UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

New York Independent System Operator, Inc.	**)**	**Docket No. ER16-1751-000**

REQUEST FOR LEAVE TO ANSWER AND ANSWER OF THE NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.

Pursuant to Rules 212 and 213 of the Rules of Practice and Procedure promulgated by the Federal Energy Regulatory Commission ("Commission"), 18 C.F.R. §§ 385.212 and 385.213, the New York Independent System Operator, Inc. ("NYISO") hereby submits this Answer to the Comments of the New York State Public Service Commission ("NYPSC Comments") and Request for Leave to Answer and Answer to the Limited Protest and Comments of Multiple Intervenors and the City of New York ("MI/NYC Protest") filed in the above-referenced docket on June 10, 2016.

On May 20, 2016, the NYISO filed proposed tariff revisions to implement certain enhancements to its process for conducting periodic reviews of the ICAP Demand Curves.[1] The proposed enhancements would: (i) increase the period between resets from three years to four years; (ii) provide for the implementation of a formulaic and transparent process to annually update certain parameters of the ICAP Demand Curves for the Capability Years between resets; and (iii) implement a more transparent and predictable methodology for estimating net Energy

[1] 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 (May 20, 2016) (hereinafter referred to as the "DCR Enhancements Filing"). Capitalized terms not otherwise defined herein shall have the meaning specified in the NYISO's Market Administration and Control Area Services Tariff ("Services Tariff").

and Ancillary Services ("EAS") revenues expected to be earned by a peaking plant from participation in the NYISO-administered markets.[2]

As part of the annual update process, the NYISO proposed to recalculate the winter-to-summer ratio ("WSR") for each ICAP Demand Curve annually, using capacity availability data from the same three-year historic period used by the net EAS model.[3] In connection with updating WSR values annually, the NYISO proposed certain, formulaic adjustments to the historic data set used in calculating these values.[4] The NYISO proposed to adjust the historic data set for certain qualifying capacity market entry and exit actions by resources in order to ensure that such qualifying actions are accounted for on a consistent basis within each 12-month period (September through the following August) encompassed by the calculation.

While supporting the proposal to update the WSR values annually based on capacity availability data from the same three-year historic period relied upon by the net EAS model, the MI/NYC Protest and NYPSC Comments oppose the NYISO's proposal to adjust the historic data set used for calculating WSR values to account for certain, qualifying capacity market entry and exit actions.[5] These pleadings contend that the proposed adjustments will artificially inflate reference point values and resulting capacity prices.[6] The MI/NYC Protest and NYPSC

[2] *Id*. at 3-17.

[3] *Id*. at 14-16. Because the NYISO operates a capacity market with two, distinct six-month Capability Periods, the NYISO uses the WSR to account for seasonal differences in capacity availability when translating the annual net cost of new entry ("CONE") for each ICAP Demand Curve to a monthly reference point value for use in the NYISO's ICAP Spot Market Auctions. The WSR is intended to reflect the fact that differences in capacity availability between the Summer Capability Period and the Winter Capability Period contribute to differences in capacity prices throughout the year.

[4] *Id*. at 15-16.

[5] MI/NYC Protest at 3-6; and NYPSC Comments at 3-6.

[6] MI/NYC Protest at 4; and NYPSC Comments at 5-6.

Comments request that the Commission direct the NYISO to remove the proposed adjustments from its methodology for calculating WSR values.[7]

The proposed formulaic adjustments to account for certain capacity market exit and entry actions by resources are just and reasonable. These adjustments are designed to provide for more stable and predictable WSR values that account for year-to-year changes in the resource mix.

I. REQUEST FOR LEAVE TO ANSWER

Rule 213 of the Commission's Rules of Practice and Procedure generally prohibits answers to certain pleadings, including protests.[8] The Commission, however, has discretion to waive such prohibition.[9] The Commission has previously determined that a waiver is appropriate in circumstances where an otherwise prohibited answer: (a) will lead to a more accurate and complete record; (b) helps the Commission understand the issues; (c) clarifies matters in dispute or errors; or (d) provides information that will assist the Commission in rendering a decision.[10] This answer clarifies matters in dispute, provides additional information that will assist the Commission, and will otherwise be helpful in the development of a complete record in this proceeding. Accordingly, the Commission should accept this answer.

[7] MI/NYC Protest at 9; and NYPSC Comments at 9.

