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**To:** NEPOOL Participants Committee

**From:** Marc D. Montalvo

**Date:** February 4, 2010

**Subject:** Revisions to Market Rule 1 Language Regarding De-listing of Stations with Common Costs

While reviewing the Market Rule language voted by the Markets Committee regarding de-list bids from stations with common costs in preparation for the scheduled NEPOOL Participants Committee vote, I discovered an error. The language as voted by the MC does not accurately reflect the design that I described to the Committee and on which they believed they were voting. In particular, the rules voted at the MC, if implemented, would not accomplish the desired market outcome and would under-compensate resources retained for reliability. The attached red-line rule language addresses the identified discrepancies and aligns the rule language with the design as presented to the Markets Committee.

I apologize for any inconvenience or disruption that addressing this error on short notice has caused the Committee.

**III.13.1.2.3.1.6 Static De-List Bids and Permanent De-List Bids for Existing Generating Capacity Resources at Stations having Common Costs.** Where Existing Generating Capacity Resources at a Station having Common Costs elect to submit Static De-List Bids or Permanent De-List Bids, the provisions of this Section III.13.1.2.3.1.6 shall apply.

[DEFINITIONS HAVE BEEN MOVED TO SECTION I OF THE TARIFF – PLEASE SEE BELOW]

**III.13.1.2.3.1.6.1 Submission of Cost Data.** In addition to the information required elsewhere in this Section III.13.1.2.3, Static De-List Bids or Permanent De-List Bids submitted by an Existing Generating Capacity Resource that is associated with a Station having Common Costs and seeking to delist must include detailed cost data to allow the ISO to determine the Asset-Specific Going Forward Costs for each asset associated with the Station and the Station Going Forward Common Costs.

**III.13.1.2.3.1.6.2 Allocation of Common Costs.** The Internal Market Monitor will allocate the Station Going Forward Common Costs to each of the Station's assets using the historical megawatt hour production for each asset as the default allocation basis. Should a Market Participant prefer to use a different allocation basis for some or all of the Station Going Forward Common Costs, it must demonstrate to the Internal Market Monitor that the alternative allocation basis is more appropriate than the default allocation basis. The Internal Market Monitor will calculate the amount of Common Costs allocable to each Existing Generating Capacity Resource associated with a Station by adding the Station Going Forward Common Costs allocated to each asset comprising the Existing Generating Capacity Resource.

**III.13.1.2.3.1.6.3 Internal Market Monitor Review.** The Internal Market Monitor will review each Static De-List Bid and Permanent De-List Bid from an Existing Generating Capacity Resource that is associated with a Station having Common Costs to verify that the bid meets the following conditions: (i) the bid must be monotonically decreasing; (ii) assets that are uneconomic on the basis of their Asset-Specific Going Forward Costs (i.e., do not benefit from station economies of scale) must be allowed to bid their Asset-Specific Going Forward Costs; and (iii) the bid must be sufficient to recover the Asset-Specific Going Forward Costs of all assets remaining in the market and ~~any~~ **the full amount of** Station Going Forward Common Costs ~~allocated to those assets~~. If the Internal Market Monitor determines that the bid is consistent with the conditions listed above, then the bid shall be entered into the Forward Capacity Auction as described in Section

III.13.2.3.2(b). If the Internal Market Monitor determines that the bid does not satisfy the conditions listed above or is not consistent with the submitted supporting cost data, then the Internal Market Monitor will reject the bid as described in Section III.13.1.2.3.2.1.1.

#### III.13.2.5.2.5. Compensation for Bids Rejected for Reliability Reasons

(e) Compensation for Existing Generating Capacity Resources at Stations with Common Costs that are Retained for Reliability. If a Static De-List Bid or Permanent De-List Bid from an Existing Generating Capacity Resource that is associated with a Station having Common Costs is rejected for reliability reasons, the Existing Generating Capacity Resource will be paid as follows: (i) if one or more Existing Generating Capacity Resources at the Station assume a Capacity Supply Obligation through the normal clearing of the Forward Capacity Auction and one or more Existing Generating Capacity Resources are retained for reliability, then the Existing Generating Capacity Resources retained for reliability will be paid the sum of the Asset-Specific Going Forward Costs for the assets comprising that Existing Generating Capacity Resource; or (ii) if no Existing Generating Capacity Resources at the Station assumes a Capacity Supply Obligation through the normal clearing of the Forward Capacity Auction and one or more Existing Generating Capacity Resources are retained for reliability, then ~~each~~ Existing Generating Capacity Resources retained for reliability will be paid the sum of the Asset-Specific Going Forward Costs for the assets associated with that Existing Generating Capacity Resource plus ~~the a portion of the~~ Station Going Forward Common Costs (such that the full amount of Station Going Forward Common Costs are allocated to the Existing Generating Capacity Resources retained for reliability) ~~allocated to the assets comprising that Existing Generating Capacity Resource.~~

