

# MEMORANDUM

To: Mike DeSocio; New York Independent System Operator  
Zachary T. Smith; New York Independent System Operator

From: Mark Younger; Hudson Energy Economics, LLC

**Subject: Analysis Group Study of Market Impacts of Comprehensive Mitigation Review Meeting**

Date: October 14, 2021

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Analysis Group (“AG”) presented their preliminary study of the Market Impacts of Comprehensive Mitigation Review at the September 28<sup>th</sup> Installed Capacity (“ICAP”) working group meeting. At the meeting, AG stated that their results were preliminary and we should not be focusing on the results. However, as I noted at the meeting, the results do raise some concerns about the *assumptions* that were used to conduct the study.

Specifically, the analysis appears to be based on the assumption that all units can be retired without creating any reliability needs that must be addressed. This was demonstrated by their results for the Transmission Sensitivity case which, given the State’s announcement to grant CES Program Tier 4 contracts to Champlain Hudson Power Express (“CHPE”) and Clean Path NY, should be treated as the base case for the analysis. This transmission sensitivity case projected capacity clearing prices that were driven by the assumption that most of the NYC steam generation could be retired and that the market cleared on the Going Forward Cost of those units.

This assumption is highly suspect. Recent studies by the NYISO and Con Edison have shown that many of these units are required for among other contingencies, to ensure the reliability of New York City Load Pockets as well as to provide units with Minimum Oil Burn capability on high load days in the summer and the winter.

If a subset of the assumed units were not allowed to retire, the results of the study would have been very different. Specifically, under the NYISO rules, the required steam units would receive RMR contracts and be treated as price takers in the capacity market. This would result in an unjust and unreasonable NYC and LHV capacity market with inefficiently lower clearing prices likely putting resources without contracts in financial distress.

The Analysis Group study must incorporate reasonable assumptions about what amount of each type of existing capacity must be retained to ensure reliability. Failing to do so will result in unrealistic results and a false conclusion that BSM revisions can be made while still providing adequate and sustainable market signals to ensure reliability.

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**RE: Market Impacts of Comprehensive Mitigation Review**

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FERC has recently reaffirmed in orders addressing New York's capacity markets that the amount of generation supported by public policy initiatives that can enter the market on an unmitigated basis must not be so substantial that unjust and unreasonable prices result. The Transmission Sensitivity case shows that the BSM revisions must result in substantial retirement of existing capacity to offset the substantial addition of subsidized new resources on an unmitigated basis for the capacity market clearing prices to continue to be just and reasonable. If even a relatively small amount of the required retirements are needed for reliability, the BSM revisions will foster a reliance on out of market contracts to ensure reliability (i.e. the capacity market will not support necessary investments and resources). BSM revisions that result in the need to rely upon out of market contracts to ensure reliability are not just and reasonable. To the extent BSM revisions are implemented as assumed, additional changes to the capacity market would need to be implemented in parallel.