[8] *See* 18 C.F.R. § 385.213(a)(2). The Commission's Rules of Practice and Procedure authorize answers to pleadings stylized as "comments," such as the NYPSC Comments.

[9] *Id*.

[10] *See, e.g.*, *New York Independent System Operator, Inc.*, 99 FERC ¶ 61,246 (2002) (accepting answers to protests that helped to clarify issues and did not disrupt the proceeding); *Morgan Stanley Capital Group, Inc. v. New York Independent System Operator, Inc.*, 93 FERC ¶ 61,017 (2000) (accepting an answer that was helpful in the development of the record); and *New York Independent System Operator, Inc.*, 91 FERC ¶ 61,218 (2000) (accepting an answer deemed useful in addressing issues arising in the proceeding at issue).

II. ANSWER

The NYISO's proposed adjustments to the historic data set used in calculating WSR values are formulaic, transparent, just and reasonable and designed to provide a stable and predictable representation of seasonal capacity availability as impacted by changes in the resource mix over time. The NYISO has proposed to calculate WSR values using the same 36-month historic data period used by the net EAS model (*e.g.*, for the ICAP Demand Curves for the 2017/2018 Capability Year, the WSR values would generally be based on capacity available to be offered in the ICAP Spot Market Auction for each month during the period from September 2013 through August 2016).[11] The NYISO would calculate the WSR value as the average of the WSRs calculated for each 12-month period (*i.e.* September through the following August) encompassed by the historic data set. For each 12-month period, the NYISO would calculate the WSR as: (i) the average total capacity available to be offered in the ICAP Spot Market Auctions for the six winter months included in the 12-month period (*i.e.* November through the following April); divided by (ii) the average total capacity available to be offered in the ICAP Spot Market Auctions for the six summer months included in such 12-month period (*i.e.*, September and October and May through August of the following year).

In response to concerns raised in MI/NYC Protest and the NYPSC Comments, the NYISO assessed the potential impacts of its proposed methodology for calculating WSR values compared to the calculations that would otherwise result from not including the NYISO's proposed adjustments for certain qualifying market entry and exit actions. Based on preliminary calculations of WSR values for the 2017/2018 Capability Year, the impacts to WSR values and

[11] DCR Enhancements Filing at 14-16.

resulting reference point values from the proposed adjustments are expected to be minimal.[12] Additional analyses performed by the NYISO demonstrate that failing to include the proposed adjustments may result in unnecessary volatility in WSR values with a potential for material impacts on ICAP Demand Curve reference point values, especially for the ICAP Demand Curves applicable to Localities. This volatility undermines the overarching goals of the proposed enhancements to ICAP Demand Curve reset – providing for a more stable and predictable process that is designed to produce a gradual evolution of ICAP Demand Curve values over time consistent with changes in market conditions.

The NYISO proposed several enhancements to the methodology that had been used for calculating WSR values in the prior two ICAP Demand Curve resets.[13] In this proceeding, the NYISO proposed the following enhancements: (i) using three years of historic data for capacity available to be offered in the ICAP Spot Market Auctions; and (ii) refreshing the WSR values annually as part of the proposed annual update process.[14] These enhancements improve on the methodology used in the last two ICAP Demand Curve resets because the revised calculation would account for the impacts of Special Case Resources on WSR values. Because the Special Case Resource program has traditionally experienced a greater amount of capacity enrolled in the Summer Capability Period than the Winter Capability Period, exclusion of Special Case Resources from the calculation of WSR values tends to overstate the WSRs and the resulting adjustment to reference point values to account for seasonal differences in capacity availability.

[12] Notably, the NYISO's analyses demonstrate that, depending on the timing and magnitude of the adjustments for qualifying entry and exit actions, the adjustments can result in either increasing or decreasing WSR values with the resulting potential to either place upward or downward pressure on ICAP Demand Curve reference point values.

[13] DCR Enhancements Filing at 14-16.

[14] *Id*. at 14-15.

Additionally, updating WSR values on an annual basis provides for a more timely recognition of changes in the resource mix over time and the impacts thereof on seasonal capacity availability.

While supportive of the proposal to update the WSR annually to reflect changes in the resource mix over time, during the stakeholder process, some stakeholders raised concerns that the NYISO's proposal to utilize monthly data regarding capacity available to be offered in the ICAP Spot Market Auctions could result in calculating WSR values that are not representative of the relative levels of seasonal capacity available in the market. These stakeholders contended that certain resource entry and exit actions reflected in the monthly data could have an adverse impact on the calculation of WSR values, especially when such entry and exit actions are not captured in all the monthly values within a given 12-month period encompassed by the proposed WSR calculation methodology.

