

Notice of Potential Market Problem: Discussion on Demand Curve Reset Net Energy Ancillary Service (Net EAS) Model Gas Pricing Logic

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September 22, 2020

WebEx

Agenda

- Discussion
- Status of Assessment
- Upcoming Capacity Market Auctions
- Next Steps

Discussion

- 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 the reset. This process is commonly referred to as the ICAP Demand Curve reset (DCR).
- The ICAP Demand Curves are developed based on the estimated cost to construct and operate a hypothetical new capacity supply resource in various locations throughout New York. This cost is then offset by an estimate of the potential revenues the hypothetical resource could earn from participating in the NYISO-administered energy and ancillary services markets. The resulting net value determines the revenue the hypothetical resource would need to receive from the capacity market to obtain sufficient revenues to support market entry.
- The estimated energy market revenue earnings are determined using a historic commitment and dispatch model that is developed as part of the DCR and incorporated as part of the NYISO's filing to FERC seeking acceptance of the result of the DCR. The model utilizes the most recent three years of historic market and cost data to estimate the potential revenues earnings for a hypothetical new resource. This model is commonly referred to as the Net EAS Model.

Discussion

- **The NYISO is currently engaged in the DCR that will establish ICAP Demand Curves for the 2021-2025 reset period (May 1, 2021 through April 30, 2025).**
 - As part of this ongoing reset, stakeholders raised concerns about the gas pricing alignment logic in the Net EAS Model to be used for the 2021-2025 reset period.
 - The issue relates to specific logic in the Net EAS Model for assigning gas prices to electric operating days. This logic was based on an understanding that the date assigned to gas price data published the data vendor for such pricing (S&P) represents the “trade day” (or the day before the generator would take delivery of and use the gas to produce electricity). To align the published gas price with the day on which the gas would be used by the hypothetical resource, the model shifted the gas prices forward by one day.
 - Further review of this logic, including discussions with S&P, confirmed that the date S&P assigns to a published gas price represents the “flow day” price (or the day the generator would take delivery of and use the gas to produce electricity). Therefore, shifting the published gas price forward one day is not needed to align the gas price date with the date such gas would be used by a generator to produce electricity.
 - The NYISO recommends removing this logic from the Net EAS Model to be used for the upcoming 2021-2025 reset period, as reflected in the NYISO Staff Final DCR Recommendations report posted on September 9, 2020.

Discussion

- **The logic of the 2017-2021 DCR Net EAS Model includes this same gas price alignment logic and produces the same pricing misalignment that the NYISO has proposed to eliminate from the Net EAS Model for the 2021-2025 DCR.**
- **The NYISO has identified a potential Market Problem associated with this discrete aspect of the Net EAS Model for the 2017-2021 DCR. The 2017-2021 DCR includes the ICAP Demand Curves for the 2017/2018 through 2020/2021 Capability Years (May 1, 2017 through April 30, 2021).**
- **Market Services Tariff section 3.5.1 describes the actions required if a potential market problem is discovered.**
 - The NYISO has discussed this issue with its Market Monitoring Unit (MMU) [Potomac Economics] and the Commission's Office of Enforcement.
 - The NYISO issued a notice to stakeholders on September 18, 2020 to identify this potential Market Problem.
 - The NYISO is here to today to initiate discussions with stakeholders on the topic and collect feedback.

Status of Assessment

- **The NYISO is continuing to evaluate whether the gas price alignment issue constitutes a tariff violation or meets the criteria for designation as an actual Market Problem**
- **The NYISO is evaluating whether additional remedial action or modifications may be appropriate for the remainder of the 2017-2021 DCR period, the nature of such remedial action, if any, and the steps that would need to be taken to effectuate any such remedial action**
 - Efforts have begun to calculate reference prices reflecting revised energy and ancillary services revenue estimates that would result from removing the current pricing alignment logic in the 2017-2021 DCR Net EAS Model
 - As previously discussed, the NYISO has already proposed to correct this matter going forward for the 2021-2025 DCR
- **The NYISO welcomes stakeholder feedback today. Additional feedback can be provided via email to Robb Pike at rpik@nyiso.com**

Upcoming Capacity Market Auctions

- **October 2020 Spot Market Auction**
 - Mandatory auction that utilizes the ICAP Demand Curves
 - Offer window closes 9/25
 - Auction results post 9/29
- **Winter 2020/2021 Strip Auction**
 - Six-month, voluntary two-sided auction
 - Bid/Offer window closes 9/30
 - Auction results post 10/2
- **NYISO plans to proceed with conducting both auctions as scheduled**

Upcoming Capacity Market Auctions (2)

- **November 2020 Monthly Market Auction**
 - Six monthly, two-sided voluntary auctions
 - Bid/Offer window closes 10/12
 - Auction results post 10/14
- **November 2020 Spot Auction**
 - Mandatory auction utilizing ICAP Demand Curves
 - Offer window closes 10/27
 - Auction results post 10/29
- **NYISO will provide further information on these auctions expectations in subsequent discussions.**

Next Steps

- **Continue tariff compliance and Market Problem assessments**
- **Continue efforts to calculate reference prices reflecting revised energy and ancillary services revenue estimates that would result from removing the current pricing alignment logic in the 2017-2021 DCR Net EAS Model**
- **Continue to discuss this issue and report on status of ongoing assessments at future ICAPWG meetings**
 - The NYISO currently anticipates further discussions at the 10/2 ICAPWG meeting

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- Maintaining and enhancing regional reliability
- 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



Appendix

Normal Timeline for Demand Curve Reference Price Calculations

- Every four years, perform the DCR to calculate reference prices and establish ICAP Demand Curves for NYCA and each Locality for the first year of the four-year reset period and establish set of rules and practices for performing the annual updates to determine the reference prices and ICAP Demand Curves for years 2 through 4 of the reset period
- Each November, complete annual update and establish reference prices and ICAP Demand Curves for NYCA and each Locality for upcoming Capacity Year (May – April)
 - The various steps to conduct the annual update are undertaken over the course of September-November
- Each December, the NYSRC approves the Installed Reserve Margin (IRM) and NYISO establishes the Peak Load Forecast for upcoming Capacity Year (May – April)
- Each January, the Operating Committee approves the Locational Minimum Installed Capacity Requirements (LCRs) for each Locality for upcoming Capacity Year (May – April)