

May 15, 2024

Submitted Electronically

Honorable Debbie-Anne A. Reese, Acting Secretary
Federal Energy Regulatory Commission
888 First Street N.E.
Washington, D.C. 20426

**Re: Docket No. ER24-____-000, *New York Independent System Operator, Inc.*;
Proposed Market Revenue Offset Enhancements for the Installed Capacity
Demand Curves**

Dear Acting Secretary Reese:

In accordance with Section 205 of the Federal Power Act¹ and Part 35 of the regulations of the Federal Energy Regulatory Commission (“Commission”), the New York Independent System Operator, Inc. (“NYISO”) submits proposed revisions to its Market Administration and Control Area Services Tariff (“Services Tariff”) to enhance the calculation of net Energy and Ancillary Services (“EAS”) revenue offset values used in establishing the Installed Capacity (“ICAP”) Demand Curves.²

The NYISO respectfully requests that the proposed revisions become effective July 15, 2024 (*i.e.*, the day following the end of the statutory 60-day notice period). The NYISO will first utilize the enhancements proposed herein as part of the ongoing quadrennial review of the ICAP Demand Curves (*i.e.*, commonly referred to as the “ICAP Demand Curve reset” or “DCR”).³

I. List of Documents Submitted

The NYISO submits the following with this filing letter:

1. A clean version of the proposed revisions to the Services Tariff (“Attachment I”); and

¹ 16 U.S.C. § 824d.

² Capitalized terms not otherwise defined herein shall have the meaning specified in the Services Tariff.

³ The ongoing DCR will establish the ICAP Demand Curves for the 2025-2029 period (*i.e.*, the 2025/2026 through 2028/2029 Capability Years). Section 5.14.1.2.2.4.11 of the Services Tariff requires the NYISO to file the proposed results of the ongoing DCR, as approved by the NYISO Board of Directors, with the Commission no later than November 30, 2024. This will include proposed ICAP Demand Curves to become effective May 1, 2025 (*i.e.*, the 2025/2026 Capability Year), as well as the methodologies and assumptions for conducting the tariff-prescribed annual updates to determine the ICAP Demand Curves for the remaining three years encompassed by the reset period (*i.e.*, the 2026/2027 through 2028/2029 Capability Years).

2. A blacklined version of the proposed revisions to the Services Tariff (“Attachment II”).

II. Background

The NYISO develops ICAP Demand Curves based on the estimated cost to construct and operate a hypothetical new capacity supply resource in various locations throughout New York (*i.e.*, commonly referred to as the “gross cost of new entry” or “gross CONE”).⁴ This cost is offset by an estimate of the potential revenues each peaking plant could earn from participating in the NYISO-administered Energy and Ancillary Services markets. The resulting net values (*i.e.*, commonly referred to as the “net cost of new entry” or “net CONE”) represent the revenue each peaking plant would need to receive from the capacity market to obtain sufficient revenues to support market entry when necessary to maintain reliability.⁵

The estimated net EAS revenues for each peaking plant are determined using historical data.⁶ The NYISO uses the most recent three years of historical market prices, fuel and other variable operating costs, along with the operating characteristics of the peaking plant, to estimate the potential revenue earnings for each peaking plant. This approach assumes that the estimated average annual net EAS revenues a peaking plant could have earned over the most recent three-year period provides a reasonable estimate of forward-looking expectations. The NYISO updates these estimates pursuant to the tariff-prescribed annual updating procedures to ensure that the ICAP Demand Curves incorporate changes in market outcomes over time.⁷

The Services Tariff currently permits use of only hourly historical pricing for both Day-Ahead and real-time in determining estimated net EAS revenue offset values. However, as technologies considered to serve as the basis of the ICAP Demand Curves (*i.e.*, the peaking

⁴ Section 5.14.1.2.2 of the Services Tariff refers to the hypothetical new capacity supply resource as a “peaking plant.”

⁵ The costs and estimated revenues of each peaking plant are not determined based on current market conditions. Instead, Section 5.14.1.2.2 of the Services Tariff requires that such costs and revenues be estimated under market conditions in which the available capacity is equal to the applicable minimum ICAP requirement plus the MW value of the hypothetical resource. This requirement is designed to ensure that the ICAP Demand Curves are established at a level that should provide sufficient revenues to cover the costs of each peaking plant when market entry by such facility is required to maintain reliability.

⁶ See Section 5.14.1.2.2.2 of the Services Tariff; Docket No. ER16-1751-000, *New York Independent System Operator, Inc.*, Proposed Services Tariff Revisions to Implement Enhancements to the Periodic Reviews of the ICAP Demand Curves at 5-7 (May 20, 2016) (“DCR Process Enhancements Filing”); and *New York Independent System Operator, Inc.*, 156 FERC ¶ 61,039 at P 16 (2016) (“DCR Process Enhancements Order”). Section 5.14.1.2.2.2 of the Services Tariff requires the development of a model(s) to assist in determining the net EAS revenues for each peaking plant (*i.e.*, commonly referred to as the “net EAS model”).