In past resets, the NYISO has derived the WSR values primarily through the use of data published in its annual Load & Capacity Data reports (commonly referred to as the "Gold Book"). Use of Gold Book data essentially provides a static set of resources for each year that does not account for monthly variations in resource mix that may arise as a result of certain resource entry and exit actions. Accordingly, the prior WSR values reflected year-to-year changes in the amount of capacity available in the winter and summer periods.

After assessing the concerns raised regarding the potential for monthly values to interject unnecessary volatility into the WSR calculations, the NYISO proposed revisions to the WSR calculation methodology to include formulaic adjustments for certain qualifying resource entry and exit actions that may occur within a given 12-month period but are not accounted for in all months of such period. For each 12-month period encompassed by a WSR calculation, the NYISO would examine the historic data set of actual capacity available to be offered in the ICAP

Spot Market Auction to identify instances in which a resource: (i) entered the capacity market for the first time (*i.e.*, new resource entry) or returned to the market from a mothball, retired or ICAP Ineligible Forced Outage status; or (ii) exited the capacity market because it was retired, mothballed or entered an ICAP Ineligible Forced Outage status. If a qualifying entry or exit action is identified for a resource, the NYISO then determines whether the resulting impact on capacity availability of the resource is accounted for in all months of the relevant 12-month period. If the qualifying entry or exit action is not accounted for in all months of the relevant 12-month period, the NYISO adjusts the historic data set for the months in which the qualifying entry or exit is not accounted for using the applicable capacity rating values for the affected resource published in the Gold Book.[15]

When a resource enters or exits the capacity market, this action results in an overall change in the capacity available to the market for all periods immediately following the applicable change to the resource mix. For example, if a hypothetical fleet of resources consists of 10,000 MW of total available capacity in the Summer Capability Period and 11,000 MW of total available capacity in the Winter Capability Period and a hypothetical 100 MW non-temperature sensitive resource (*i.e.*, equal capacity availability in the summer and winter) were to exit the market, as soon as the resource exit occurs, the market would consist of 9,900 MW of total available capacity in the Summer Capability Period and 10,900 MW of total available capacity in the Winter Capability Period. Although the resource mix in this example has changed as a result of the exit action, the ratio of capacity available to the market on a seasonal

[15] In the case of a qualifying market entry action, the resource's applicable capacity availability values published in the Gold Book will be added to all months in the relevant 12-month period that do not otherwise reflect the addition of the resource. In the case of a qualifying market exit action, the affected resource's applicable capacity availability values published in the Gold Book will be subtracted from all months in the relevant 12-month period that do not otherwise reflect the resource's exit from the market.

basis is virtually unchanged.[16] If, however, the hypothetical resource exiting the market were a temperature-sensitive unit (*i.e.*, different capacity availability in the summer and winter) such that its available capacity in the summer was 100 MW and 125 MW in the winter, as soon as the resource exit occurs, the market would consist of 9,900 MW of total available capacity in the Summer Capability Period and 10,875 MW of total available capacity in the Winter Capability Period. In this case, the ratio of available winter capacity to available summer capacity is reduced slightly following the resource's exit to reflect the narrowing of the difference between seasonal capacity availability resulting from the temperature-sensitive resource's exit from the market.[17]

The adjustments to the historic data set proposed by the NYISO are intended to capture these realities. The adjustments provide for the recognition of changes in the resource mix over time (including within each 12-month period encompassed by the WSR calculation period), while maintaining the measure of seasonal differences in capacity availability based on year-to-year changes to the resource mix.[18]

The NYISO conducted an assessment of the impacts related to its proposed adjustments to the historic data for qualifying entry and exit actions as it relates to the calculation of the WSR values that would apply for the upcoming 2017/2018 Capability Year.[19] As depicted in the table

[16] The ratio of available winter capacity to available summer capacity prior to the non-temperature sensitive resource's exit is 1.100 and 1.101 following such resource's exit.

[17] The ratio of available winter capacity to available summer capacity prior to the temperature-sensitive resource's exit is 1.100 and 1.098 following such resource's exit.

[18] *Affidavit of Joshua A. Boles,* Attachment I at ¶ 7 ("Boles Affidavit").

