UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

New York Independent System Operator, Inc.	**)**	**Docket No. ER25-1812-000**

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" or "FERC"),[1] the New York Independent System Operator, Inc. ("NYISO") hereby submits this Request for Leave to Answer and Answer in response to the Intervention and Protest of the New York State Department of State Utility Intervention Unit ("UIU")[2] regarding the NYISO's Order No. 904 Compliance Filing submitted on March 28, 2025, in this proceeding ("Order No. 904 Compliance Filing").[3]

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.[4] The Commission, however, has discretion to waive such prohibition.[5] The Commission has previously determined that a waiver is appropriate in circumstances where an otherwise prohibited answer: (1) will lead to a more complete and accurate record; (2) helps the Commission better understand the issues; (3) clarifies matters in

[1] 18 C.F.R. §§ 385.212 and 385.213. Capitalized terms not otherwise defined herein shall have the meaning specified in the Market Administration and Control Area Services Tariff ("Services Tariff").

[2] Docket No. ER25-1812-000, Intervention and Protest of the Utility Intervention Unit (April 18, 2025).

[3] Docket No. ER25-1812-000, New York Independent System Operator, Inc., Compliance Filing (March 28, 2025).

[4] 18 C.F.R § 385.213(a)(2).

[5] *Id.*

dispute or errors; or (4) provides information that will assist the Commission in rendering a decision.[6]

This answer clarifies matters in dispute, provides information that will assist the Commission, and assists in the development of a complete record in this proceeding. Accordingly, the Commission should accept and consider this answer.

II. ANSWER

A. THE NYISO's ICAP Demand Curves Consider Voltage Support Service Revenues Consistent with FERC-Accepted Rules

The UIU appears to misrepresent or not fully articulate the interaction of the NYISO's Order No. 904 Compliance Filing and the NYISO's Installed Capacity ("ICAP") Demand Curves, including the net cost of new entry ("CONE") calculation. 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.*, a "peaking unit" or "peaking plant"). 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, including participation in the NYISO's voltage support service ("VSS") program.[7]

[6] *See, e.g.*, *New York Independent System Operator, Inc.*, 158 FERC ¶ 61,028 (2017) (accepting answers to protests that provided information that assisted the Commission's decision making process); *New York Independent System Operator, Inc.*, 134 FERC ¶ 61,058 (2011) (accepting answers to protests because they provided information that aided the Commission in better understanding the matters at issue in the proceeding); *New York Independent System Operator, Inc.*, 99 FERC ¶ 61,246 (2002) (accepting answers to protests that help clarify issues and did not disrupt the proceeding); *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); *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.*; 175 FERC ¶ 61,012 (2021) (accepting answers because they provided information that assisted the Commission's decision making process).

[7] The NYISO's VSS program is the NYISO-specific Ancillary Service program for reactive power. The NYISO's ICAP Demand Curves have explicitly considered VSS compensation as a component of EAS revenue offset since at least 2008. *See, e.g.*, Docket No. ER08-283-000, *New York Independent System Operator, Inc.*, Tariff

The NYISO's Order No. 904 Compliance Filing does not propose any modifications to the estimated cost to construct and operate a hypothetical new capacity supply resource or to the FERC-accepted approach to calculate the estimated net EAS revenues for the 2025-2029 reset period.[8] The hypothetical new capacity supply resource has the equipment necessary to provide reactive power, which is required to facilitate interconnecting the generator to the electric grid.[9] Therefore, the cost to construct and operate the resource already includes the costs for the equipment to provide reactive power. The estimated cost to construct the resource and to have the capability to provide reactive power does not vary based on the VSS revenues received (or not received) through the NYISO's VSS program. Modification of the NYISO's VSS program compensation is the only open issue in the NYISO's Order No. 904 Compliance Filing.

The NYISO's Order No. 904 Compliance Filing, by necessity, impacts the estimated net EAS revenue offset associated with each ICAP Demand Curve, as described in the NYISO's Order No. 904 Compliance Filing and in the NYISO's 2025-2029 ICAP Demand Curve reset proposal.[10] The Commission issued Order No. 904 while the NYISO was engaged in its quadrennial ICAP Demand Curve review process, commonly referred to as the "ICAP Demand

Revisions to Implement Revised ICAP Demand Curves for Capability Years 2008/2009, 2009/2010, 2010/2011 at 16 (November 30, 2007); and *New York Independent System Operator, Inc.*, 122 FERC ¶ 61,064 at P 43 (2008).

