

UNITED STATES OF AMERICA 92 FERC ¶ 61,181
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: James J. Hoecker, Chairman;
William L. Massey, Linda Breathitt,
and Curt Hébert, Jr.

New York Independent System Operator, Inc.

Docket No. ER00-3038-001

New York State Electric & Gas Corporation

v.

Docket No. EL00-70-002

New York Independent System Operator, Inc.

ORDER CLARIFYING PRIOR ORDER

(Issued August 30, 2000)

On July 31, 2000, the New York Independent System Operator, Inc. (NYISO) filed an emergency request for limited clarification of the Commission's July 26, 2000 order (July 26 Order)¹ with respect to the order's holding that sink price cap bids (sink price bids)² should not be subject to the temporary bid cap. Alternatively, if the Commission denies the requested clarification, NYISO requests limited rehearing and partial stay of the Commission's sink price bid holding. We clarify the July 26 Order as discussed below.

The July 26 Order

The July 26 Order found that there were several market flaws existing in NYISO's energy markets and imposed a temporary bid cap of \$1,000 per MWh through the summer capability period, to expire on October 28, 2000. The order, however, excluded sink price bids from the \$1,000 per MWh bid cap, finding that sink price bids are used only to determine scheduling for exports and thus, are not used to determine prices that are paid by buyers and received by sellers. In addition, the Commission found that the imposition of the \$1,000 per MWh bid cap on sink price bids would undermine NYISO's temporary fix to

¹92 FERC ¶ 61,073 (2000).

²A sink price cap bid is the maximum bid price above which an external load or energy export shall not be served.

correct a problem with its software; NYISO instructed market participants to submit high sink price bids to ensure that their exports are not erroneously cut.

NYISO's Emergency Request for Clarification

NYISO seeks clarification that the Commission's ruling exempting sink price bids from the bid cap, only applies to the hour-ahead market and not to the day-ahead market. NYISO explains that the order is correct in that sink price bids are used in the hour-ahead market only to determine the scheduling for exports and therefore, would not set the locational based marginal price (LBMP) in that market. This is because the hour-ahead market bids are evaluated by NYISO's Balancing Market Evaluation (BME) software, which serves as a scheduling tool but does not establish financially binding prices.

However, NYISO contends that the order is incorrect in that sink price bids can in fact set the LBMP in the day-ahead market. NYISO explains that this results because day-ahead market bids are evaluated by NYISO's Security Constrained Unit Commitment (SCUC) software, which establishes day-ahead LBMPs and schedules. NYISO explains that sink price bids can set the LBMP in the day-ahead market in situations where NYISO experiences a capacity deficiency when attempting to meet load and reserve requirements in the New York Control Area (NYCA). NYISO explains that in this situation, allowing export transactions to continue to use uncapped day-ahead market sink price bids would cause the SCUC software to set the NYCA LBMP at a level equal to the uncapped day-ahead market sink price bids of the export transactions. NYISO explains that this results because the export transactions would be the last to be backed down and would therefore set the marginal price of energy, or the LBMP, in the NYCA. NYISO concludes that the exemption from the bid cap of sink price bids in the day-ahead market, could result in prices of up to \$9,999 per MWh³ this summer. In addition, NYISO contends that the imposition of the temporary bid cap on sink bids submitted in the day-ahead market would not prevent exporters from using NYISO's recommended hour-ahead market bidding strategy to minimize erroneous export curtailments until such time as NYISO corrects its

³NYISO's software does not accommodate numbers larger than \$9,999.99.

SCUC software.⁴ Therefore, NYISO requests that the Commission clarify that the temporary bid cap would apply to sink price bids submitted in the day-ahead market.

Answers

On August 7, 2000, answers were filed by the Members of the Transmission Owners Committee of the Energy Association of New York State (Member Systems) and Niagara Mohawk Energy Marketing, Inc. (NIMO Marketing).