[19] *Id.* at ¶ 4-16. Pursuant to the NYISO's proposed methodology, the WSR values for each capacity region, except for the G-J Locality, are based on monthly values of capacity available to be offered in the ICAP Spot Market Auctions for the period from September 2013 through August 2016. Because the G-J Locality did not exist prior to May 1, 2014, its WSR value for the 2017/2018 Capability Year would be based on data from September 2014 through August 2016. It is important to note that

below, the impacts of the NYISO's proposed adjustments are likely to be minimal.[20] The preliminary calculations for the 2017/2018 Capability Year indicate that the adjustments do not result in any change to the WSR values that would otherwise be calculated for NYCA and Long Island absent the adjustments.[21] For New York City and the G-J Locality, the NYISO's proposed adjustments to the historic data set for qualifying entry and exit actions have minimal impacts on the WSR values for these Localities. These minor differences translate into impacts of $0.10 per kW-month or less to the ICAP Demand Curve reference point values for these Localities.[22] Given that the NYISO's proposed adjustments had no impact on the WSR values for NYCA and Long Island, there is no impact to their respective ICAP Demand Curve reference point values.

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these calculations are preliminary because data regarding capacity availability for July 2016 and August 2016 was not available at the time this analysis was performed. For purposes of the NYISO's analysis, data from June 2016 was used as a proxy for July 2016 and August 2016.

[20] *Id*. at ¶ 17-18.

[21] Notably, for Long Island, the NYISO's preliminary calculation did not identify any qualifying entry or exit actions during the period in question.

[22] To assess the impacts on reference point values, the NYISO utilized the Commission-approved parameters for the ICAP Demand Curves applicable to the 2016/2017 Capability Year and the current formula for calculating reference point values, as set forth in Section 5.5 of the Installed Capacity Manual. The only variable of the Commission-approved parameters that were changed were the WSR values. Instead of utilizing the Commission-approved WSR values for the 2016/2017 Capability Year, the NYISO used the WSR values resulting from its analysis. Boles Affidavit at ¶ 16.

	WSR Impact (2017/2018 Capability Year)			Reference Point Impact (2016/2017 ICAP Demand Curve Parameters)		
	WSR Value (NYISO Proposal)	WSR Value (Unadjusted)	Impact[23]	NYISO Proposal ($/kW-month)	Unadjusted ($/kW-month)	Impact
NYCA	1.038	1.038	0.000	$8.82	$8.82	$0.00
G-J Locality[24]	1.054	1.056	0.002	$11.91	$12.02	$0.11
NYC	1.077	1.076	-0.001	$18.64	$18.57	-$0.07
LI	1.075	1.075	0.000	$8.46	$8.46	$0.00

The NYISO also assessed the impacts that could result under certain posited circumstances from failing to include the NYISO's proposed adjustments for qualifying entry and exit actions.[25] For purposes of this additional assessment, the NYISO analyzed the impacts of: (i) a qualifying market exit of a hypothetical, non-temperature sensitive 1,000 MW resource in both New York City and Long Island in November 2014 ("Scenario 1"); and (ii) a qualifying market entry of a hypothetical, non-temperature sensitive 1,000 MW resource in both New York City and Long Island in May 2015 ("Scenario 2").[26] As demonstrated by the figures and tables below, failing to include the NYISO's proposed adjustments for qualifying entry and exit actions

[23] The differences presented in the tables are calculated by subtracting the applicable "NYISO Proposal" value from the applicable "Unadjusted" value. For WSR values: (i) a positive difference indicates that the NYISO's proposed methodology results in a lower value than the unadjusted methodology; and (ii) a negative difference indicates that the NYISO's proposed methodology results in a higher value than the unadjusted methodology. For reference point values: (i) a positive difference indicates that the NYISO's proposed methodology results in a lower reference point than the unadjusted methodology; and (ii) a negative difference indicates that the NYISO's proposed methodology results in a higher reference point than the unadjusted methodology.

[24] The preliminary results for the G-J Locality demonstrate that the NYISO's proposed adjustments for qualifying entry and exit actions can result in either an increase or decrease to the WSR values depending on the timing and magnitude of the qualifying events. Thus, the proposed adjustments can result in placing either upward or downward pressure on reference point values. Boles Affidavit at ¶ 18.

[25] *Id*. at ¶ 4, 19-20.

