



Escalation Factor and Inflation Rate in Buyer-Side Mitigation Rules: Review and Proposals

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Agenda

- **Background**
 - *Current process*
 - *Stakeholder feedback from previous presentations*
 - *Today's objective*
- **Proposal overview**
- **Next steps**

Current Process

- The buyer-side capacity market mitigation tariff provisions (“BSM Rules”) specify that the NYISO is to use the escalation factor and inflation rate component of the escalation factor from the currently effective ICAP Demand Curves
 - *Previously, inflation and escalation were longer term outlooks established in the Demand Curve reset and remained constant throughout the period of the Demand Curves*
 - *Now, inflation and escalation will be updated annually as per the newly accepted Demand Curve annual update rules**

**The Demand Curve annual update tariff provisions will be implemented for the first time in November 2017*

Overview of Presentations during 10/7/2016 and 1/27/17 ICAPWG

- The NYISO proposed several alternatives to current BSM rules for how to apply escalation and inflation in order to solicit input from stakeholders. Input received included the following:
 - *Inflation adjustments should be applied consistently to all parts of the BSM tests*
 - *Historical data used in Demand Curve escalation factor calculation may not represent the long-term trend*
 - *Historic measures of inflation should not be used to forecast inflation - forecasted inflation is the better measure and should be used*

Objective

- **Proposal Overview**
 - *Discuss NYISO's revised proposal on how to apply inflation adjustments in BSM determinations*
 - *Discuss NYISO's proposal on how to make adjustments to non-exempt facilities' Offer Floors at the time of and after entry*
- **Next Steps**
 - *Tariff language*

BSM Processes That Use the Escalation Factor and Inflation Rate

- **Examined Facility Unit Net CONE – MST Att. H 23.4.5.7.2 and 23.4.5.7.6**
 - *As part of the Part B test, current provisions specify that the NYISO is to use the most recent Demand Curve “inflation rate” to identify Unit Net CONE for a Mitigation Study Period (“MSP”)*
- **ICAP Spot Market Auction clearing price forecast – MST Att. H 23.4.5.7.2**
 - *As part of the ICAP forecast, current provisions specify the NYISO is to use the most recent Demand Curve “escalation factor” to project ICAP Spot Market Auction clearing prices for a MSP*
- **The NYISO had not initially proposed a change to this provision, but is now doing so in response to stakeholder input**

NYISO's Proposal for Inflation in BSM Determinations

Use the most recently published long-run projections for inflation from the Survey of Professional Forecasters (or if no longer available, a similar suitable source) to identify:

- Examined Facility Unit Net CONE projected for a MSP, and
- The price on the ICAP Demand Curve projected for a MSP
 - *Provides consistency between BSM tests (i.e., same value used to inflate Unit Net CONE and Demand Curve peaking plant Gross CONE)*
 - *Removes more volatile and harder to predict cost data (i.e., turbine, materials, labor) used in Demand Curve escalation factor*
 - *Provides a transparent and reasonable forecast for future inflation expectations*
 - *Requires tariff change*

Current Provisions for Adjustments to Offer Floors

- Adjusting new entrant Offer Floor to year of entry dollars – *MST Att. H 23.4.5.7.3.7*
 - *Non-exempt facilities that enter into service prior to, or after, the first Capability Year of the Mitigation Study Period have Offer Floors adjusted to the year of entry: “inflation rate”*
- Annually adjusting existing Offer Floor levels – *MST Att. H 23.4.5.7*
 - *Offer Floors shall be inflated annually: “inflation rate”*

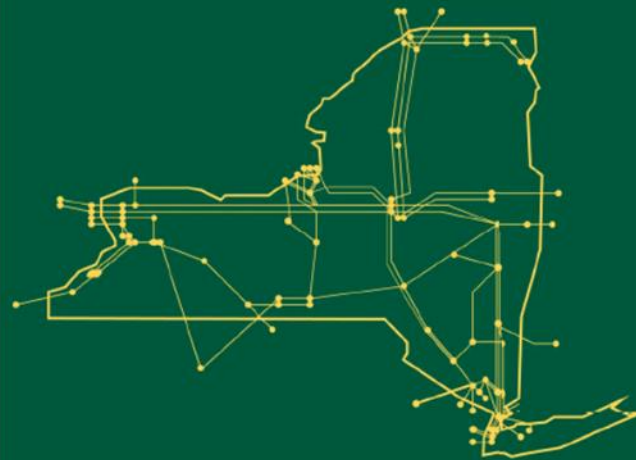
NYISO's Proposal for Adjusting Offer Floors

- **Maintain previous proposal and existing provisions for adjusting Offer Floors (*i.e.*, make adjustments using most recently published Demand Curve inflation rate)**
 - ***Maintains assumed general inflation rate from effective Demand Curve escalation factor***
 - ***Provides consistency to the Demand Curve annual updates***
 - ***No tariff change required***

Next Steps

- The NYISO will consider input received during today's ICAPWG meeting
- Tariff language
- Stakeholders may also provide additional comments in writing to deckels@nyiso.com by March 24, 2017

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