

# NEWS RELEASE



**For Further Information Contact: Ken Klapp / (518) 356-6253 or Thomas Garlock / (518) 356-6055**

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FOR IMMEDIATE RELEASE

## **ELECTRIC MARKET ADJUSTMENTS SOUGHT ;**

New York Independent System Operator Takes Action to Address Reserve Market Issues

Albany, NY, March 27, 2000...The New York Independent System Operator (NYISO), administrator of the deregulated electric energy marketplace in New York State, will seek authority from the Federal Energy Regulatory Commission (FERC) to address price and supply issues in the reserve energy market. The competitive electric market, launched in November of last year, consists of day-ahead and real time trading markets for energy and ancillary services. It is the behavior of the reserve market, one of the ancillary services, that has attracted the NYISO's attention for its fluctuation in the volume of reserves offered into the market and resulting wholesale prices. The reserve market, normally constituting 2-5% of the total energy market's value, provides backup generation in the event that a generator trips off-line.

After the first two months of operation, the reserve market began to yield results inconsistent with those that would be anticipated in a workably competitive market. Among the causes of this condition were significant fluctuations in the amount of reserves offered into the market, the unavailability of reserves from some sources and several market design issues.

In the period of mid-November to mid-January, the 10-minute non-spinning reserve market saw an average price of \$1.08 per megawatt, while the spinning reserve market price was, on average, \$6.78 per megawatt. These average prices have climbed, respectively, to \$44.61 and \$57.78 per megawatt in recent weeks. The NYISO, through its Market Monitoring Unit, reviewed and analyzed the situation. In consideration of the MMU review, the NYISO has concluded that action is necessary to address these price anomalies and to begin a process to modify the design of New York's reserve market. The NYISO is also supporting a negotiation that would lead to an equitable adjustment

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of the revenues paid by some market participants and received by others as a result of the reserve market's performance.

New York Independent System Operator President and CEO William J. Museler said, "While the NYISO has the ability, in conjunction with its committees, to propose market design changes, it currently lacks authority from the FERC to adopt temporary pricing and billing mitigation measures in these reserve markets. This contributes to the NYISO's decision to seek temporary market adjustments through its filing with the FERC until a redesign of the reserve market can be effected. We believe that it is essential to market integrity that the structural aspects of the market that have resulted in dramatic price increases be addressed quickly, and that a process to settle the financial imbalances caused by those aspects be initiated. We are filing with the FERC for temporary authority to address those issues, and we have asked the New York State Public Service Commission (PSC) to assist in the resolution of this matter."

The NYISO will request that its Business Issues and Operating Committees convene a working group to review the design and recent performance of the 10 minute reserve market and recommend changes that will improve its performance. The committee's recommendations would require the review and approval of the NYISO's Management Committee, its Board of Directors and, ultimately, the FERC.

The NYISO today filed a petition asking that the FERC:

- Grant temporary authority to the NYISO to require 10-minute reserve suppliers in eastern New York to offer all their available 10 minute non-spinning reserve capacity into the market at rates subject to a cost-based limit not to exceed \$2.52 per megawatt (with the exception of a single hour in the period, this was the highest clearing price observed during the time the market was thought to be operating normally between November and mid-January.) Available spinning reserves would be offered at a price equal to verifiable fuel commitment costs. The eastern region is identified due to physical constraints of the power grid and the concentration there of 10-minute reserve capacity. As soon as it can be determined that either of the 10-minute markets can function in a workably competitive manner, the NYISO will seek the removal of this cost-based structure.
- Effective March 1, the NYISO requests authorization to bill and collect for 10-minute reserves for the period of March 1, 2000 through the effective date of the bid structure described above based on an approximation of the prices that would be expected to result from a workably competitive market, pending the outcome of the

settlement process described below (those prices would be based upon a *pro forma* calculation reflecting prices in the period before dramatic increases occurred);

- Establish a settlement process under the auspices of the FERC's Dispute Resolution Service and include the participation of the New York State Public Service Commission (PSC.) The process would include all buyers and sellers in the New York 10-minute reserve market. The settlement process will seek a fair and non-discriminatory method of deciding whether to reallocate the revenues associated with the 10 minute reserve market for the period from late January to the onset of the temporary rate plan offering referenced above. A 90-day schedule is recommended for a conclusion of the settlement process.

Museler made clear that the first interest of the New York Independent System Operator is to maintain the reliability of the New York power grid, and affect actions that will assure normal competitive market operations. "Since the beginning of the market just four months ago, the NYISO has been carefully assessing market behavior. We have exercised great care to allow the market to be competitive, so we have been deliberate in our examinations of situations that might be considered a result of market structure weaknesses, and to understand market anomalies. We have also been in contact with market participants concerning market structure and activity. We are certain in this instance that the 10-minute reserve markets are not performing in the way these markets would be expected to perform, and we hope that the FERC will act quickly to assist us in resolving this matter" Museler stated.