

February 21, 2020

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. ER20-____-000;
Proposed Enhancements to the ICAP Demand Curve Annual Update
Procedures**

Dear Secretary Bose:

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 Section 5.14.1.2.2 of its Market Administration and Control Area Services Tariff (“Services Tariff”).² The NYISO proposes certain technical enhancements to the procedures for annually updating the ICAP Demand Curves in the years between the tariff-prescribed periodic reviews.

The NYISO Management Committee unanimously approved the proposed revisions on January 22, 2020. The NYISO respectfully requests that the proposed revisions become effective on April 22, 2020 (*i.e.*, the day following the end of the statutory 60-day notice period).

I. Documents Submitted

The NYISO respectfully submits the following documents with this filing letter:

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

II. Background

Section 5.14.1.2.2 of the Services Tariff requires that the NYISO conduct periodic

¹ 16 U.S.C. § 824d.

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

reviews of the parameters of the ICAP Demand Curves (commonly referred to as the “ICAP Demand Curve reset” or “DCR”). The Services Tariff specifies that the DCR must, among other factors, assess: (i) the current localized levelized embedded cost of a peaking plant³ underlying each ICAP Demand Curve (commonly referred to as the gross cost of new entry or “Gross CONE”); and (ii) the likely projected net Energy and Ancillary Services (“EAS”) revenues to be earned by each peaking plant from participation in the NYISO-administered markets.

As part of the last reset, the NYISO conducted a comprehensive review of the DCR and implemented revisions to the process. The changes included: (1) extending the period between resets to four years; (2) implementing annual updates between resets; and (3) revising the methodology for estimating potential net EAS revenues earned by the hypothetical peaking plants.⁴

The annual updates consist of the following: (1) adjusting the Gross CONE value of each peaking plant based on a composite escalation factor;⁵ (2) determining new net EAS revenue estimates for each peaking plant using updated cost and market price information;⁶ (3) determining updated winter-to-summer available capacity ratio values;⁷ and (4) determining the revised values of the ICAP Demand Curves utilizing the updated values described above.⁸ The Services Tariff requires that the NYISO post the results of annual updates to its website on or before November 30th of the calendar year prior to the commencement of the Capability Year for which the updated ICAP Demand Curves apply.⁹

The NYISO recently completed the final annual update for the current reset period – the first reset period to which the process enhancements have applied.¹⁰ Based on the experience gained from the execution of the annual updates over the course of the current reset period, the

³ The Services Tariff requires use of the costs and projected net EAS revenues for a “peaking plant” in determining the values of the ICAP Demand Curves. A “peaking unit” is defined as “the unit with technology that results in the lowest fixed costs and highest variable costs among all other units’ technology that are economically viable.” The Services Tariff defines a “peaking plant” to mean “the number of units (whether one or more) that constitute the scale identified in the periodic review.”

⁴ See 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); and *New York Independent System Operator, Inc.*, 156 FERC ¶ 61,039 (2016).

⁵ See Services Tariff § 5.14.1.2.2.1.

⁶ See Services Tariff § 5.14.1.2.2.2.

⁷ See Services Tariff § 5.14.1.2.2.3

⁸ *Id.*

⁹ See Services Tariff § 5.14.1.2.2. For example, in November 2019, the NYISO posted the updated ICAP Demand Curves that will apply for the upcoming 2020/2021 Capability Year.

¹⁰ References to the term “reset period” herein means the period of Capability Years for which ICAP Demand Curves resulting from methodologies and inputs established during each DCR are in effect. For example, the reset period associated with the DCR completed in 2016 encompasses the 2017/2018 through 2020/2021 Capability Years.

NYISO proposes certain enhancements to the procedures for the annual adjustment of Gross CONE values, as further described herein.

III. Description of the Proposed Enhancements and Tariff Revisions

The NYISO updates the Gross CONE value of the peaking plant for each ICAP Demand Curve using a single, statewide composite escalation factor.¹¹ The composite escalation factor measures changes over time in values for certain publicly available inflation indices that relate to the costs of building a new resource. The composite escalation factor consists of four components: (1) changes in construction material costs (“materials component”); (2) changes in turbine generator costs (“turbine component”); (3) changes in labor costs (“labor component”); and (4) changes in the general cost of goods and services (“general component”). The costs of the peaking plant for each ICAP Demand Curve are broken down into each of these cost categories and used to derive average statewide weighting factors that should be applied to each component.¹² The applicable weighting factors are determined as part of each DCR and remain fixed for the four-year period covered by each reset.¹³

The NYISO currently calculates the value of the composite escalation factor for a given annual update based on the most recent year-over-year percentage change in values published by the index for each component, multiplied by the applicable weighting factor for each component and summed across the resulting values for all four components. The year-over-year percentage changes are determined using finalized data published by the indices as of October 1st of the calendar year prior to the beginning of the Capability Year for which the updated ICAP Demand Curves will apply. The NYISO adjusts the Gross CONE value underlying each of the then-effective ICAP Demand Curves by applying the calculated composite escalation factor to each such value.