[26] For purposes of this additional assessment, the NYISO utilized the underlying data set for calculating the WSR values for the 2017/2018 Capability Year. In order to discretely identify the impacts of the hypothetical market entries and exits analyzed, the NYISO included the adjustments for actual, qualifying market entry and exit actions, consistent with its proposal, as an upfront adjustment to the total monthly available capacity values for both the "NYISO Proposal" and "Unadjusted" cases. *Id*. at ¶ 20.

has the potential to introduce unnecessary volatility into the calculation of WSR values, thereby undermining the NYISO's overarching objectives of improved stability and predictability with respect to the ICAP Demand Curve reset process.[27]

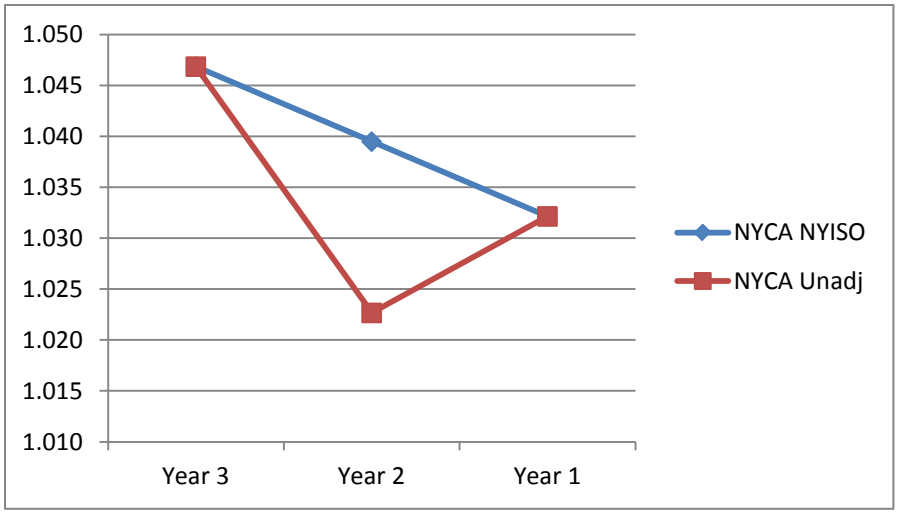
The tables and figures below depict the trend in changes to the WSR for the NYCA over the three-year period at issue (*i.e.*, September 2013 through August 2016) inclusive of the hypothetical market entry and exit actions posited by the NYISO's additional assessment. As demonstrated by the tables and figures, the general trend in changes to the WSR values from the oldest 12-month period (*i.e.*, referred to as "year 1") to the most recent such period (*i.e.*, referred to as "year 3") is an increase in the WSR value over the three-year period. Failure to include the NYISO's proposed adjustments for qualifying market entry and exit actions, however, would produce an anomalous result in the second year that is not representative of this trend. This anomalous outcome introduces unnecessary volatility in the WSR values that may not properly reflect changes in seasonal capacity availability resulting from year-to-year changes to the resource mix. The NYISO's proposed adjustments, however, are designed to produce stable and predictable outcomes that account for the impacts of changes to the resource mix over time on WSR values.[28]

	Scenario 1: 1,000 MW Hypothetical Qualifying Exit in NYC and LI in November 2014					
	Year 3 WSR (9/15-8/16)		Year 2 WSR (9/14-8/15)		Year 1 WSR (9/13-8/14)	
	NYISO Proposal	Unadjusted	NYISO Proposal	Unadjusted	NYISO Proposal	Unadjusted
NYCA	1.047	1.047	1.039	1.023	1.032	1.032
G-J Locality	1.066	1.066	1.050	1.026	N/A	N/A
NYC	1.098	1.098	1.086	1.049	1.064	1.064
LI	1.091	1.091	1.094	1.027	1.071	1.071

[27] *Id*. at ¶ 21-23.