⁷ See, *e.g.*, DCR Process Enhancements Filing at 9-14; and DCR Process Enhancements Order at P 27.

plant) evolve over time, certain technologies may have operating capabilities that warrant consideration of interval level real-time pricing. To account for such evolving technology options, the NYISO proposes to revise the tariff to permit use of historical real-time interval pricing, if warranted, based on the operating capabilities of a given technology option.

III. Description of Proposed Tariff Revisions

The New York electric grid is undergoing unprecedented change in response to technological developments, economic and environmental considerations, and public policies. For example, the Climate Leadership and Community Protection Act (“CLCPA”) requires that: (1) 70% of the state’s electricity requirements be met by eligible renewable generation resources by 2030; and (2) 100% of electricity demand in New York be served by zero-emissions resources by 2040.⁸ These factors are transforming the resource mix as decarbonization efforts unfold across all sectors of New York’s economy.

The transformation of the power system is producing a shift away from reliance on fossil fuels for electric power generation.⁹ These changes are anticipated to require transition from fossil-fired generators, which have historically been selected as the peaking plant for the ICAP Demand Curves, to renewable and other clean energy resources. The evolving resource mix is anticipated to impact the technology options considered to serve as the peaking plant for each ICAP Demand Curve. For example, in the last quadrennial review (*i.e.*, the 2021-2025 DCR), the NYISO broadened the technology options to evaluate energy storage for the first time.¹⁰ Energy storage is also being evaluated as a potential peaking plant for the ongoing 2025-2029 DCR.

In consideration of these evolving dynamics, the NYISO proposes enhancements to the current requirements for estimating net EAS revenue earnings for peaking plant technology options. The proposal would permit the potential use of real-time interval prices for technologies capable of responding to such price signals. Specifically, the NYISO proposes revisions to Section 5.14.1.2.2.2 of the Services Tariff to permit use of real-time interval pricing for a peaking plant technology option, if warranted, based on its operating capability.¹¹

⁸ Chapter 106 of the Laws of the State of New York of 2019.

⁹ *See, e.g.*, NYISO, *2023-2032 Comprehensive Reliability Plan* at 6-12, available at: <https://www.nyiso.com/documents/20142/2248481/2023-2032-Comprehensive-Reliability-Plan.pdf>.

¹⁰ *See, e.g.*, Docket No. ER21-502-000, *New York Independent System Operator, Inc.*, 2021-2025 ICAP Demand Curve Rest Proposal at 9 (November 30, 2020).

¹¹ The NYISO also proposes clarifying revisions to the current tariff language in Section 5.14.1.2.2.2 of the Services Tariff regarding the ability to identify a net Ancillary Services “adder” for services not captured by the applicable net EAS model.

A. Consideration of Real-Time Interval Pricing

Section 5.14.1.2.2.2 of the Services Tariff addresses the requirements for estimating net EAS revenues of each peaking plant, including the development of a net EAS model(s) as part of each DCR to assist in calculating such revenues. Currently, the tariff only permits use of historical hourly prices for determining such revenue estimates. As the technology options considered to serve as a peaking plant evolve over time, the operating characteristics of certain technologies may warrant consideration of more granular real-time prices.¹² As a result, the NYISO proposes to revise the tariff to permit the consideration of real-time interval prices, if warranted, based on the operating capabilities of a particular technology option.

The proposed revisions establish the ability to consider the use of real-time interval prices for technology options that can respond to such interval prices. The proposed revisions, however, do not mandate the use of real-time interval pricing for any technology option. Rather, the determination of whether to utilize interval or hourly real-time pricing is established as a decision to be made as part of each DCR for each of the technology options evaluated. This is consistent with the overarching requirement that the DCR serve as the forum to identify, in collaboration with stakeholders, the necessary data, inputs, and assumptions for determining the ICAP Demand Curves for the four-year period covered by each reset. The real-time pricing option (*i.e.*, hourly or interval pricing) selected for each technology option remains fixed for the entirety of the four-year period covered by each DCR.

If real-time interval pricing is recommended for a particular technology option, the details and logic of the net EAS model to utilize such pricing for that technology would be developed as part of the DCR. This is consistent with the existing requirement to develop a net EAS model(s) for each peaking plant as part of each DCR.¹³ For real-time hourly pricing, the tariff currently requires the use of zonal time-weighted/integrated real-time price values in the net EAS model(s). If real-time interval pricing is selected for a particular technology option, the proposed revisions specify that the applicable net EAS model will use zonal Real-Time Dispatch prices (*i.e.*, nominal five-minute interval pricing).

