
For Immediate Release:

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NYISO Stakeholders Approve Pricing Proposal to Enhance Reliability, Fuel Assurance

Rensselaer, N.Y.—New York Independent System Operator (NYISO) stakeholders today approved a comprehensive shortage pricing proposal that will better reflect wholesale energy production costs and improve generation availability during critical operating periods. The proposal, voted upon today by the NYISO Management Committee, helps to enhance grid reliability and represents a key component of the grid operator's broader fuel assurance initiative.

Shortage pricing is a pricing mechanism used by independent system operators and regional transmission organizations to more accurately price energy and operating reserves when market conditions are tight such as occurred last winter during the various polar vortex events.

The NYISO proposal focuses on pricing in the Day-Ahead and Real-Time energy markets and is aimed primarily at ensuring generators have the proper incentive to perform on their day-ahead commitments. Under the proposal, suppliers who make arrangements in the day-ahead market to supply power and deliver it in real time will be rewarded. Those who do not will face potentially large buy-out penalties. This proposal is in accordance with both stakeholder recommendations and suggested market improvements made by the NYISO's independent market monitor, Potomac Economics.

“Increased reliance on natural gas and recent extreme weather have compelled the NYISO to take action to protect reliability,” said NYISO President and CEO Stephen Whitley. “The shortage pricing proposal is an effective tool to promote fuel assurance, and it implements measures that will improve generator performance and unit availability. These enhancements to our markets will hold generators more accountable to deliver on day-ahead commitments by establishing incentives for generators that perform in real time and significant financial risks for those that do not.”

In addition, the proposal will increase the amount of operating reserves purchased in the market to ensure that a sufficient level of resources needed to meet reliability have made the necessary fuel arrangements to perform in real time. Operating reserve refers to the generating capacity that is needed for an electric system to recover from the unexpected loss of generating or transmission facilities. Operating reserve includes three categories. Regulating reserve is used to account for short-term deviations in supply and demand. Spinning or synchronous reserve is reserve capacity that is synchronized to the grid and able to respond quickly (within 10 minutes) in the event of a contingency such as the loss of a generator. And non-spinning reserve is capacity that is not synchronized to the grid and takes longer to respond (10-30 minutes) in the event of a contingency.

The NYISO expects any potential short-term increase in energy market costs associated with the shortage pricing proposal will be largely offset by the production cost savings realized from the recently implemented [Coordinated Transaction Scheduling \(CTS\) initiative with the PJM Interconnection](#) and the additional anticipated savings from the CTS implementation with ISO-New England in 2015. In 2015, the

The New York Independent System Operator (NYISO) is a not-for-profit corporation responsible for operating the state's bulk electricity grid, administering New York's competitive wholesale electricity markets, conducting comprehensive long-term planning for the state's electric power system, and advancing the technological infrastructure of the electric system serving the Empire State.

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projected net benefit for consumers of these wholesale market initiatives (shortage pricing and CTS) will be \$100 million in cost savings, while in 2016 the projected net cost will be approximately \$6 million.

Ultimately, costs associated with energy shortage pricing are expected to be offset by lower capacity costs in 2017 when the NYISO establishes new demand curves for the capacity market. By creating incentives for generation resources to improve New York state generating unit availability over time, it is expected the proposal will provide additional benefits to consumers in the long term.

In addition, the proposal will create more regional parity with neighboring energy markets during critically tight operating periods. The shortage pricing adjustments will allow the NYISO to maintain shortage prices for reserves that are comparable to neighboring market regions. This will enable New York to maintain critical operating reserves during regionally tight operating conditions similar to what occurred last winter during the polar vortex events that impacted the greater Northeast and Mid-Atlantic regions.

The proposal approved today by the Management Committee must now go to the NYISO Board of Directors for final consideration. If approved by the board, it will be filed for approval by the Federal Energy Regulatory Commission with a proposed implementation date of November 2015. While the necessary software will be ready in June, the November implementation date reduces consumer impact in 2015 and is the result of a compromise among stakeholders.

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