New York ISO
Independent System Operator

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March 28, 2025

Submitted Electronically

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

Re: New York Independent System Operator, Inc.'s Compliance Filing; Docket Nos. RM22-2-000, ER25-___-000

Dear Secretary Reese:

The New York Independent System Operator, Inc. ("NYISO") respectfully submits this filing in compliance with the Federal Energy Regulatory Commission's ("Commission's") final rule on *Compensation for Reactive Power Within the Standard Power Factor Range* (referred to herein as "Order No. 904" or "the Order"), which was issued on October 17, 2024.[1] The NYISO proposes to revise its Market Administration and Control Area Services Tariff ("Services Tarff") to comply with the directives of the Order.[2] Consistent with the Commission's instructions, the proposed tariff revisions eliminate compensation to resources for the provision of reactive power within a standard power factor range of 0.95 lagging to 0.95 leading and eliminate charges to Transmission Customers, Customers, and Load Serving Entities ("LSEs") for the provision of reactive power within such standard power factor range.[3] The NYISO also addresses the implications of this change on its Installed Capacity ("ICAP") Demand Curves for the 2025-2029 reset period.[4]

The NYISO respectfully requests a May 1, 2026 effective date to implement the Services Tariff revisions proposed herein, as discussed in Section IV below. The NYISO reviewed the proposed revisions and the implementation timeline with its stakeholders prior to submitting this

[1] *Compensation for Reactive Power Within the Standard Power Factor Range*, Order No. 904, 89 Fed. Reg. 93410 (November 26, 2024), 189 FERC ¶ 61,034 (2024) ("Order No. 904").

[2] Capitalized terms that are not otherwise defined in this filing shall have the meaning specified in the Services Tariff.

[3] *See* OATT Section 6.2.2. The NYISO sums the projected payments for reactive power expected pursuant to Services Tariff Section 15.2.2 and requires Transmission Customers, Customers, and LSEs to pay the NYISO for the total payment for reactive power to suppliers.

[4] *See* Docket No. ER25-596-000, *New York Independent System Operator, Inc.*, 2025-2029 ICAP Demand Curve Reset Proposal (November 29, 2024) at pp. 51 and 68 ("2025-2029 DCR Filing"); and *New York Independent System Operator, Inc.*, 190 FERC ¶ 61,051 (2025) ("2025-2029 DCR Order").

filing.[5] The NYISO submits that with this compliance filing it fully complies with the requirements set forth in Order No. 904.

I. Overview

On October 17, 2024, the Commission issued Order No. 904 to require "revisions to Schedule 2 to prohibit the inclusion in transmission rates of charges associated with reactive power in the standard power factor range."[6] The implications of this directive fall into three categories for the NYISO. First, the NYISO must not charge Transmission Customers, Customers, and LSEs for reactive power support within the standard power factor range. Second, to facilitate not charging Transmission Customers, Customers, and LSEs for the provision of reactive power in the standard power factor range,[7] the NYISO must not compensate resources for the provision of reactive power in the standard power factor range. As explained further below, the *charges* for reactive power within the standard power factor range will automatically cease when the *payments* for reactive power within the standard power factor range end. Third, as acknowledged in the Order[8] and as discussed in NYISO's filing related to the ICAP Demand Curve reset proceeding for the 2025-2029 reset period,[9] the NYISO accounts for estimated reactive power payments under Rate Schedule 2 (Section 15.2) of the Services Tariff, also referred to as voltage support service ("VSS") payments, in determining the parameters for the ICAP Demand Curves. Therefore, eliminating compensation to resources for the provision of reactive power within the standard power factor range will naturally impact the ICAP Demand Curves.