[8] References to "reset period" identify the Capability Years for which ICAP Demand Curves resulting from the methodologies and inputs established during each four-year ICAP Demand Curve reset apply. The 2025-2029 reset period encompasses the 2025-2026 through 2028-2029 Capability Years. The quadrennial review for this period is referred to as the 2025-2029 ICAP Demand Curve reset.

[9] Section 5.14.1.2.2 of the Services Tariff mandates that each DCR "assess: (i) the current localized levelized embedded cost of a peaking plant is each NYCA Locality, the Rest of State, and any New Capacity Zone, to meet minimum requirements …." Because the capability to provide reactive power is required to interconnect a new supply resource to the grid, the cost of equipment to provide such capability must be accounted for in the estimated cost of the hypothetical resource used to establish each ICAP Demand Curve. *See, e.g.*, *New York Independent System Operator, Inc.*, 134 FERC ¶ 61,058 at P 53 and 56-57 (2011).

[10] *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").

Curve reset" or "DCR." Therefore, the NYISO expressly noted the implications of Order No. 904 on the net EAS revenue offset values for the 2025-2029 DCR proposal, which was accepted by the Commission.[11] The net EAS revenue offset values for each ICAP Demand Curve, as determined by a Commission-approved modeling construct, are adjusted by an adder to reflect expected VSS revenues because such VSS revenues are not captured by the otherwise applicable modeling.[12] As required by the FERC-accepted ICAP Demand Curves, a VSS adder is formulaically determined based on the compensation structure in Rate Schedule 2 of the Services Tariff. The value of the VSS adder will be adjusted annually as part of the annual updates for the 2025-2029 reset cycle to account for the VSS compensation rate in effect at the time of each such annual update.

Under the FERC-accepted ICAP Demand Curve construct, if VSS revenues decrease pursuant to Order No. 904 or any other reason, all else equal, ICAP spot market clearing prices will increase. This result is a function of reducing the net EAS revenue offset to the estimated cost to construct and operate the hypothetical resource used to set each ICAP Demand Curve. The NYISO informed the Commission that spot market capacity prices would increase if reactive power compensation was reduced or eliminated in its comments on the Notice of Proposed Rulemaking that preceded Order No. 904:

[11] *Id.* The NYISO's DCR filing acknowledged that Order No. 904 directs certain changes to the compensation for reactive power. Thus, the required compliance plan in response to Order No. 904 was likely to impact the assumed VSS compensation. However, the timing and structure of the NYISO's compliance plan was unknown at the time the 2025-2029 DCR was completed. NYISO's 2025-2029 DCR proposal noted that the NYISO would address the following as part of its Order No. 904 compliance plan: (1) the implication of any changes to its VSS program and related compensation on the VSS adder; and (2) the timing to implement any required changes to the VSS adder, as well as any resulting adjustment to the ICAP Demand Curves.

[12] The NYISO's ICAP Demand Curves have explicitly accounted for VSS revenue since at least 2008. 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. This compensation structure provides an annual payment for VSS equal to the tariff specified compensation rate multiplied by the sum of a supplier's compensable lagging reactive power capability ("MVAr") and the absolute value of the supplier's compensable leading MVAr capability.

> If reactive power compensation is reduced, the lower compensation would likely increase the magnitude of offers into the NYISO Capacity Markets as the lost reactive power revenues would need to be accounted for in the Reference Price. This shift would result in eliminating the price signals and incentives for the reactive power necessary to maintain system reliability, and, instead blending those costs and payments into payments made to all capacity suppliers, without a direct link to provision of the reactive power necessary to support a reliable electric system.[13]

The NYISO's Order No. 904 Compliance Filing balances eliminating reactive power compensation within the standard power factor range, as directed by the Commission, and the overall VSS and ICAP costs to consumers. The NYISO's proposed approach is expected to increase consumer costs in the capacity market by approximately $68 million annually, due to the reduced VSS adder in the net EAS revenue offset.[14] At the same time, the NYISO's proposed approach would reduce consumer costs in the VSS program by approximately $48 million annually. If, however, 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.

