DRAFT Straw Proposal

Presentation to Forward Capacity Market Working Group

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Introduction

- ISO's continued FCMWG objectives:
  - Have appropriate scope and schedule
  - Meet upcoming tariff obligations for APR and Zone issues
  - Procure sufficient resources to meet reliability
  - Have a long-term sustainable capacity market
  - Market design should seek to appropriately price capacity by location

- This DRAFT Straw Proposal:
  - Does not include every issue identified by the FCM steering committee
    - In order to maintain schedule all raised issues cannot be addressed
  - Does not include every Internal Market Monitor recommendation
  - Highlights those issues the ISO views as most important
  - Is intended to be a starting point for further discussions at FCMWG

Draft Straw Proposal Focus

ISO proposed recommendations relative to:

1. Alternative Price Rule and Other Design Options
2. Changes to Zones
3. Demand Resources
4. Other

Alternative Price Rule Recommendations (OPTION A)

- Carry forward Out-of-Market (OOM) MWs as appropriate into future FCAs for purpose of determining when APR is triggered
- Tighten definition of OOM to include all resources that receive significant non-market revenues
- Evaluate removal of CONE price cap
- Rejected de-list MWs determined to be needed for reliability will be treated as OOM in determining whether APR is triggered
  - Rejected permanent de-list bids would be included for the contract length
- Need to develop a flexible price-setting rule for APR trigger
  - When rejected de-list bids cause APR to trigger, setting price at last new capacity to leave market may not be appropriate
  - When APR is triggered but some new entry remains in FCA, the under-adjustment may be severe and warrant different price-setting mechanism

Alternative Price Rule Recommendations (OPTION B: Dynamic Quantity Procurement)

- Institute a dynamic quantity procurement mechanism in the FCA that increases the quantity purchased as the price drops
  - Would be triggered when price falls below .8 CONE
  - Descending clock auction would continue to be utilized
  - Rate of quantity increase could be set so that total consumer costs only decrease as the price falls

- This would be instead of enhancements to the APR
  - Need to discuss whether APR still in place under certain well-defined conditions
  - Given the complexity of designing Option A, it may be more transparent and effective to directly address the price formation problem at moderate and lower price levels

How Dynamic Quantity Procurement Could Work

- Assume ICR = 30,000 MW
- Assume, during the running of the descending clock auction, a round ends at $5.01 with 10,000 MW of excess
- Assume that the DQP range begins at $5
- At the start of the next round, the auctioneer announces that 30,000 MW would be purchased at $5, and 31,500 MW at $4.01
- At the close of the round, 38,000 MW are still offered
- At the start of the next round, the auctioneer announces that 31,500 MW would be purchased at $4, and 33,000 MW at $3.01

How Dynamic Quantity Procurement Could Work

- At the close of the round, 35,000 MW are still offered
- At the start of the next round, the auctioneer announces that 33,000 MW would be purchased at $3, and 34,500 MW at $2.01
- At the close of the round, 33,000 MW are offered, below the 34,500 MW the auctioneer was willing to purchase
  - Because the quantity offered is below the quantity that the auctioneer is willing to purchase, the auction is closed
  - The final price in the auction is determined by the intersection between the quantity withdrawn within the round, and their prices, and intermediate quantities that the auctioneer is willing to purchase within the round
- The end price might be $2.50 with 33,750 MW purchased

Changes to Zones Recommendations

For more information, see 9/18/09 Reliability Committee Meeting Presentation -
http://www.iso-ne.com/committees/comm_wkgrps/relblty_comm/relblty/mtrls/2009/sep182009/a3_lsr_tsa_capacity_zones.pdf

- Revise LSR & TSA Reliability Methodologies
  - Reduce the discount factor for thermal quick-starts from 33% to 20%
  - Include Real-Time Emergency Generator responses in analysis
  - Keep 90/10 load forecast for analysis
  - Do not include actions deep in OP4 as resources in analysis (e.g. voltage reductions)
- Define Process for Changing Zones
  - For now, existing energy market zones to be used as capacity zones
  - These zones have advantage of not crossing state or utility boundaries
    - Avoids creation of another zonal construct for the market
    - No subdivision proposed at this time (maybe in the future)
  - Process should provide notice of a change to a zone prior to qualification deadline for an auction

Change to Zones Recommendations (Cont.)

- Continue to purchase ICR for region unless Dynamic Quantity Procurement triggered
- Set the zonal local purchase amount for constrained zones equal to the higher of the zonal probabilistic LSR and the zonal TSA
- Substitutability of resources for bilaterals will continue to be done using unit-specific load-flow analysis
  - Ability to bilateral should be improved with the above suggestions
- Only resources with obligation to participate in the energy market will be included in calculations of probabilistic LSR
- Allow permanent de-list bids and de-list bids from non-pivotal suppliers to affect the creation and pricing of zones

Demand Resources Recommendations

- Energy Market Participation
  - DR with a capacity supply obligation allowed to participate in either supply- or demand- side PRD program
- Peak Energy Rent (PER) Deductions
  - All DR with a capacity supply obligation subject to PER.
- Load Reconstitution
  - DR with capacity obligation shall have its load reconstituted

Other Recommendations

- Decouple auction starting price from CONE
  - Start FCA at no less than $15/KW month
- Apply floor for certain uses of CONE
  - Such as static de-list and OOM evaluations
- Consider extending 5-year new resource price guarantee