

March 21, 2017

By Electronic Delivery

Honorable Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

**Re: *New York Independent System Operator, Inc.*, Docket No. ER17-____-000;
Proposed Tariff Amendments Regarding Day-Ahead Margin Assurance
Payments**

Dear Secretary Bose:

The New York Independent System Operator, Inc. (“NYISO”) submits this filing pursuant to Section 205 of the Federal Power Act¹ to propose amendments to its Market Administration and Control Area Services Tariff (“Services Tariff”). The proposed revisions are designed to enhance the NYISO’s Day-Ahead Margin Assurance Payment (“DAMAP”) program rules.² The proposed revisions include the following:

1. A new eligibility criterion specifying that a Resource requesting to increase its minimum operating level in the Real-Time Market in a manner that prevents the Resource from fulfilling its Day-Ahead Regulation Capacity schedule in a given hour will be ineligible for DAMAP for that hour;
2. A new eligibility criterion specifying that a Resource reducing its Regulation Capacity MW bid point for an hour in the Real-Time Market, relative to its Day-Ahead Regulation Capacity schedule, will be ineligible for DAMAP for that hour; and
3. Revisions to the calculation of avoided costs, an element of the DAMAP calculation, to include the \$/MWh component of a Resource’s Minimum Generation Bid.

¹ 16 U.S.C. §824d.

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

I. Background and Justification

A. DAMAP Overview

DAMAP is a “supplemental payment made to an eligible Supplier that buys out of a DayAhead Energy, Regulation Service, or Operating Reserves schedule such that an hourly balancing payment obligation offsets its Day-Ahead Margin.”³ A Supplier’s Day-Ahead Margin, in turn, is “[t]hat portion of Day-Ahead LBMP, Operating Reserves settlement or Regulation Service settlement for an hour that represents the difference between the Supplier’s accepted Day-Ahead offer price and the Day-Ahead LBMP, Operating Reserves settlement or Regulation Service settlement for that hour.”⁴

DAMAP is intended to reimburse a Supplier for any lost Day-Ahead Margin that may result from actions taken by the NYISO in real-time that reduce a Resource’s Day-Ahead Margin. This typically happens when the NYISO, in real-time, reduces the otherwise applicable schedule of a Generator, as determined in the Day-Ahead Market, for reliability reasons. However, DAMAP is not warranted when the Supplier’s own actions cause lost, or reduced, Day-Ahead Margin. Reduced real-time dispatch may result from the Generator’s real-time bidding or inflexible operating characteristics, as opposed to actions or directions by the NYISO. A Resource’s lack of flexibility has the potential to raise the hourly DAMAP (because the unit is not able to take advantage of lower real-time prices). For this reason, the Services Tariff provides that during hours in which a Generator’s minimum operating level must be raised by the NYISO, either at a Generator’s request or because a Generator is not following Base Point Signals, the Generator will not be eligible to receive DAMAP.⁵

B. Justification for DAMAP Changes

Suppliers may take actions in real-time that prevent a Resource from satisfying its Day-Ahead Regulation Service schedule. When a Resource receives a Day-Ahead Regulation Capacity schedule and a Day-Ahead Energy schedule, the Resource must be able to increase or decrease its Energy output in real-time by the amount of its Regulation Capacity schedule. For example, a Resource with a Day-Ahead Energy schedule of 100 MW for an hour and a Day-Ahead Regulation Capacity schedule of 10 MW for the same hour must be able to produce between 90 and 110 MW in that hour in real-time to meet its Day-Ahead Regulation Service obligations. Any Supplier-initiated action that prevents the Resource from satisfying its Day-Ahead Regulation Capacity schedule should make the Resource ineligible for DAMAP during the affected hour(s).

The NYISO proposes two new DAMAP eligibility criteria to account for Supplier actions that reduce a Resource’s ability to fulfill its Day-Ahead Regulation Capacity schedule. A

³ Services Tariff Section 2.4.

⁴ *Id.*

⁵ Services Tariff Section 25.2.2.1.

Resource may become incapable of fulfilling its Day-Ahead Regulation Capacity schedule by increasing its minimum operating level in real-time or by reducing its Regulation Capacity Bid MW in real-time. Either Supplier-initiated action should prevent the Resource from receiving DAMAP for that hour. The first proposed eligibility criterion specifies that a Resource with a Day-Ahead Energy schedule and a Day-Ahead Regulation Capacity schedule becomes ineligible for DAMAP for an hour if it increases its real-time minimum operating level to a level equal to or greater than its Day-Ahead Energy schedule minus its Day-Ahead Regulation Service schedule. The second proposed eligibility criterion specifies that a Resource becomes ineligible for DAMAP for an hour if it reduces the MW component of its Regulation Capacity Bid in realtime to a value below its Day-Ahead Regulation Service schedule for that hour.

