New York ISO
Independent System Operator

2025 - 2029 ICAP Demand Curve Reset – Project Kickoff

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ICAPWG/MIWG

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Agenda

- Background
- Overview of the ICAP Demand Curve Reset (DCR) Process
- Additional Scope
- Next Steps

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Background

Background

- **The Market Services Tariff requires, every four years, the NYISO and its stakeholders undertake a comprehensive review, referred to as the DCR, to determine the necessary inputs and assumptions for developing the ICAP Demand Curves for the four-year period covered by the reset**
  - Each ICAP Demand Curve is based on the estimated cost to construct and operate a hypothetical new capacity supply resource in various locations throughout New York
- **The 2023 project deliverable is a Q3 Study Defined**

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Overview of the DCR Process

Overview of the DCR Process

- **MST Section 5.14.1.2 governs the procedures and processes to be completed in each DCR, including the selection of an independent consultant(s) to lead market participants and stakeholders through the DCR process**
  - The next slide covers the parameters and methodologies required to be assessed by the independent consultant(s), NYISO, and its stakeholders in each DCR

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Overview of the DCR Process

- **Per MST Section 5.14.1.2.2, the following parameters and methodologies are to be assessed in each DCR (continues on the next slide):**
  - The current localized levelized embedded cost of a peaking plant in each NYCA Locality, the Rest of State, and any New Capacity Zone (known as gross cost of new entry [CONE])
    - The MST defines a peaking unit as the unit with technology that results in the lowest fixed costs and highest variable costs among all other units' technology that are economically viable. The peaking plant may consist of one or more peaking units
  - The likely projected annual Energy and Ancillary Services (EAS) revenues of the peaking plant for the first Capability Year covered by the periodic review, net of the costs of producing such services (known as the net EAS revenue offset), including the methodology and inputs for determining such projections for the four Capability Years covered by the periodic review
    - The MST requires the cost and revenues of the peaking plant to be determined under conditions in which the available capacity is equal to the sum of (a) the minimum Installed Capacity requirement and (b) the peaking plant's capacity, in MW (known as the prescribed level of excess)

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Overview of the DCR Process

- **Per MST Section 5.14.1.2.2, the following parameters and methodologies are to be assessed in each DCR (continued):**
  - The appropriate shape and slope of the ICAP Demand Curves, and the associated point at which the dollar value of the ICAP Demand Curves should decline to zero (known as the zero crossing point)
  - The appropriate translation of the annual net revenue requirement of the peaking plant into monthly values that take into account seasonal differences in the amount of capacity available in the ICAP Spot Market Auctions
  - The escalation factor and inflation component of the escalation factor applied to the peaking plant gross cost, including the methodology and inputs for determining such values, for use in annual update process

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Overview of the DCR Process

- **To assess the required parameters and methodologies, MST Section 5.14.1.2.2 requires the following procedures to occur (continues on the next slide):**
  - Review of the DCR schedule with stakeholders by May 30, 2023
  - Development, with stakeholder review and comment, of a request for proposals (RFP) for the independent consultant(s) to conduct the DCR study
  - Selection of the independent consultant(s) in accordance with the RFP
  - Issuance of draft reports from both the independent consultant(s) and NYISO
    - Opportunity for stakeholder feedback on both draft reports

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Overview of the DCR Process

- **To assess the required parameters and methodologies, MST Section 5.14.1.2.2 requires the following procedures to occur (continued):**
  - Issuance of final reports from both the independent consultant(s) and NYISO
  - Presentation to the NYISO Board of Directors of stakeholder views of the NYISO's proposed ICAP Demand Curves for the first Capability Year covered by the reset and the methodologies and inputs used to determine the ICAP Demand Curves for the Capability Years covered by the reset
  - Filing with FERC by November 30, 2024, of the Board-approved ICAP Demand Curves for the first Capability Year covered by the reset and the methodologies and inputs used to determine the ICAP Demand Curves for the Capability Years covered by the reset