Based on the experience of executing the annual updates for the current reset period, certain stakeholders raised concerns that the current procedures for adjusting Gross CONE values could potentially produce sub-optimal outcomes under certain conditions. Such stakeholders contend that the current procedures for measuring changes in index values on a year-over-year basis can result in temporal discrepancies in the measurement of changes for particular annual updates if index values that are reutilized in a subsequent annual update are revised by the index publisher after their initial use.¹⁴ Such stakeholders also raised concerns

¹¹ See Services Tariff § 5.14.1.2.2.1.

¹² See, e.g., 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 (November 18, 2016) at 40-41; and *New York Independent System Operator, Inc.*, 158 FERC ¶ 61,028 (2017).

¹³ See Services Tariff §5.14.1.2.2.1.

¹⁴ Index publishers commonly have procedures that permit revisions to previously “finalized” values after initial finalization. Although not materially impacting the results of any calculations to date, the NYISO has identified certain instances where an index publisher has made minimal adjustments to certain data values from one year to the next.

that applying the calculated composite escalation factor to the then-currently effective Gross CONE values underlying each ICAP Demand Curve may call into question the appropriateness of fixing the weighting factors for each component of the composite escalation factor for the duration of the reset period. These stakeholders contend that if the rate of change among the four components significantly varies over the course of the reset period, it may be more appropriate to revise the weighting factors annually to reflect changes based on the updated Gross CONE values resulting from each annual update.

In response to stakeholder feedback, the NYISO proposes two, technical enhancements to the current procedures for adjusting Gross CONE values as part of the annual updates. The NYISO proposes to revise the methodology for calculating the composite escalation factor during each annual update. The NYISO also proposes to revise the manner of applying the composite escalation factor to derive adjusted Gross CONE values.

The NYISO proposes to revise the methodology for measuring changes in the indices for each component of the composite escalation factor. Rather than measuring the change in the applicable inflationary indices on a year-over-year basis, the NYISO proposes to measure such changes over the duration of the reset period that has been completed as of each annual update. As part of the DCR, the NYISO will establish a baseline from which changes in each index will be measured. This baseline period represents the time periods associated with the most recent finalized data available for each index as of October 1st of the calendar year in which the NYISO files the results of the DCR with the Commission. For each annual update, the NYISO will measure the changes in each index as the difference between the most recently available data and the data values associated with the baseline period. The values used will be based on the data published by each index as of October 1st of the calendar year prior to the commencement of the Capability Year for which the updated ICAP Demand Curves will apply. The use of a consistent baseline period to measure changes over time is intended to address the potential concerns that can arise under the current year-over-year calculation methodology.

The NYISO also proposes to revise the process for using the composite escalation factor to determine adjusted Gross CONE values. Rather than applying the composite escalation factor to the Gross CONE values underlying the then-effective ICAP Demand Curves, the NYISO will apply the composite escalation factor calculated during each annual update to the Gross CONE values underlying the ICAP Demand Curves for the first Capability Year covered by the reset period. The Gross CONE values underlying the ICAP Demand Curves for the first Capability Year of a reset period are used for determining the weighting factors assigned to each component of the composite escalation factor. Use of these values as a consistent baseline for determining adjusted values is intended to address the potential concerns related to the use of weighting factors that remain fixed for the duration of each reset period.

The NYISO proposes revisions to Section 5.14.1.2.2.1 of the Services Tariff to describe the new methodology used in the annual updates to: (1) calculate the composite escalation factor; and (2) adjust Gross CONE values by using the calculated composite escalation factor value. The proposed revisions identify the “baseline period” used for purposes of measuring changes in the applicable values of the indices associated with each component of the composite escalation

factor. The proposed revisions also provide that the NYISO will determine adjusted Gross CONE values for each annual update by applying the calculated composite escalation factor to the Gross CONE values underlying the ICAP Demand Curves for the first Capability Year covered by a reset period.

The NYISO also proposes clarifying revisions to Section 5.14.1.2.2.4.11 of the Services Tariff. The proposed revisions clarify that no changes are being proposed to the methodology for determining the inflation rate used for annual adjustments to Offer Floor values in connection with the buyer-side capacity market mitigation rules.¹⁵ This inflation rate will continue to be based on the most recent year-over-year percentage change in the values of the index for the general component of the composite escalation factor.

IV. Effective Date

The NYISO respectfully requests that the proposed tariff revisions become effective on April 22, 2020 (*i.e.*, the day following the end of statutory 60-day notice period).¹⁶

V. Requisite Stakeholder Approval

The NYISO Management Committee unanimously approved the proposal on January 22, 2020. The NYISO's Board of Directors approved the proposed revisions on February 11, 2020.

VI. Communications and Correspondence

Please direct all communications and service in this proceeding to:

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¹⁵ See Section 23.4.5.7 of Attachment H of the Services Tariff.

¹⁶ The NYISO has completed all annual updates for the current reset period. Accordingly, the revised methodology would first be utilized as part of the annual update to determine the ICAP Demand Curves for the 2022/2023 Capability Year.

VII. Service

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

VIII. Conclusion

The NYISO respectfully requests that the Commission accept the proposed revisions to the Services Tariff attached hereto with an effective date of April 22, 2020.

Respectfully submitted,

/s/ Garrett E. Bissell

Garrett E. Bissell

Senior Attorney

New York Independent System Operator, Inc.

cc: Anna Cochrane
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