

2021-2025 ICAP Demand Curve Reset: NYISO Staff Draft Recommendations

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Agenda

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- NYISO Staff Draft Recommendations
- Ongoing Evaluations
- Remaining Schedule

Background

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- **Every four years, the NYISO initiates a process, referred to as the ICAP Demand Curve reset (DCR), to review the parameters, methodologies and assumptions that determine the ICAP Demand Curves for the years covered by the reset**
 - This process results in the adoption of new demand curves that are used to determine the ICAP Spot Market Auction clearing prices in each Locality and the NYCA
- **Consistent with tariff requirements, an independent consultant performs a study on the parameters, methodologies and assumptions used in setting the ICAP Demand Curves and delivers a report with recommendations to set new curves for the period covered by the reset**
 - Analysis Group (AG), together with its subcontracted engineering consulting firm Burns & McDonnell (Burns), were selected to serve as the independent consultant (Consultant) for this reset

Background

- **After reviewing the Consultant's recommendations, the NYISO staff issues its own recommendations to stakeholders and the NYISO Board of Directors (BOD)**
 - The BOD then reviews both recommendations, along with written and oral comments from stakeholders, before determining the final parameters to file with FERC
- **Today we will be discussing the NYISO Staff's Draft Recommendations**
 - A report containing the NYISO Staff's Draft Recommendations is posted with today's meeting materials
 - Stakeholders are asked to provide written comments on this report to the NYISO by August 24, 2020
 - After consideration of stakeholder feedback, the NYISO will then issue Final Recommendations in September 2020

NYISO Staff Draft Recommendations

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- In general, the NYISO concurs with all of the Consultant's recommendations
- The NYISO is continuing to evaluate certain recommendations, such as:
 - Maximum clearing price calculation
 - Level of Excess Adjustment Factors (LOE-AFs)

Ongoing Evaluations

Maximum Clearing Price Calculation

- **The ICAP Demand Curves are developed using the relevant reference point price value, maximum price value, and point at which the value of marginal capacity declines to zero (zero crossing point) for each Locality and the NYCA**
 - The tariff defines the parameters of each ICAP Demand Curve as follows:
 - “The defined points describe a line segment with a negative slope that will result in higher values for percentages less than 100% of the NYCA Minimum Installed Capacity Requirement or the Locational Installed Capacity Requirement (“reference point”) with the maximum value for each ICAP Demand Curve established at 1.5 times the estimated localized levelized cost per kW-month to develop a new peaking unit in each Locality or in Rest of State, as applicable.”

Maximum Clearing Price Calculation

- **The determinations of both the reference point price and the maximum clearing price involve the translation of annual values into monthly values**
- **There is currently a difference in the methodologies for translating these parameters into monthly values**
 - The translation of the annual reference value (“ARV” which is commonly referred to as the “net cost of new entry [CONE]”) to the monthly reference point value includes the use of a translation factor, which accounts for the tariff prescribed level of excess conditions and seasonal differences in capacity availability
 - This translation factor is currently not applied when determining the monthly value of gross CONE
- **The NYISO has identified the potential for the difference in methodologies to produce results under certain conditions where the reference point price could exceed the maximum clearing price value**
 - The potential for such an outcome is greater for smaller regions/Localities such as Long Island
- **To avoid the potential for such an outcome, the NYISO is considering whether to better align the methodology for each parameter by applying a translation factor as part of determining the monthly value for gross CONE used to determine the maximum clearing price values**

Level of Excess Adjustment Factors

- **The NYISO agrees with AG’s recommendation to use the LOE-AFs discussed in their July 22, 2020 ICAPWG presentation**
 - The LOE-AFs currently used the net EAS model reflect updated information for both supply and demand
 - However, proposed retirements identified in compliance plans for the DEC’s “peaker rule” (Peaker Rule) were not included in the modeling to determine these adjustment factors
 - Treatment of deactivating units varies in the RNA, CARIS, and Installed Reserve Margin (IRM) study
 - The RNA includes all potential retirements meeting the inclusion requirements in order to identify if there is a reliability issue as a result of plants leaving the market
 - CARIS will then use the results of the RNA study to identify “compensatory megawatts” of generic capacity that are to be added to the system to ensure that any reliability needs identified in the RNA are resolved in the CARIS base case
 - The IRM study will not include unit retirements that have the potential to cause an unreliable system, as it is likely those units would not be allowed to leave the market in the short term
 - Treatment used in the current LOE-AF study is closest to the IRM study

Level of Excess Adjustment Factors

- Over the course of the upcoming reset period, only four months of market prices capturing resource impacts related to the 2023 requirements of the Peaker Rule would be used in the net EAS model. This would occur as part of the annual update for the 2024-2025 Capability Year ICAP Demand Curves (i.e., the final annual update to occur during the reset period)
 - The historic data period for the 2024-2025 Capability Year ICAP Demand Curves is September 1, 2020 – August 31, 2023
 - The NYISO believes that developing LOE-AFs accounting for potential Peaker Rule retirements to apply to all years covered by the DCR (2021-2022 Capability Year through the 2024-2025 Capability Year) does not fairly reflect the expected system that will be reflected in the historic data periods used for determining net EAS revenue offset estimates for this period

Remaining DCR Schedule

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- **Written feedback on the NYISO Staff Draft Recommendations may be submitted by August 24, 2020**
 - Please send in written comments to rpatterson@nyiso.com
 - Written comments received will be posted on the NYISO's website
- **The NYISO Staff is currently scheduled to release its Final recommendations on September 9, 2020**
 - This release will include the proposed ICAP Demand Curves to be used for the 2021-2022 Capability Year
 - Including updates to preliminary results to reflect the required three year historic period that runs through August 31, 2020
 - Analysis Group will also release an updated version of its final report reflecting the final results
- **Stakeholders will have until October 9, 2020 to provide written comments to the BOD**
 - Presentations and oral arguments to the BOD are scheduled to occur on October 19, 2020
- **The NYISO will file with FERC the DCR outcomes as approved by the BOD on or before November 30, 2020**

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- Operating open, fair and competitive wholesale electricity markets
- Planning the power system for the future
- Providing factual information to policymakers, stakeholders and investors in the power system

