.4.5.7

Excluded Facilities

- In 2022, FERC approved the BSM Reforms proposal as a part of NYISO's Comprehensive Mitigation Review (CMR) filing.
- Hence, projects deemed “Excluded Facilities” are no longer subject to BSM Review.
- Excluded Facilities shall mean Resources or UDR project(s) that are qualified to satisfy the goals specified in the New York State Climate Leadership and Community Protection Act, Chapter 106 of the Laws of 2019, as may be amended (“CLCPA”)
- Excluded Facilities shall include but are not limited to Resources comprised exclusively of one or more the following technologies: energy storage, demand response, wind generation, solar generation, geothermal generation, hydroelectric generation (which may also include generation created by tidal, wave and other ocean activity), and fuel cells that operate without utilizing fossil fuel.

Excluded Facilities

- **Excluded Facilities will also include Resources using additional technology types not explicitly listed above and UDR projects that satisfy the CLCPA goals, if the Developer, Owner or Operator of the Resource or UDR project certifies in accordance with Section 23.4.5.7.5 of the Services Tariff and ISO Procedures that the Resource or UDR Project meets one of the following criteria:**
 - (i) the Resource technology type is specifically identified by the CLCPA or is publicly identified by New York State as supporting the goals of the CLCPA;
 - (ii) the Resource or UDR project has a contract with the State of New York to achieve the goals of the CLCPA (such as a Tier 1 or Tier 4 contract with NYSERDA); or
 - (iii) the Resource or UDR project is eligible to receive a contract authorized by New York State that is supporting the goals of the CLCPA (such as a Tier 1 or Tier 4 contract with NYSERDA)

Buyer-Side Mitigation Measures*

■ Exemptions

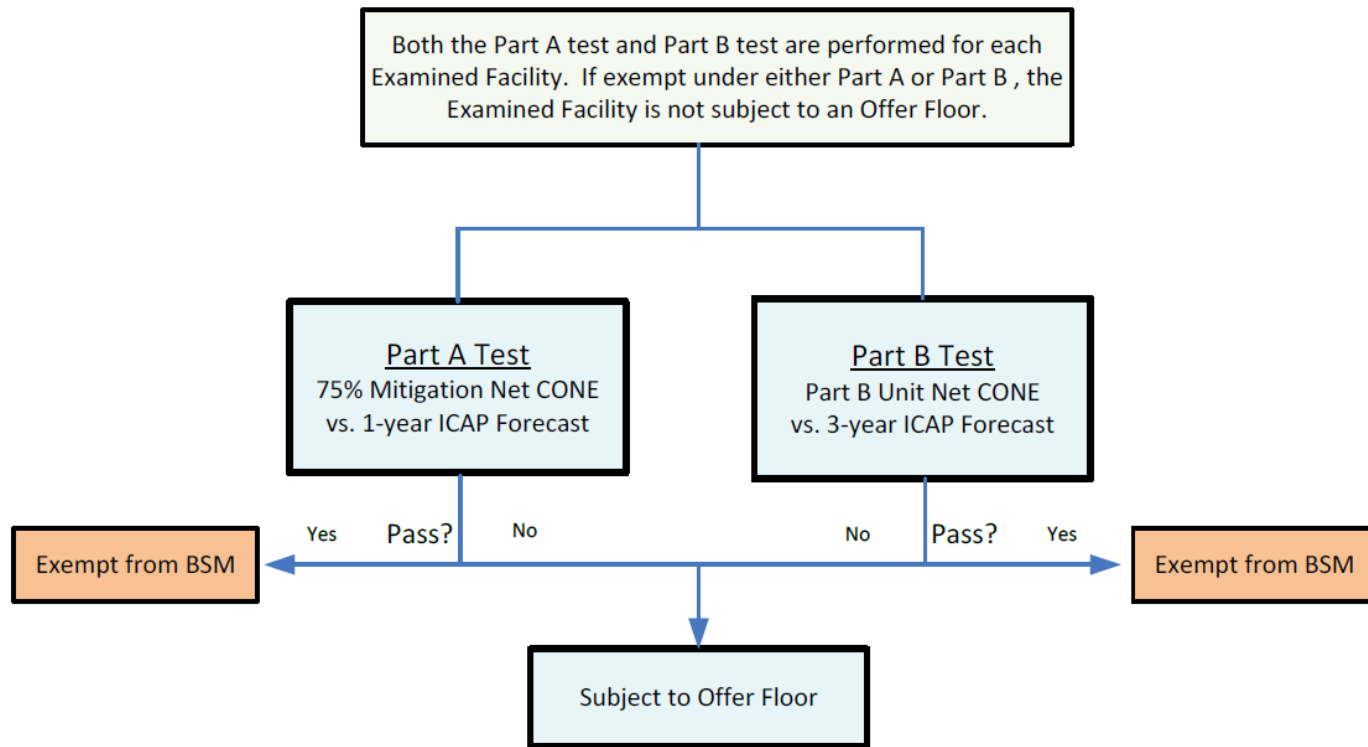
- Mitigation Exemption Tests (Part A and Part B)
 - Applicable to:
 - New generators and UDR projects
 - Additional CRIS projects
- Competitive Entry Exemption
- Self Supply Exemption