A. Charges and Payments for Reactive Power

The NYISO's tariff provisions that govern reactive power, or VSS, charges and payments are split between the NYISO Open Access Transmission Tariff ("OATT") and the Services Tariff. OATT Rate Schedule 2 governs charges to Transmission Customers, Customers, and LSEs for reactive power support. The total amount to be charged is determined from the amount paid to suppliers of VSS pursuant to Services Tariff Rate Schedule 2. Rate Schedule 2 of the Services Tariff provides for an annual capacity payment per MVAr to resources in the New York

[5] *See*, NYISO, *FERC Order 904 Compliance Proposal* (presented at the February 25, 2025 joint meeting of the Installed Capacity Working Group and Market Issues Working Group), available at: https://www.nyiso.com/documents/20142/49964716/VSS%20Presentation_022525%20MIWG_final.pdf ("February 25 Presentation").

[6] Order No. 904 at P 60 ("the final rule requires revisions to Schedule 2 to prohibit the inclusion in transmission rates of charges associated with reactive power in the standard power factor range and, for consistency, also requires conforming revisions to the *pro forma* LGIA and *pro forma* SGIA to remove language related to the comparability standard.").

[7] *See* OATT Section 6.2.2.

[8] *See* Order No. 904 at P 142.

[9] *See* 2025-2029 DCR Filing at pp. 50-51 and 67-68. *See also*, 2025-2029 DCR Order.

Control Area that qualify for voltage support payment under the NYISO Tariffs and procedures.[10]

The NYISO's existing VSS program compensates qualified VSS Suppliers based on the sum of their demonstrated lagging MVAr capacity and the absolute value of the demonstrated leading MVAr capacity. In turn, the NYISO sums all projected payments to qualified VSS Suppliers and charges that amount to Transmission Customers, Customers, and LSEs on a per MWh basis.[11] As discussed in Section III below, the NYISO intends to eliminate compensation to suppliers for reactive power support within a 0.95 lagging to 0.95 leading standard power factor range consistent with the directives of Order No. 904.[12] With the elimination of this compensation to suppliers, the NYISO's tariff structure will automatically eliminate charges to Transmission Customers, Customers, and LSEs for reactive power support within this standard power factor range.

B. ICAP Demand Curves

Every four years, the NYISO and its stakeholders undertake a comprehensive review to determine the necessary inputs and assumptions for developing the ICAP Demand Curves for the four-year period covered by such periodic review.[13] The NYISO develops the 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.*, a "peaking unit" or "peaking plant").[14] This cost is offset by an estimate of the potential revenues the hypothetical resource could earn from participating in the NYISO-administered Energy and Ancillary Services ("EAS") markets.[15] The estimated net EAS revenues include an "adder" to reflect expected revenues for Ancillary Services not accounted for in the model. Consistent with the past two resets, this adder accounts for likely reactive power, or VSS, revenues.[16]

The 2025-2029 DCR Filing acknowledged that Order No. 904 was likely to impact the compensation assumed to determine the ICAP Demand Curves. However, the 2025-2029 DCR Filing had to be submitted to the Commission before the NYISO's Order No. 904 compliance plan was developed. Therefore, the 2025-2029 DCR Filing indicated that the NYISO would address the implications of any VSS compensation changes to the ICAP Demand Curves as part

[10] VSS Suppliers are also compensated under Services Tariff Rate Schedule 2 for lost opportunity costs incurred when they reduce their energy output in order to provide VSS.

[11] *See* OATT Section 6.2.2.1. The $/MWh adder is calculated based on total VSS payments, adjustments to reconcile the prior years estimated payments, and the annual forecasted transmission usage for the year.

[12] Order No. 904 at P 60.

[13] The Commission issued an order on January 28, 2025 accepting the NYISO's most recent ICAP Demand Curve reset filing. *See* 2025-2029 DCR Order.

[14] *See* 2025-2029 DCR Filing at pp. 2-3.

[15] The Services Tariff refers to the estimate of potential energy market revenue earnings for a peaking plant as the "net Energy and Ancillary Services revenue offset." *See* Services Tariff § 5.14.1.2.2.

