

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

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WebEx

# Agenda

- **Background**
- **Tariff Compliance Evaluation**
- **Status of Assessment**
- **Upcoming Capacity Market Auction**
- **Next Steps**

# Background

- 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 under the system conditions specified for use in the DCR
- 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

# Background

- **As part of the ongoing 2021-2025 DCR, certain stakeholders raised concerns about the gas pricing alignment logic contained in the Net EAS Model for the 2021-2025 period**
  - Specifically, the model included logic that shifts forward by one day the gas price published for a specific date by S&P. This logic was based on an understanding that the gas prices published by S&P represented the “trade day” price (or the day before the generator would take delivery of and use the gas to produce electricity)
  - The NYISO has since confirmed that the data published by S&P represents the “flow day” price (or the day the generator would take delivery of and use the gas to produce electricity)
  - As part of the NYISO Staff Final Recommendations issued September 9, 2020, the NYISO has proposed to remove this pricing alignment logic from the Net EAS Model for the 2021-2025 period
- **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, 2020)**
  - The NYISO has discussed this issue with the Market Monitoring Unit (MMU) and the FERC Office of Enforcement
  - The NYISO issued a notice to stakeholders on September 18, 2020 identifying this issue as a potential Market Problem
  - The NYISO initiated discussions with stakeholders on this matter at the September 22, 2020 ICAPWG/MIWG meeting

# Tariff Compliance Evaluation

# Relevant Tariff Requirements

- **MST Section 5.14.1.2.2**
- **MST Section 5.14.1.2.2.2**
- **MST Section 5.14.1.2.2.4**

# Status of Assessment

# Reference Point Price Re-Calculation

- **The NYISO is in the process of developing and validating revised reference point prices**
  - The process involves recalculating 2017/2018 Capability Year reference points, and then applying 3 years of annual updates while accounting for the collaring mechanism applicable for the 2017-2021 reset period.
  - Software has been updated by Analysis Group using the original 2017-2021 DCR Net EAS Model and removing the original gas pricing alignment logic.
    - The modifications treats the gas price information as “flow day” and revises the alignment of prices for weekends/holidays.
  - **The NYISO is continuing to review and validate the preliminary results.**
    - The preliminary results show both increases and decreases over the four year horizon.
    - These results highlight that the misalignment of gas prices do not have a biased/unidirectional impact on reference point prices.
    - The NYISO expects to return to stakeholders on 9/30 with further discussion material on the results.
    - These results present changes to the reference prices. They do not reflect potential changes to the clearing prices which would need to account for available supply offers, applicable requirements and the nesting of capacity zones.



# Preliminary Net EAS Values

<i>Preliminary Net EAS (\$/kW-yr)</i>		<b>Original</b>	<b>Rerun</b>	<b>Delta</b>
F - Capital	2017-2018	<b>\$34.84</b>	<b>\$36.01</b>	<b>\$1.17</b>
G - Hudson Valley (Dutchess)	2017-2018	<b>\$39.42</b>	<b>\$40.31</b>	<b>\$0.89</b>
J - New York City	2017-2018	<b>\$53.94</b>	<b>\$57.01</b>	<b>\$3.07</b>
K - Long Island	2017-2018	<b>\$101.69</b>	<b>\$101.40</b>	<b>(\$0.29)</b>
F - Capital	2018-2019	<b>\$28.13</b>	<b>\$29.90</b>	<b>\$1.77</b>
G - Hudson Valley (Dutchess)	2018-2019	<b>\$28.56</b>	<b>\$28.88</b>	<b>\$0.32</b>
J - New York City	2018-2019	<b>\$34.79</b>	<b>\$37.03</b>	<b>\$2.24</b>
K - Long Island	2018-2019	<b>\$71.30</b>	<b>\$73.15</b>	<b>\$1.85</b>
F - Capital	2019-2020	<b>\$31.48</b>	<b>\$30.45</b>	<b>(\$1.03)</b>
G - Hudson Valley (Dutchess)	2019-2020	<b>\$31.81</b>	<b>\$30.46</b>	<b>(\$1.35)</b>
J - New York City	2019-2020	<b>\$35.32</b>	<b>\$34.53</b>	<b>(\$0.79)</b>
K - Long Island	2019-2020	<b>\$65.20</b>	<b>\$65.23</b>	<b>\$0.03</b>
F - Capital	2020-2021	<b>\$29.27</b>	<b>\$26.30</b>	<b>(\$2.97)</b>
G - Hudson Valley (Dutchess)	2020-2021	<b>\$28.71</b>	<b>\$25.81</b>	<b>(\$2.90)</b>
J - New York City	2020-2021	<b>\$30.39</b>	<b>\$27.87</b>	<b>(\$2.52)</b>
K - Long Island	2020-2021	<b>\$56.23</b>	<b>\$54.19</b>	<b>(\$2.04)</b>

