

Handy-Whitman Adjustment to CONE for FCA 6

June 27, 2011

Market Rule 1 Section 13.2.4.(c)

- “...if any of the following conditions are met, then the Capacity Zone’s Cone for the next Forward Capacity Auction shall be the same as the Capacity Zone’s CONE used in the previous Forward Capacity Auction, **adjusted using a rolling three-year average** of the Handy-Whitman Index of Public Utility Construction Costs:
 - (i) the price is set pursuant to the Capacity Clearing Price Floor described in Section III.13.2.7.3....”
- Requirement: Adjust CONE for FCA 6 based on the CONE used in FCA 5 times a rolling three year average of the Handy-Whitman Index.

ISO Procedure for Adjusting CONE

- Next CONE= Previous Cone times the average of the most recent six values of the Handy Whitman Index at the conclusion of the previous FCA divided by a comparable span in periods but one full calendar year earlier.
- Handy-Whitman Index Number
 - Index Number = $\frac{\text{cost at stated time}}{\text{cost at base period (1973)}} \times 100$
 - Index Number used: Total Other Production Plant (Line 28) of Handy-Whitman Index of Public Utility Construction Costs Bulletin No. 171

Aspects of the Calculation

- The Handy Whitman Index values are only reported for two stated times (January and July) and their publication seems to lag those dates by 2-3 months.
- The forward capacity auctions (FCA 1 thru FCA 6) are in transition to an annual schedule. For example: FCA 4 was held 10 months after FCA 3
- After FCA 6 the CONE for FCA 7 should reflect a steady state auction timing, and the calculation at the conclusion of each FCA would include both the latest January and July index number for the prior calendar year.

Calculation of CONE for FCA 6

- Handy-Whitman Index Number

2007		2008		2009		2010		2011	
Jan	Jul	Jan	Jul	Jan	Jul	Jan	Jul	Jan	Jul
-	543	594	616	635	667	687	700	697	N/A

- Adjustment to CONE:
 - $(616 + 635 + 667 + 687 + 700 + 697) / (543 + 594 + 616 + 635 + 667 + 687) = 1.070$
- CONE for FCA 6 would then be:
 - $1.070 \times \$5.349/\text{kw-month} = \mathbf{\$5.723/\text{kw-month}}$
- The starting price would then be 2 x CONE:
 - $2 \times \$5.723/\text{kw-month} = \mathbf{\$11.446/\text{kw-month}}$
- The floor price would then be 0.6 x CONE:
 - $0.6 \times \$5.723/\text{kw-month} = \mathbf{\$3.434/\text{kw-month}}$