#### Definitions to be added in Section I.2.2 of the Tariff

**Asset-Specific Going Forward Costs** are the net risk-adjusted going forward costs of an asset that is part of an Existing Generating Capacity Resource, calculated for the asset in the same manner as the Net-Risk Adjusted Going Forward Costs of Existing Generating Capacity Resources as described in Section III.13.1.2.3.2.1.2.

**Common Costs** are those costs associated with a Station that are avoided only by (1) the clearing of the Static De-List Bids or the Permanent De-List Bids of all the Existing Generating Capacity Resources comprising the Station; or (2) the acceptance of a Non-Price Retirement Request of the Station.

**Station** is one or more Existing Generating Capacity Resources consisting of one or more assets located within a common property boundary.

**Station Going Forward Common Costs** are the net risk-adjusted going forward costs associated with a Station that are avoided only by (1) the clearing of the Static De-List Bids or the Permanent De-List Bids of all the Existing Generating Capacity Resources comprising the Station; or (2) the acceptance of a Non-Price Retirement Request of the Station, calculated in the same manner as the Net-Risk Adjusted Going Forward Costs of Existing Generating Capacity Resources as described in Section III.13.1.2.3.2.1.2.

**To:** NEPOOL Participants Committee  
**From:** Tom Kaslow  
**Date:** January 4, 2010  
**Subject:** Proposed Amendments to Section III.12.1.2.(e) and Section III.12.2.2.(d)

GDF SUEZ Energy North America, Inc. (GDF SUEZ) has proposed to add a new Section III.12.2.1.2.(e) and eliminate the redline language in Section III.12.2.2.(d) recommended by the Reliability Committee. The GDF SUEZ changes are intended to maintain the existing symmetry between the Maximum Capacity Limit and Local Sourcing Requirement calculations. Today, these terms reflect the same local requirement and the only difference is the frame of reference.

For auction design convenience, the Forward Capacity Market (FCM) defines a specific Capacity Zone or set of Capacity Zones as a reference location, which we refer to as the Rest of System. The constraint between Capacity Zones potentially clearing at auction prices below the Rest of System zone are modeled through Maximum Capacity Limits to enforce the Local Sourcing Requirement of the Rest of System zone while import-constraints of zones potentially clearing at higher auction prices than Rest of System are enforced through Local Sourcing Requirements of those zones. Under current FCM rules, it really does not matter whether the constraint is modeled as a Maximum Capacity Limit out of the zone upstream of the Rest of System or a Local Sourcing Requirement of the import-constrained Rest of System zone. The Maximum Capacity Limit (MCL) and Local Sourcing Requirement (LSR) calculations are symmetrical and the MCL simply defined as the Installed Capacity Requirement less the LSR for the Rest of System.

However, the Section III.12.2.2.(d) changes recommended by the Reliability Committee would now inappropriately create an artificial distinction. While the Local Sourcing Requirement calculation would now consider both Transmission Security Analysis (TSA) and Local Resource Adequacy requirements, the Maximum Capacity Limit calculation would no longer be based on the Local Sourcing Requirement for the Rest of System and would instead only consider the Local Resource Adequacy requirement. Under certain configurations of Rest of System Capacity Zone(s), it is possible that a valid TSA may not exist, yet, in other configurations of the Rest of System zone, a valid TSA requirement could exist. While the RC recommended changes would inappropriately preclude consideration of such TSA requirements in *all* configurations, the GDF SUEZ amendments would continue to permit the Maximum Capacity Limit to be calculated consistent with the Local Sourcing Requirement, including the consideration of TSA requirements where relevant.