**Projects that meet Excluded Facility definition are excluded from any evaluations conducted pursuant to BSM*

Mitigation Exemption Test

- Both the Part A and Part B Test are performed for a non-exempt facility. If the Examined Facility is exempt under either of these tests, the facility is not subject to an Offer Floor.
- **Part A Test:**
 - Evaluates whether the unit is needed in the locality.
- **Part B Test:**
 - Evaluates whether the unit is economic.
- **Unit Net CONE: Cost of New Entry**
 - Unit Net CONE = Unit Costs – Unit Revenues

Mitigation Exemption Test



Buyer-Side Mitigation Exemptions

■ Competitive Entry Exemption

- An Examined Facility can request a CEE
- The main criteria to receive this exemption are if it a) does not have any “non-qualifying contractual relationship” as defined in MST Att. H Section 23.4.5.7.9.1.2, with a Non-Qualifying Entry Sponsor and b) is not itself a Non-Qualifying Entry Sponsor
 - “because a purely merchant generator places its own capital at risk, ... any such resource will have strong incentive to bid its true costs into the auction.”
- A unit that requests a Competitive Entry Exemption, but is determined to not qualify for such exemption, can still be exempt if it “passes” either the Part A or Part B Test.

Buyer-Side Mitigation Exemptions

■ Self Supply Exemption (MST 23.4.5.7.14)

- An Examined Facility can request an SEE.
- The main criteria to receive this exemption are: a) the terminus is/will be electrically located in the same MCZ in which the LSE has Projected ICAP requirements, b) the SSE Applicant and the Developer are not and will not be owned (even in part), by an LSE or an Affiliate of an LSE unless this entity is a Self Supply LSE, c) The SSE Applicant completes the Certification and Acknowledgement form and satisfies each criteria therein, d) the Self Supply LSE satisfies both the Net Short Threshold (MST 23.4.5.7.14.3.1) and the Net Long Threshold (MST 23.4.5.7.14.3.2), e) the SSE applicant does not have any contracts, agreement, arrangement or relationship as set forth in MST 23.4.5.7.14.1.2 (e).
- A unit that requests a Self Supply Exemption, but is determined to not qualify for such exemption, can still be exempt if it “passes” either the Part A or Part B Test.

Capacity Market Mitigation Summary

- Define Mitigation Measures
- Define Mitigated Capacity Zones
- Name two Supply-Side Mitigation Measures
- Describe the concept of Pivotal Supplier
- Explain how a UCAP Offer Reference Level is established
- Explain the process for requesting a Going-Forward Cost determination
- Identify the different Buyer-Side Mitigation Exemptions
- Identify the criteria to be considered an Excluded Facility
- Explain the application of Offer Floors

References

- **Market Services Tariff**
- **Going Forward Cost (GFC) Template**
- **Buyer Side Mitigation (BSM) Input Template**