[16] *See* 2025-2029 DCR Filing at pp. 50-51.

of its compliance plan in response to Order No. 904, *i.e.*, this compliance filing.[17] The NYISO also committed to address the timing to implement any required changes to the VSS adder and the resulting adjustment to the ICAP Demand Curves as part of its Order No. 904 compliance plan.[18]

For the 2025-2029 reset period, the Commission accepted the NYISO's proposal to determine the annual value of the VSS adder formulaically based on the compensation structure described in Rate Schedule 2 of the Services Tariff. As described in Section I.A, this compensation structure provides an annual payment for VSS equal to the tariff specified compensation rate multiplied by the sum of a supplier's lagging MVAr capability and the absolute value of the supplier's leading MVAr capability.[19] The value of the VSS adder is adjusted annually as part of the annual update process for the ICAP Demand Curves to account for the VSS compensation rate in effect at the time of each such annual update.[20]

Consistent with this compliance filing, the NYISO proposes to adjust the VSS adder used in determining the ICAP Demand Curves to reflect elimination of compensation for reactive power support within the 0.95 lagging to 0.95 leading standard power factor range.[21] This will require a reduction in the assumed MVAr capability eligible for compensation for the peaking plant technology used in establishing each of the ICAP Demand Curves for the 2025-2029 reset period. Consistent with the NYISO's proposed effective date, as described in Section IV, the NYISO proposes to reflect this change starting with the ICAP Demand Curves for the 2026-2027 Capability Year. Based on the NYISO's proposed effective date, no changes are required for the ICAP Demand Curves applicable for the 2025-2026 Capability Year.

Starting with the annual update to determine the ICAP Demand Curves for the 2026-2027 Capability Year, the VSS adder will be determined based on the tariff specified compensation

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[17] *See* 2025-2029 DCR Filing at pp. 51 and 68.

[18] *See* 2025-2029 DCR Filing at pp. 51 and 68, fn. 363.

[19] *See* NYISO Services Tariff Section 15.2.2. *See also*, 2025-2029 DCR Filing at pp. 50-51 and 67-68; and 2025-2029 DCR Order.

[20] The NYISO's ICAP Demand Curves are updated annually and cover a Capability Year, *i.e.* May 1 through April 30 or a Summer Capability Period followed by a Winter Capability Period. The NYISO is required to post the results of each annual update on 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. For example, the NYISO will post the updated ICAP Demand Curves for the 2026-2027 Capability Year on or before November 30, 2025.

[21] Eliminating reactive power compensation within the standard power factor range, *i.e.*, the NYISO's proposed approach, is expected to increase consumer costs in the capacity market by approximately $68 million annually. The increase in capacity market costs results from the reduction in the VSS adder component of the net EAS revenue offset. The reduction in the net EAS revenue offset produces a higher net cost of new entry value for establishing the ICAP Demand Curves. At the same time, the NYISO's proposed approach would reduce consumer costs in the VSS program by approximately $48 million annually. If the NYISO pursued an alternative compliance approach that discontinued all VSS payments, consumer costs in the capacity market would likely increase by approximately $130 million annually, while the annual reduction in VSS payments would amount to approximately $78 million.

rate in effect at the time of each annual update during the 2025-2029 reset period multiplied by the sum of the lagging and the absolute value of the leading MVAr capacity minus the sum of the lagging and the absolute value of the leading MVAr capacity within the 0.95 lagging to 0.95 leading standard power factor range. For the 2025-2029 reset period, the full MVAr capability of the peaking plant technology underlying each of the ICAP Demand Curves was determined to be 124 MVAr of lagging capability and -124 MVAr of leading capability.[22] The capability of such technology encompassed by the NYISO's proposed standard power factor range is 65.7 MVAr of lagging capability and -65.7 MVAr of leading capability.[23] To account for the elimination of compensation for reactive power support within the 0.95 lagging to 0.95 leading standard power factor range, starting with the 2026-2027 Capability Year, the VSS adder for the remainder of the 2025-2029 reset period will be determined based on a reduced compensable reactive support capability for the peaking plant technology underlying each of the ICAP Demand Curves of 58.3 MVAr of lagging capability and -58.3 MVAr of leading capability.[24]

II. Documents Submitted

The NYISO 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").