**The NYISO is continuing to review and validate these preliminary results.**

# Preliminary Reference Point Prices

<i>Preliminary Reference Point Prices (\$/kW-mo)</i>		<b>Original</b>	<b>Rerun</b>	<b>Delta</b>
F - Capital	2017-2018	<b>\$9.08</b>	<b>\$8.96</b>	<b>(\$0.12)</b>
G - Hudson Valley (Dutchess)	2017-2018	<b>\$14.84</b>	<b>\$14.74</b>	<b>(\$0.10)</b>
J - New York City	2017-2018	<b>\$18.61</b>	<b>\$18.23</b>	<b>(\$0.38)</b>
K - Long Island	2017-2018	<b>\$12.72</b>	<b>\$12.76</b>	<b>\$0.04</b>
F - Capital	2018-2019	<b>\$10.04</b>	<b>\$9.86</b>	<b>(\$0.18)</b>
G - Hudson Valley (Dutchess)	2018-2019	<b>\$16.42</b>	<b>\$16.38</b>	<b>(\$0.04)</b>
J - New York City (collared)	2018-2019	<b>\$20.84</b>	<b>\$20.42</b>	<b>(\$0.42)</b>
K - Long Island (collared)	2018-2019	<b>\$14.25</b>	<b>\$14.29</b>	<b>\$0.04</b>
F - Capital	2019-2020	<b>\$9.83</b>	<b>\$9.94</b>	<b>\$0.11</b>
G - Hudson Valley (Dutchess)	2019-2020	<b>\$16.59</b>	<b>\$16.75</b>	<b>\$0.16</b>
J - New York City	2019-2020	<b>\$21.95</b>	<b>\$22.05</b>	<b>\$0.10</b>
K - Long Island (collared)	2019-2020	<b>\$15.96</b>	<b>\$16.01</b>	<b>\$0.05</b>
F - Capital	2020-2021	<b>\$10.65</b>	<b>\$10.96</b>	<b>\$0.31</b>
G - Hudson Valley (Dutchess)	2020-2021	<b>\$17.67</b>	<b>\$18.00</b>	<b>\$0.34</b>
J - New York City	2020-2021	<b>\$23.31</b>	<b>\$23.63</b>	<b>\$0.32</b>
K - Long Island (collared)	2020-2021	<b>\$17.88</b>	<b>\$17.93</b>	<b>\$0.06</b>

**The NYISO is continuing to review and validate these preliminary results.**

# Market Problem Assessment

- The NYISO is currently focusing efforts on validating/finalizing the reference point price recalculations.
- The NYISO has not determined whether the gas pricing alignment issue represents an actual Market Problem or quantified the potential impact.
- The NYISO is continuing to evaluate this matter.

# 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
- **NYISO will proceed with the auction as scheduled**

# Stakeholder Communication

- **September 18, 2020**
  - NYISO Issues Potential Market Problem Notice
- **September 22, 2020**
  - Discussion to review Potential Market Problem at ICAPWG
- **September 25, 2020**
  - Discussion of Tariff Compliance
  - Update on quality review and preliminary reference point price calculations

# Next Steps

- **Continue efforts to calculate and validate 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**
  - The NYISO currently anticipates further discussion with stakeholders on 9/30
- **Continue Market Problem assessment**
- **Continue to evaluate whether any remedial action may be appropriate for the 2020/2021 Winter Capability Period**
  - As previously discussed, the NYISO has already proposed to correct this matter going forward for the 2021-2025 reset period
- **Additional feedback can be provided via email to Robb Pike at [rpike@nyiso.com](mailto:rpike@nyiso.com)**

# Our mission, in collaboration with our stakeholders, is to serve the public interest and provide benefit to consumers by:

- 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



# ICAP Market Annual Parameters Timeline

- **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)**