



FCM Working Group

Mirant

CONE Update Proposal

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The CONE Problem



- The Cost of New Entry (“CONE”) is a key input for the FCM and any capacity market design
- The mechanism for updating CONE agreed to in the settlement assumed that clearing prices would reflect CONE for new merchant generation resources when new entry occurred.
- We have had significant new entry, but because it has been primarily DR and generation resources that receive, to varying degrees, out-of-market revenues, the long-term cost of new entry of a merchant generator has not been reflected in clearing prices.
- Under the ISO-NE tariff, after FCA #3 CONE will be \$4.92/kW-mo which is only about 50% of the cost of new entry for generation used in other markets.
 - PJM CONE ranges from \$9.41/kW-mo to \$10.17/kW-mo (2012-2013 and beyond)*
 - NYCA CONE is \$8.94/kW-mo for 2010-2011 **
 - Long-term Cost of Service Peaking Contracts approved in CT were over \$12/kW-mo

NOTES:

* PJM CONE values are from PJM OATT, Attachment DD, Section 5.10(a)(iv)(A), substitute third revised sheet no. 586

** NY CONE value is based on \$107.33/kw-yr gross Annual Revenue Requirements for the NYCA for the proxy peaker (see FERC Docket ER08- 283-000, Affidavit of David J. Lawrence, Table 4)

Use of CONE is Pervasive



- While it is possible to divorce the starting price of the FCA from CONE as the MMU recommends, the multitude of uses of CONE in the FCM market design necessitate a more comprehensive reset:
 - CONE is used to set appropriate prices under the APR, insufficient competition, inadequate supply and Quantity Rule provisions of the tariff
 - CONE sets the thresholds for MMU reviews of bids (both market power and monopsony power screens)
 - CONE is used to set the collateral requirements for new entrants in the market and thereby ensure reliability
 - CONE is used by ISO-NE and Market Participants to replace expected short-falls in resources being able to covering existing Capacity Supply Obligations and thereby ensure reliability

Uses & Associated Values of CONE



	FCA #1	FCA#2	FCA#3	FCA#4	FCA#5
CONE	\$7.50	\$6.00	\$4.92	\$4.92	???
Floor	\$4.50	\$3.60	\$2.95	n.a.	n.a.
Clear Price	\$4.50	\$3.60	\$2.95		
Auction Start Bid	\$15.00	\$12.00	\$9.84	\$9.84	???
Delist Bid of 2xCONE Required for Existing Summer Capacity in Excess of Winter Capacity	\$15.00	\$12.00	\$9.84	\$9.84	???
Allowed Static Delist Bid for Capacity at Risk Between 90F and 100F	\$15.00	\$12.00	\$9.84	\$9.84	???
Price at Which DR must offer to Permanently Delist Unverified Capacity Cleared in the Prior Auction	\$15.00	\$12.00	\$9.84	\$9.84	???
Price at Which ISO Offers to Purchase Capacity in an ARA to Replace a Cleared Delist Bid That was Rejected for Reliability	\$15.00	\$12.00	\$9.84	\$9.84	???
Price at Which ISO-NE Offers to Buy Replacement Capacity for A New Generator that, by the 3rd ARA, Is NOT Expected to be Available to Full Awarded Capacity Supply Obligation	\$15.00	\$12.00	\$9.84	\$9.84	???
Price at Which ISO-NE Offers to Buy Replacement Capacity to Cover a Significant Decrease in Capacity That Has No Viable Plan to Achieve Ability to Cover Full CSO.	\$15.00	\$12.00	\$9.84	\$9.84	???
Permanent Delist Bid Threshold Above 125% CONE Subject to IMMU Review	\$9.38	\$7.50	\$6.15	\$6.15	???
Price Above Which Static or Permanent Delist Capacity in a Constrained Zone Will not be Replaced	\$9.00	\$7.20	\$5.90	\$5.90	???
If System has Inadequate Supply but Zone has Adequate Supply, Zone Price Capped at 1.1x CONE	\$8.25	\$6.60	\$5.41	\$5.41	???
If the an Auction has Insufficient Competition, Payments to Existing Resources Capped at 1.1x CONE	\$8.25	\$6.60	\$5.41	\$5.41	???
Collateral Required, per KW, Before Demonstration of Commercial Operations Capability	\$7.50	\$6.00	\$4.92	\$4.92	???
Static Delist Bid Threshold @ or above 80% CONE	\$6.00	\$4.80	\$3.93	\$3.93	???
Dynamic Delist Bid Threshold @ 80% CONE	\$6.00	\$4.80	\$3.93	\$3.93	???
Price Below Which 100% of Static or Permanent Delist Capacity in a Constrained Zone will be Replaced	\$6.00	\$4.80	\$3.93	\$3.93	???
New Capacity Bid Review to Determine if OOM for APR if Below 75% CONE	\$5.63	\$4.50	\$3.69	\$3.69	???
Price Threshold Below Which New Generation, DR, or Imports may not offer more capacity than submitted in Qualification Package	\$5.63	\$4.50	\$3.69	\$3.69	???

Mirant's Proposal



- Short-term Options for Initial Reset of CONE
 1. Engineering Estimate for New England
 2. Adopt Recently Approved CONE for PJM or NY
 3. Revert to NE's original \$7.50/kW-mo in FCA #1

- Long-term Options for Determining CONE
 1. Periodic Engineering Estimates of CONE
 2. Use competitive offers for new merchant generation from several FCAs to periodically determine a market-based value for CONE
 - “Merchant Generation” is intended to mean generation resources that do not have any existing contracts or subsidies that are not generally available to or able to be acquired by most other market participants
 3. Replace existing formula with a blend of options #1 and #2 above

Conclusion



Questions ?