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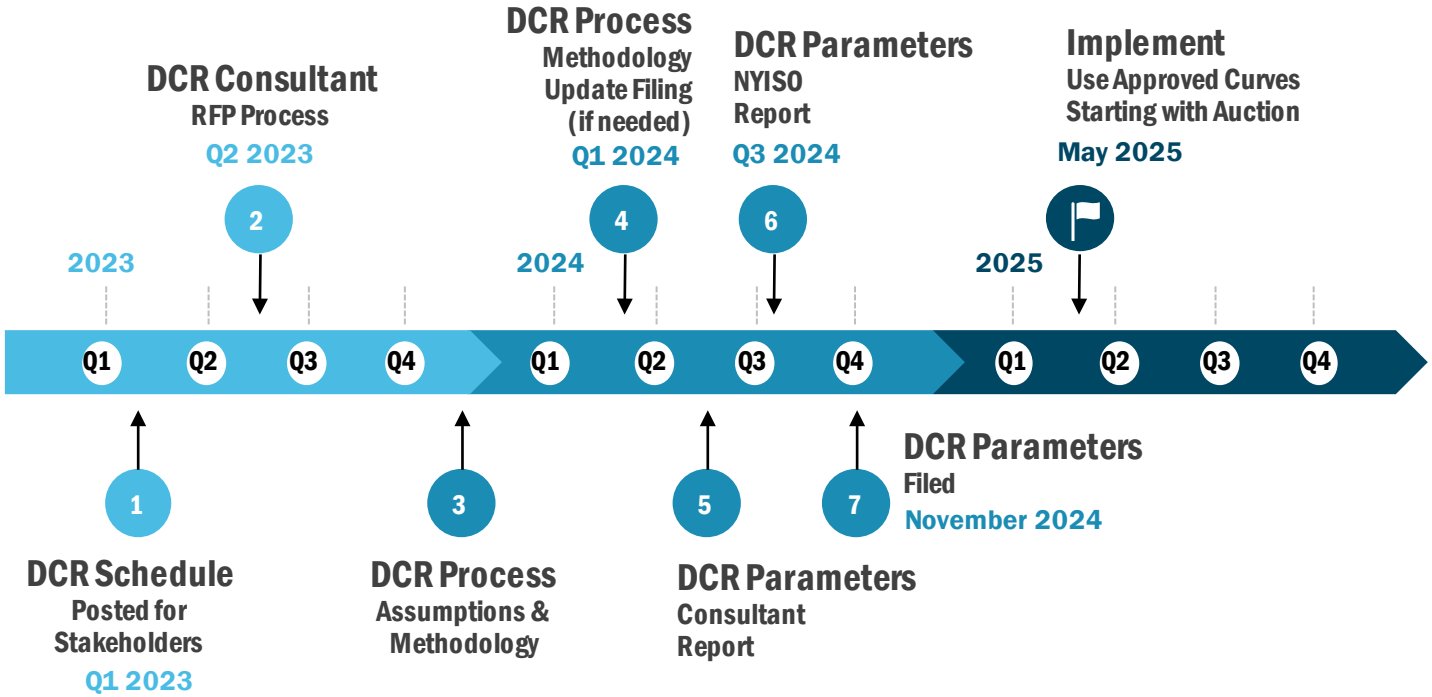
Overview of the DCR Process



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Overview of the DCR Process

- **Every DCR, the NYISO must also conduct the New Capacity Zone study ("NCZ Study")**
  - The NCZ Study is governed by MST Section 5.16
  - The NYISO must review the inputs and assumptions for the NCZ Study with stakeholders and provide an opportunity for stakeholders to comment by October 1, 2023
  - The NCZ study report must be completed and provided to stakeholders by January 15, 2024
  - If the NCZ Study identifies a constrained Highway interface into one or more Load Zones, the NYISO must file tariff revisions with FERC to establish and recognize the New Capacity Zone or Zones by March 31, 2024
    - If the NCZ Study does not identify a constrained Highway Interface, the NYISO must file with FERC the NYISO's determination that the NCZ Study did not indicate that any New Capacity Zone is required

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Additional Scope

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- As part of the NYISO's 2021 Comprehensive Mitigation Review project, the NYISO recognized that the proposed Buyer Side Mitigation reforms (approved by FERC on May 10, 2022) could change the future revenue risks for developing a peaking plant in New York and committed to assessing such risks during this DCR[1]
- Additionally, as part of the NYISO's 2022 Improving Capacity Accreditation project, the NYISO committed to investigate ICAP Demand Curves that reflect seasonal reliability risk as part of this DCR[2]
  - Moving to ICAP Demand Curves that reflect seasonal reliability risks is a necessary step to move from annual Capacity Accreditation Factors to seasonal Capacity Accreditation Factors
  - Changes to how seasonal differences in the amount of capacity available in the ICAP Spot Market Auctions (i.e., the winter-to-summer ratio) is factored into the setting of the ICAP Demand Curves will also be evaluated as part of this investigation
- Lastly, the Capacity Accreditation Factor of the peaking plant will be utilized in the translation of the ICAP Demand Curve reference point prices to UCAP terms beginning with the 2024 Capability Year
  - Therefore, an assessment of the estimated Capacity Accreditation Factor of the peaking plant will be necessary to consider in the selection of the peaking plant in this DCR

[1]See slide 11 of the NYISO's presentation to the 10/29/21 ICAPWG meeting
[2]See slide 24 of the NYISO's presentation to the 08/29/22 ICAPWG meeting

Next Steps

Next Steps

- The NYISO will return to a February/March ICAPWG meeting to discuss the proposed schedule and draft RFP for this DCR

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Questions?

Our Mission & Vision

Mission

Ensure power system reliability and competitive markets for New York in a clean energy future

Vision

Working together with stakeholders to build the cleanest, most reliable electric system in the nation

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