To the extent that the UIU objects to the inclusion of the VSS compensation adder as part of the net EAS revenue estimates in determining the ICAP Demand Curves, this argument is an impermissible collateral attack and/or untimely rehearing request of the Commission's Order accepting the NYISO's 2025-2025 DCR proposal.[15] As discussed above, the NYISO's 2025-2029 DCR proposal filing included a detailed description of how the VSS compensation adder

[13] *See* Docket No. RM22-2-000, *New York Independent System Operator, Inc.*, Notice of Proposed Rulemaking Comments of the New York Independent System Operator, Inc. (May 28, 2024) at p. 9.

[14] The reduction in the net EAS revenue offset produces a higher net cost of new entry value for establishing the ICAP Demand Curves.

[15] *New York Independent System Operator, Inc.*, 190 FERC ¶ 61,051 (2025).

interacts with the ICAP Demand Curves and the Commission fully accepted such structure for the 2025-2029 reset period.[16] The Commission has long held that "it is contrary to sound administrative practice and a waste of resources to relitigate issues in succeeding cases once those issues have been finally determined."[17] No party, including UIU, sought rehearing of any aspect of the Commission's Order accepting the results of the 2025-2029 DCR. Accordingly, the Commission should reject any attempted re-litigation of the accepted results of the 2025-2029 DCR through this proceeding.

B. THE NYISO's Compensation Structure for Reactive Power Support Outside the Standard Power Factor Range Remains Just and Reasonable

Order No. 904 clearly requires ISOs/RTOs to modify their rules to prohibit transmission charges and payments for the provision of reactive power within the standard power factor range. Consistent with this directive, the NYISO's Order No. 904 Compliance Filing eliminates compensation for reactive power within a resource's standard power factor range and, at the same time, eliminates all transmission charges to consumers associated with reactive power support within the standard power factor range.[18]

Order No. 904 addresses only the justness and reasonableness of transmission rates chargeable to transmission customers under Schedule 2 for reactive power ***within*** the standard

[16] *See* 2025-2029 DCR Filing at pp. 51 and 68; and 2025-2029 DCR Order.

[17] Alamito Co., 41 FERC ¶ 61,312, at 61,829 (1987)*, order on reh'g,* 43 FERC ¶ 61,274 (1988) (citing Cent. Kan. Power Co., 5 FERC ¶ 61,291, at 61,621 (1978)); see also Pac. Gas & Elec. Co., 121 FERC ¶ 61,065, at PP 42-43 (2007) (explaining that the preclusive effect of collateral estoppel ends when a party presents new evidence, and finding in that case that there was no new evidence or significantly changed circumstances that would warrant re-litigation of the decided issue). *See also*, Entergy Nuclear Operations, Inc. v. Consolidated Edison of N.Y., Inc., 112 FERC ¶ 61,117, at PP 12, 45 (2005) (finding that arguments raised were a collateral attack on prior Commission orders where the same positions were raised, addressed, and rejected by the Commission).

[18] *See* Order No. 904 Compliance Filing at p. 2. *See also Compensation for Reactive Power Within the Standard Power Factor Range,* Order No. 904, 89 Fed. Reg. 93410 (November 26, 2024), 189 FERC ¶ 61,034 at P 60 (2024) ("Order No. 904") ("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.").

power factor range.[19] Notably, Order No. 904 also denied NYISO's request "for flexibility to include in transmission rates charges associated with the provision of reactive power ***within*** the standard power factor range."[20]

The requirements described in Order No. 904 and the explanation of the requirements, including the specific reference to the NYISO cited above, do not require ISOs/RTOs to remove existing reactive power compensation programs that target reactive power compensation outside the standard power factor range. Compensation for reactive power outside the standard power factor range was beyond the scope of Order No. 904. Therefore, Order No. 904 permits the NYISO's current, Commission-accepted VSS compensation rules to remain in place for reactive power outside the standard power factor range.[21] UIU's objection to the currently approved compensation structure for reactive power outside the standard power factor range is beyond the scope of this proceeding and should be rejected.

[19] *See* Order No. 904 at P 61 (emphasis added).

[20] *See* Order No. 904 at P 55 (emphasis added).

[21] Any substantive change to the NYISO's VSS compensation program as it relates to reactive power support outside the standard power factor range would have to be submitted to the Commission under Section 205 of the Federal Power Act including vetting and approval through the NYISO's stakeholder shared governance process.

III. CONCLUSION

The NYISO respectfully submits these comments for the Commission's consideration.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding in accordance with the requirements of Rule 2010 of the Rules of Practice and Procedure, 18 C.F.R. §385.2010.

Dated at Rensselaer, NY this 7th day of May 2025.

/s/ Alexander Morse

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