III. Compliance Revisions

Order No. 904 directed revisions to Rate Schedule 2, the *pro forma* LGIA, and the *pro forma* SGIA to accomplish the Order's requirement to eliminate compensation for reactive power supply within the standard power factor range. The NYISO proposes tariff revisions in Services Tariff Rate Schedule 2 (Section 15.2) to comply with Order No. 904. OATT Rate Schedule 2 does not require compliance revisions because it determines the amount to charge for reactive power from the amount paid to suppliers of reactive power pursuant to Services Tariff Rate Schedule 2. Thus, the proposed revisions to Services Tariff Schedule 2 to eliminate compensation to suppliers for reactive power support within a 0.95 lagging to 0.95 leading standard power factor range consistent with the directives of Order No. 904 will automatically eliminate charges for such service under OATT Rate Schedule 2.

The NYISO's Commission-accepted *pro forma* LGIA and *pro forma* SGIA similarly do not describe compensation for reactive power or a compensable reactive power range. Instead,

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[22] *See* 2025-2029 DCR Filing at p. 51.

[23] *See*, February 25 Presentation at 5-6.

[24] *See* February 25 Presentation at 7. Based on the 2025 VSS compensation rate that will be in effect at the time of the annual update to determine the ICAP Demand Curves for the 2026-2027 Capability Year (*i.e.*, $3,436.30 per MVAr-year), the resulting VSS adder value would be $2.00/kW-year.

both *pro forma* agreements provide that the NYISO will pay the supplier for reactive power or voltage support service in accordance with the provisions of Services Tariff Rate Schedule 2.[25] Similar to OATT Rate Schedule 2, the proposed revisions to Services Tariff Rate Schedule 2 will automatically flow through and adjust the reactive power compensation provided under the NYISO's *pro forma* LGIA and *pro forma* SGIA.

As described herein, the NYISO's OATT, *pro forma* LGIA, and *pro forma* SGIA deviate from the Commission's *pro forma* versions with a long history of independent entity variations. These Commission-accepted variations are specifically tailored to New York's unique circumstances, and the existence of previously accepted variations has prompted the NYISO to obtain additional independent entity variations in response to prior modifications to the *pro forma* OATT.[26] All of the NYISO's independent entity variations have been and continue to be necessary in order to make Commission revisions to the *pro forma* OATT consistent with NYISO's existing tariff and current practices.

Consistent with Commission precedent and the NYISO's existing variations, Order No. 904 provides that the Commission will apply the "consistent with or superior to" standard to deviations from the adopted pro forma Schedule 2 and the "independent entity variation standard" to deviations from the *pro forma* LGIA and *pro forma* SGIA in evaluating compliance filings made by RTOs/ISOs.[27] The NYISO's proposed revisions to Services Tariff Section 15.2 meet this standard by achieving the directive of Order No. 904, *i.e.*, to prohibit the inclusion in transmission rates of charges associated with reactive power in the standard power factor range, within the framework of the NYISO's existing VSS program, LGIAs, and SGIAs.

The NYISO proposes to revise Services Tariff Section 15.2.2.1 to eliminate compensation to VSS Suppliers for reactive power support within a standard power factor range of 0.95 lagging to 0.95 leading. The NYISO's proposed revisions define a compensable MVAr capacity consistent with the NYISO's existing VSS program and the requirements of Order No. 904. Compensable MVAr capacity shall equal the sum of the lagging and the absolute value of the leading MVAr capacity, as evidenced by tests conducted pursuant to ISO Procedures, minus the sum of the lagging and the absolute value of the leading MVAr capacity within the identified standard power factor range. For the reasons explained herein, the NYISO's proposed variations from the Commission's *pro forma* revisions are fully justified under the Commission's

[25] Section 9.5.3 of the *pro forma* LGIA states that "NYISO shall pay Developer for reactive power or voltage support service that Developer provides from the Large Generating Facility in accordance with the provisions of Rate Schedule 2 of the NYISO Services Tariff." Section 1.8.2 of the *pro forma* SGIA states that "NYISO is required to pay the Interconnection Customer for reactive power, or voltage support service, that the Interconnection Customer provides from the Small Generating Facility in accordance with Rate Schedule 2 of the NYISO Services Tariff."

