

# Capacity Market Structure Review

---

**Brendan Long**

Capacity & New Resource Integration Market Design

**ICAPWG/MIWG**

March 3, 2025

# Agenda

- **Background**
- **Today's Objective**
- **NYISO's Position on the Purpose of the Installed Capacity (ICAP) Market**
- **Summary of Capacity Market Structure Review Market Sector Feedback**
- **Next Steps**

# Background

# Background

- **The NYISO's objectives for the Capacity Market Structure Review (CMSR) project are to**
  - Identify market structures that will help facilitate New York's evolving grid consistent with policy goals and achieve the following objectives:
    - accurately value resources according to their contribution to maintaining bulk system reliability;
    - deliver transparent and predictable market outcomes;
    - operate cohesively with the Energy and Ancillary Services markets to meet the reliability requirements of the evolving grid;
    - provide appropriate, nondiscriminatory, price signals to existing and new resources;
    - function without unnecessary administrative complexity; and
    - provide an economically efficient, durable and stable market structure to facilitate investment.
  - Explore potential alternatives to the existing structure.
  - Determine if the existing structure or alternatives explored better meet the defined objectives.

# Background - Project Timeline

- **Q1 – Identify key areas for potential structural improvement**
  - The NYISO has facilitated meetings with market sectors and the Market Monitoring Unit (MMU) and will use ICAPWG meetings to gather stakeholder feedback.
    - These discussions are expected to cover areas for potential methods for evolving the ICAP market structure.
  - The NYISO will present at future ICAPWG meetings (i) a summary of the feedback received and (ii) the NYISO’s initial proposed prioritized list of key methods for evolving the ICAP market structure.
    - This list is intended to inform the 2025 project prioritization process for selecting projects beginning in 2026.
- **Q2 – Initial recommendations**
  - If necessary, the NYISO will further refine the initial proposed prioritized list of key methods for evolving the ICAP market structure.
  - The NYISO will collaborate with stakeholders and the MMU to identify potential high-level solutions for the key methods identified in Q1 and Q2.
- **Q3 – Refine proposals**
  - The NYISO will further analyze and refine the initial recommendations set forth in Q2.
- **Q4 – Final Report**
  - The NYISO will deliver a final report to stakeholders outlining an assessment of the current ICAP market and provide recommendations for alternative approaches when the NYISO and stakeholders identify ICAP market components that would benefit from improvement.

# Background (Cont'd)

- The NYISO has facilitated meetings with each market sector (sector) to solicit each sector's concerns with the current installed capacity (ICAP) market structure and suggestions for potential enhancements and/or restructuring opportunities.
- Sectors include:
  - Transmission Owners
  - End-Use
  - Public Power/Environmental
  - Other Suppliers
  - Generation Owners

# Today's Objective

# Today's Objective

- During the CMSR sector meetings, and at the 02/25 ICAPWG meeting, stakeholders requested that the NYISO reassess and define the fundamental purpose of the ICAP market before considering any potential methods to evolve the ICAP market structure.
- The goal of this presentation is to (i) outline the NYISO's position on the purpose of the ICAP market and (ii) summarize the feedback gathered from the CMSR sector meetings.
  - The NYISO is taking sector feedback into account as it develops its initial prioritized list of recommended methods to evolve the ICAP market structure.
  - At this time, the NYISO is not taking a position on the feedback provided by stakeholders during the CMSR sector meetings.