Allowing use of historical real-time prices that better align with the operating capability of various peaking plant technology options facilitates improved accuracy of net EAS revenue estimates. Accurate revenue estimates improve the resulting ICAP Demand Curves and efficiency of the capacity market price signals produced by the ICAP Demand Curves.

¹² For example, consistent with the last reset, energy storage is being evaluated as a potential peaking plant technology for the ongoing 2025-2029 DCR. The operating capability of energy storage provides the ability to respond to real-time interval prices. As a result, if the proposed enhancements are accepted, it is anticipated that the use of real-time interval pricing will be assessed for energy storage as part of the ongoing DCR.

¹³ The logic and detailed specifications of the net EAS model developed as part of the DCR for a particular technology option remains fixed for the four-year reset period, subject to the updating of data inputs as part of the tariff-prescribed annual update procedures to determine the ICAP Demand Curves for the second through fourth years covered by each reset period.

B. Clarifying the Existing Adder for Certain Ancillary Services Revenues

Section 5.14.1.2.2.2 of the Services Tariff recognizes that practical limitations may result in the inability for a net EAS model to identify and calculate all potential net Ancillary Services revenue that a given peaking plant technology option may be eligible to earn through the NYISO-administered markets.¹⁴ As a result, the tariff permits use of an “adder” to address net Ancillary Services revenues that are not accounted for by the net EAS model(s) developed during each DCR.¹⁵

For the past two resets (*i.e.*, the 2017-2021 DCR and 2021-2025 DCR), this adder has been utilized to account for voltage support service revenues that the selected peaking plants were eligible to earn.¹⁶ In each of these DCRs, the adder was identified as a fixed dollar value representing the estimated annual revenue each peaking plant was anticipated to earn from the provision of such voltage support service. The tariff, however, does not require that the adder be specified as a fixed dollar value.

In response to recent stakeholder questions as part of the ongoing 2025-2029 DCR regarding the allowable structure of the adder and to avoid any potential for misinterpretation resulting from the practice employed for the past two DCRs, the NYISO proposes clarifying revisions to expressly provide that the adder can be specified as a methodology or formula.¹⁷ The proposed clarifying revisions do not dictate any specific outcome. Rather, consistent with the current tariff requirements, the applicability of any such adder will be evaluated as part of each DCR. To the extent any such adder is identified as necessary to address Ancillary Services not accounted for by the applicable net EAS model, the appropriate design of any such adder will continue to be developed in collaboration with stakeholders as part of the DCR.

IV. Effective Date

The NYISO respectfully requests that the proposed tariff revisions become effective on July 15, 2024 (*i.e.*, the day following the end of the statutory 60-day notice period). The enhancements proposed herein will first be utilized as part of ongoing 2025-2029 DCR.

¹⁴ See DCR Process Enhancements Filing at 19.

¹⁵ The tariff requires that any such adder be developed as part of each DCR and remain fixed for the four-year period covered by each reset.

¹⁶ See Docket No. ER17-386-000, *New York Independent System Operator, Inc.*, Proposed ICAP Demand Curves for the 2017/2018 Capability Year and Parameters for Annual Updates for Capability Years 2018/2019, 2019/2020 and 2020/2021 at 24 (November 18, 2016); and Docket No. ER21-502-000, *supra*, 2021-2025 ICAP Demand Curve Rest Proposal at 32 (November 30, 2020).

¹⁷ For example, the adder could be specified as determining its value annually based on the quantity of a particular service not accounted for by the net EAS model that a peaking plant is eligible to provide, multiplied by the applicable compensation rate for such service.

V. Stakeholder Approval

Stakeholders unanimously approved the proposal at the Management Committee on April 24, 2024. The NYISO Board of Directors approved the proposed enhancements on May 10, 2024.

VI. Correspondence

Please direct all communications and service in this proceeding to:

Robert E. Fernandez, Executive Vice President, General Counsel & Chief Compliance Officer

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VII. Service

A complete copy of this filing will be posted on the NYISO's website at www.nyiso.com. The NYISO will send an electronic link to this filing to the official representative of each of its customers, and each participant on its stakeholder committees. The NYISO will also send an electronic copy of this filing to the New York State Public Service Commission and the New Jersey Board of Public Utilities.

VIII. Conclusion

The NYISO respectfully requests that the Commission accept the proposed revisions to the Services Tariff attached hereto with an effective date of July 15, 2024.

Respectfully submitted,

/s/ Garrett E. Bissell

Garrett E. Bissell, Senior Attorney
New York Independent System Operator, Inc.

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