[26] *See, e.g.*, *New York Indep. Sys. Operator, Inc*., Order on Tariff Revisions, 135 FERC ¶ 61,014 (2011); *New York Indep. Sys. Operator, Inc.*, Order Accepting and Rejecting Tariff Revisions, 124 FERC ¶ 61,238 (2008).

[27] *See* Order No. 904 at P 206.

independent entity variation standard and/or "consistent with or superior to" standard.

IV. Effective Date

In Order No. 904, the Commission directed an effective date within 90 days of the date of the compliance filing or, if warranted, the request for approval of a later effective date to accommodate interaction with other market rules.[28] The NYISO requests an effective date of May 1, 2026 to align the elimination of reactive power compensation within the within the 0.95 lagging to 0.95 leading standard power factor range with the beginning of a new Capability Year and a new set of ICAP Demand Curves.

As discussed above, the ICAP Demand Curves will need to be adjusted to reflect the change in VSS compensation proposed herein. The Commission recently approved the ICAP Demand Curves to apply for the upcoming 2025-2026 Capability Year and the NYISO and market participants are underway with activities leading up to the May 1, 2025 start date of the 2025-2026 Capability.[29] In fact, the NYISO has already commenced the 2025 Summer Capability Period Auction. Accordingly, seeking to adjust the ICAP Demand Curves at this time for the upcoming 2025-2026 Capability Year is unwarranted and would create unnecessary disruption and uncertainty in the marketplace. Such disruption and uncertainty could adversely impact efficient market operations, auction participation, and pricing outcomes of the upcoming capacity auctions and bilateral market activity related to the upcoming 2025 Summer Capability Period. To avoid such adverse impacts, the NYISO proposes to implement the changes to its VSS program for the 2026-2027 Capability Year (*i.e.*, May 1, 2026 through April 30, 2027).

As described in Section I.B, the NYISO conducts annual updates to produce the ICAP Demand Curves for the second through fourth years encompassed by each reset period. The NYISO is required to post the results of each annual update on 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. Accordingly, the NYISO must post the updated ICAP Demand Curves that will apply for the 2026-2027 Capability Year on or before November 30, 2025. In order to facilitate the NYISO's requested May 1, 2026 effective date, the NYISO requests Commission action on this compliance filing on or before October 31, 2025 such that the elimination of reactive power compensation within the identified standard power factor range can be timely reflected in the annual update to produce the ICAP Demand Curves for the 2026-2027 Capability Year.[30]

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[28] *See* Order No. 904 at P 224 ("in recognition of the concerns raised by commenters with respect to the interplay between existing reactive power revenue compensation mechanisms and energy and capacity market rules in ISO-NE, NYISO, and PJM, we will permit those RTOs/ISOs to each request a later effective date, for the Commission's consideration, in order to allow them to develop and propose any changes to their market rules that may be necessary in order to accommodate this final rule's elimination of compensation for the provision of reactive power within the standard power factor range.").

[29] *See* 2025-2029 DCR Filing at pp. 70-71.

[30] Absent Commission action in response to this compliance filing by October 31, 2025, the NYISO would likely need to request a deferred effective date until May 1, 2027, *i.e.*, the first day of the 2027-2028 Capability Year.

V. Service

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

VI. Communications

Please direct all communications and correspondence concerning this filing to:

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VII. Conclusion

The NYISO respectfully requests that the Commission accept this compliance filing, without modification, to become effective on May 1, 2026 as described in Section IV above.

Respectfully submitted,

/s/ James H. Sweeney
James H. Sweeney, Senior Attorney
New York Independent System Operator, Inc.

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