# NYISO's Position on the Purpose of the ICAP Market

# NYISO's Position on the Purpose of the ICAP Market

- **The NYISO aims to design the ICAP market structure to align with the established objectives of the ICAP market.**
  - For reference, they are
    - accurately value resources according to their contribution to maintaining bulk system reliability;
    - deliver transparent and predictable market outcomes;
    - operate cohesively with the Energy and Ancillary Services markets to meet the reliability requirements of the evolving grid;
    - provide appropriate, nondiscriminatory, price signals to existing and new resources;
    - function without unnecessary administrative complexity; and
    - provide an economically efficient, durable and stable market structure to facilitate investment.
- **The NYISO is soliciting stakeholder feedback on these objectives.**

# Summary of CMSR Sector Feedback

# Summary of CMSR Sector Feedback

## ■ Demand Curve Reset (DCR)

- Sectors advocate for reconsidering the process and methodology for constructing ICAP Demand Curves.
  - Concerns raised:
    - The current DCR mechanism could set ICAP prices that result in significant wealth transfers to incumbent resources while failing to adequately incentivize new resource entry. Some sectors note that entry of new resources is increasingly driven by and reliant upon state contracts and external policies.
    - The DCR process does not provide sufficient revenue certainty for investors and is susceptible to significant price fluctuations over short time periods.
  - Reforms suggested:
    - Incorporate additional resource attributes and revenue streams in the DCR process, such as
      - » Transmission Security
      - » Clean Energy Revenues
    - Shift the DCR pricing anchor from the cost of new entry to the going-forward cost of an existing resource.

# Summary of CMSR Sector Feedback (Cont'd)

## ■ Bifurcated Capacity Markets: New vs Existing Resources

- Arguments in favor:
  - Would effectively incentivize new resources to enter the market.
  - Valuing new resources differently does not constitute undue discrimination, provided they support the achievement of state goals.
    - The NYISO's objective for the capacity market to provide nondiscriminatory pricing should be interpreted as ensuring prices are set without undue discrimination.
- Argument against:
  - Would conflict with FERC precedent to value capacity based on a resource's contribution to reliability.

# Summary of CMSR Sector Feedback (Cont'd)

## ■ Attribute-based Capacity Market

- Arguments in favor:
  - Those who were supportive of an attribute-based capacity market have differing views on which attributes should be compensated.
    - Some sectors propose focusing solely on resource adequacy and transmission security while other sectors support including environmental attributes.
- Arguments against:
  - Would introduce detrimental complexity into the ICAP market.
  - Better suited for incorporation into the energy and ancillary services markets.

# Summary of CMSR Sector Feedback (Cont'd)

- **Forward Capacity Market**
  - Some sectors oppose a forward capacity market, noting challenges that have arisen in other ISOs/RTOs with forward capacity markets.
- **Increased Seasonality**
  - Some stakeholders support greater reflection of seasonal reliability needs and resource contributions to seasonal needs in the ICAP market.
- **Capacity Zone Enhancements**
  - Some stakeholders support revising the capacity zonal structure to better procure and compensate resources according to contributions to system reliability based on location.
  - Some stakeholders caution against certain approaches to establishing more granular capacity zones, arguing that they could introduce excessive complexity, with Locational Marginal Pricing of Capacity cited as an example.
- **Administrative Improvements**
  - Some stakeholders encourage the NYISO to prioritize market administrative improvements, such as reducing the quantity of unoffered capacity in ICAP capacity auctions.
- **Price Stability**
  - Some stakeholders emphasize the need for an ICAP market structure that ensures price resilience regardless of potential future public policy shifts and effectively addresses the impacts of volatile ICAP market components, such as Capacity Accreditation Factors.

# Next Steps



# Next Steps

## ■ The NYISO plans to

- Return to the 03/17/2025 ICAPWG to present the NYISO's initial recommendations of methods for evolving the ICAP market structure to remove from further consideration.
- Return to the 03/26/2025 ICAPWG to present the NYISO's initial prioritized list of recommended methods to evolve the ICAP market structure.

# Appendix

# Previous Presentations on CMSR

Date	Working Group	Topic/Link to Materials
1/22/25	ICAPWG/MIWG	<a href="#"><u>Project Kickoff</u></a>
2/4/25	ICAPWG/MIWG	<a href="#"><u>CMSR Sector Meeting Schedule</u></a>
2/25/25	ICAPWG/MIWG	<a href="#"><u>Review of Potential Methods for Evolving the ICAP Market Structure</u></a>

# 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