Member Systems explain that NYISO has recently made a software modification to its SCUC software that will schedule export transactions consistent with the posted day-ahead market external proxy prices. This software change was made to address the concerns raised by NIMO Marketing in its complaint filed against NYISO in Docket No. EL00-82-000.⁵ This change was implemented on August 4, 2000, for the day-ahead market for August 5, 2000.

As a result of this change, Member Systems state that there is now a clear mechanism for sink price bids for export transactions to set the LBMP. In this circumstance, the Member Systems agree with NYISO that the temporary bid caps must be imposed on the sink price bids. Member Systems note that the software changes by NYISO are specifically designed to resolve the concerns raised by NIMO Marketing in its complaint. If these modifications do not work as intended, Member Systems urge NYISO to work with all affected parties to expeditiously resolve the issues raised by NIMO Marketing. For these reasons, Member Systems request that the Commission approve NYISO's requested relief to ensure that the sink price bids do not cause the LBMP to exceed \$1,000 per MWh.

Based on NYISO's explanation of the recent software fix, NIMO Marketing states that it would not oppose the capping of the sink price bids so long as the SCUC software modification works as intended. However, NIMO Marketing suggests that NYISO develop a contingency plan in the event the software fix does not work as intended. Specifically,

⁴In *Niagara Mohawk Energy Marketing, Inc. v. New York Independent System Operator, Inc.*, 92 FERC ¶ 61,060 (2000), the Commission directed NYISO to make corrections to its software to prevent the erroneous curtailment of exports. On August 10, 2000, NYISO filed a report with the Commission indicating that it corrected its software problem causing erroneous export curtailments, and that this software correction has eliminated the need for market participants to pursue the bidding strategy recommended by NYISO.

⁵Id.

NIMO Marketing suggests that if an export transmission request is curtailed or withdrawn and its sink price bid does not set the LBMP, then NYISO should be directed to pay the market participant its sink price bid and/or restore the export as soon as possible via a manual override. NIMO Marketing also requests that NYISO be required to report on the performance of the software modifications as provided in the Commission's order in these proceedings. NIMO Marketing explains that in NYISO's bid cap filing in Docket No. ER00-3038-000, it protested the imposition of a bid cap on sink price bids given its understanding of NYISO's software and process for setting LBMP in the day-ahead market. At that time, NIMO Marketing believed that sink price bids would have no impact on the LBMP in the day-ahead market. NIMO Marketing contends that neither NYISO, nor any other party, responded to its protest to point out that it was factually incorrect when claiming that the LBMP would not be affected by uncapped sink price bids.

Discussion

The intent of our July 26 Order was to place a temporary bid cap on all bids in the day-ahead energy market that could set the LBMP. We agree with NYISO and other market participants that sink price bids in the day-ahead market should be subject to the \$1,000 per MWh cap because they could, during times of constraint, set the LBMP. We therefore grant the requested clarification of NYISO.

With regard to NIMO Marketing's request, we believe that it is premature at this time, given our recent ruling in NIMO Marketing's complaint proceeding in Docket No. EL00-82-000, to require NYISO to implement a contingency plan in the event that the recent software fix does not work as intended.⁶ We note that the Commission directed NYISO in Docket No. EL00-82-000 to file by September 1, 2000, a status report on any changes or revisions it has made to address the problems identified by NIMO Marketing in the complaint. We also directed NYISO to provide in the report a full description of the effects the software changes have had on its markets and whether additional changes

⁶Niagara Mohawk Energy Marketing v. New York Independent System Operator, Inc., 92 FERC ¶ 61,060 (2000) (order denying NIMO Marketing's request for a manual override to the SCUC software, or in the alternative the payment of lost opportunity costs to market participants for rejected bids for exports, but directing NYISO to make corrections to its SCUC software and file a report with the Commission by September 1, 2000).

are necessary. Based on this report, participants can determine whether the software changes are functioning as intended, and the Commission can determine whether other measures are necessary at that time.

By the Commission.

(S E A L)

Linwood A. Watson, Jr.,
Acting Secretary.