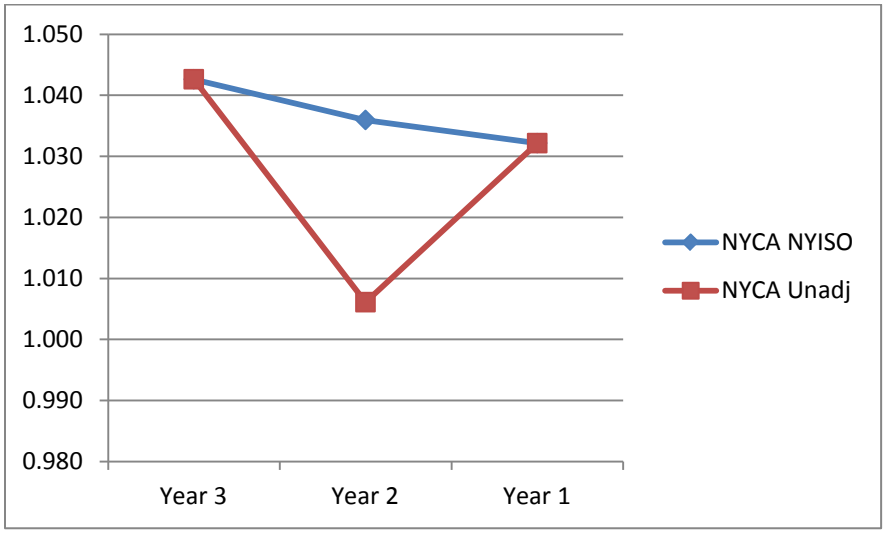
[28] *Id*. at ¶ 23.

Scenario 1: Trend Line of Changes in WSR for NYCA



	Scenario 2: 1,000 MW Hypothetical Qualifying Entry in NYC and LI in May 2015					
	Year 3 WSR (9/15-8/16)		Year 2 WSR (9/14-8/15)		Year 1 WSR (9/13-8/14)	
	NYISO Proposal	Unadjusted	NYISO Proposal	Unadjusted	NYISO Proposal	Unadjusted
NYCA	1.043	1.043	1.036	1.006	1.032	1.032
G-J Locality	1.058	1.058	1.044	1.003	N/A	N/A
NYC	1.081	1.081	1.071	1.012	1.064	1.064
LI	1.066	1.066	1.067	0.972	1.071	1.071

Scenario 2: Trend Line of Changes in WSR for NYCA



In addition to producing volatility in WSR values, the anomalous outcomes that can results from not including the NYISO's proposed adjustments for certain qualifying entry and exit actions may have material impacts on ICAP Demand Curve reference point values, especially for Localities. These impacts are depicted in the table below.[29]

	Scenario 1: 1,000 MW Hypothetical Qualifying Exit in NYC and LI in November 2014					
	WSR Impact (2017/2018 Capability Year)			Reference Point Impact (2016/2017 ICAP Demand Curve Parameters)		
	WSR Value (NYISO Proposal)	WSR Value (Unadjusted)	Impact	NYISO Proposal ($/kW-month)	Unadjusted ($/kW-month)	Impact
NYCA	1.039	1.034	-0.005	$8.87	$8.64	-$0.23
G-J Locality	1.058	1.046	-0.012	$12.12	$11.52	-$0.60
NYC	1.083	1.070	-0.013	$19.06	$18.17	-$0.89
LI	1.085	1.063	-0.022	$8.78	$8.10	-$0.68

	Scenario 2: 1,000 MW Hypothetical Qualifying Entry in NYC and LI in May 2015					
	WSR Impact (2017/2018 Capability Year)			Reference Point Impact (2016/2017 ICAP Demand Curve Parameters)		
	WSR Value (NYISO Proposal)	WSR Value (Unadjusted)	Impact	NYISO Proposal ($/kW-month)	Unadjusted ($/kW-month)	Impact
NYCA	1.037	1.027	-0.010	$8.78	$8.35	-$0.43
G-J Locality	1.051	1.030	-0.021	$11.76	$10.81	-$0.95
NYC	1.072	1.052	-0.020	$18.30	$17.07	-$1.23
LI	1.068	1.036	-0.032	$8.24	$7.40	-$0.84

Based on the foregoing, the NYISO proposed enhancements to the calculation of WSR values, including the proposed adjustments to account for certain qualifying entry and exit actions, are formulaic, transparent and just and reasonable. The proposed, formulaic adjustments for certain qualifying entry and exit actions are designed to provide for increased stability and predictability in the WSR values, while recognizing the impacts of year-to-year changes in the resource mix on seasonal capacity availability.[30]

[29] *Id*. at ¶ 21-22.

[30] *Id*. at ¶ 24.

III. CONCLUSION

The NYISO requests that the Commission accept this answer and reiterates its request for issuance of an order by the Commission accepting the proposed tariff revisions filed in this proceeding by July 19, 2016.

Respectfully submitted,

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Dated: June 27, 2016

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