The NYISO also proposes to improve the DAMAP calculation by incorporating Minimum Generation Bids into the avoided cost portion of the calculation. Avoided costs are costs that the Resource does not incur because it did not operate or operated at a reduced output in real-time compared to its Day-Ahead schedule. Avoided costs are subtracted from the potential payment to the Resource during the DAMAP calculation. In other words, costs that a Resource expects to incur in real-time based on its Day-Ahead schedule but does not, in fact, incur are counted towards the Resource's Day-Ahead Margin. Failure to account for avoided cost savings would otherwise result in excessive DAMAP to the Resource. Currently, the DAMAP calculation determines the avoided cost of MWs between zero MW and the minimum operating level component of the Minimum Generation Bid using only the unit's incremental energy cost curve. NYISO proposes to revise the calculation of the avoided cost of MWs between zero and the minimum operating level component of the Minimum Generation Bid to instead employ the \$/MWh cost from the Minimum Generation Bid. The revised calculation will improve consistency between the Bid costs used to evaluate a Generator for scheduling and the Bid costs used for financial settlement.

The proposed change is expected to have a small impact on the overall DAMAP calculations because the protection of Day-Ahead Margin generally does not include MW within the range of the Minimum Generation Bid. When the NYISO reduces the real-time operation of a Generator below its Day-Ahead schedule for reliability reasons, the Generator generally will be scheduled at the minimum operating level specified in its Minimum Generation Bid.

II. Description of Proposed Revisions to the Services Tariff

The NYISO proposes several additions and revisions throughout Attachment J (Section 25) of the Services Tariff based on the DAMAP program changes discussed above. In addition, certain ministerial modifications are proposed throughout Section 25. The ministerial revisions include clarifying existing language in Section 25.2.2.1, correcting a typographical error in the first formula in Section 25.3.2.1, and correcting subsection numbering.

As described in Section I.B above, two additional DAMAP eligibility criteria are proposed in this filing. The NYISO proposes the addition of two new subsections in Section 25.2.2 to address the new criteria. The NYISO proposes to add a new Section 25.2.2.2 to specify that a Resource, otherwise eligible for DAMAP, will be ineligible for DAMAP in hours when its

real-time minimum operating level is increased at the Resource's request, including through an adjustment to its self-commitment schedule, above a value equal to the Resource's Day-Ahead Energy scheduled MW minus the Resource's Day-Ahead Regulation Capacity scheduled MW. Bidding in this manner prevents the Resource from providing Regulation Service by reducing its Energy output below its Day-Ahead Energy schedule; therefore, the Resource's Day-Ahead Regulation Capacity schedule will not be feasible in real-time. The NYISO also proposes to add a new Section 25.2.2.3 to specify that a Resource, otherwise eligible for DAMAP, will be ineligible for DAMAP in hours in which the Resource reduces its Regulation Capacity Bid MW in real-time below its Day-Ahead Regulation Capacity schedule. When a Resource bids in this manner, the Resource cannot operate to its Day-Ahead Regulation Capacity schedule.

The NYISO proposes to revise two definitions in Section 25.3.4 (*i.e.*, $DABen_{hu}$ and $RTBen_{hu}$) to include the Minimum Generation Bid in addition to the Incremental Energy Bid in the Day-Ahead Energy Bid cost and the real-time Energy Bid cost for the DAMAP calculation. Including the \$/MWh component of the Minimum Generation Bid will more closely align the avoided costs portion of the DAMAP calculation with the costs considered when the Resource was scheduled.

III. Documents Submitted

1. This filing letter;
2. A clean version of the proposed revisions to the Services Tariff ("Attachment I"); and
3. A blacklined version of the proposed revisions to the Services Tariff ("Attachment II").

IV. Effective Date

The NYISO respectfully requests that the Commission issue an order accepting the proposed tariff revisions by May 22, 2017 (*i.e.*, sixty days from the date of this filing) with an effective date of July 1, 2017.

V. Stakeholder Approval

These amendments were approved unanimously by the NYISO Management Committee on July 27, 2016. The NYISO's Board of Directors approved the proposed revisions on November 14, 2016.

VI. Communications and Correspondence

All communications and service in this proceeding should be directed to:

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VII. Service

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

VIII. Conclusion

The New York Independent System Operator, Inc. respectfully requests that the Commission accept for filing the proposed tariff revisions that are attached hereto with an effective date of July 1, 2017.

Respectfully submitted,

/s/ James H. Sweeney

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