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Highlights from the 2025 State of the Market Report for the NYISO Markets

Presented to:

NYISO Management Committee

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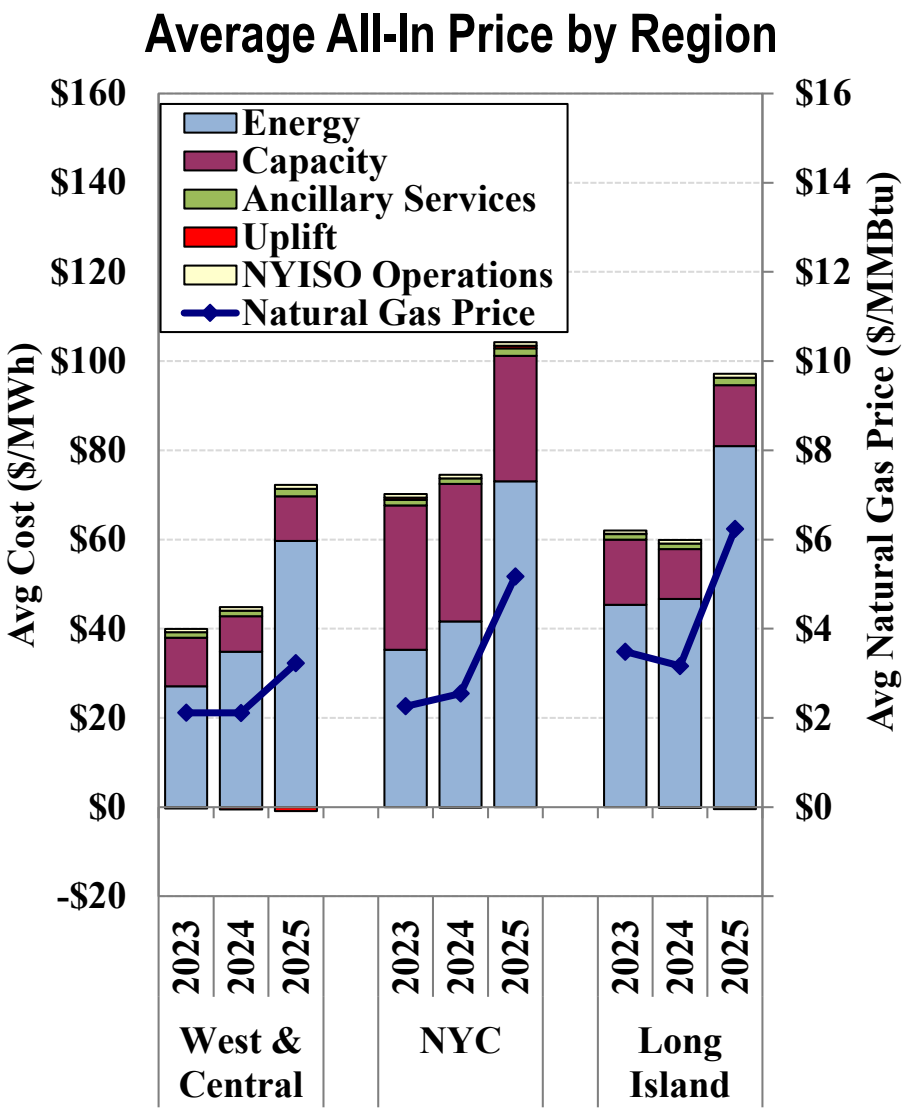
Introduction

- As the Market Monitoring Unit for NYISO, we produce an annual State of the Market (SOM) Report to:
  - Evaluate the performance of the markets;
  - Identify market flaws or market power concerns; and
  - Recommend improvements in the market design.
- Given the breadth of the report, this presentation covers only highlights from our 2025 SOM Report, including:
  - Wholesale and retail price trends
  - State policy developments and the aging generation fleet
  - Capacity market performance and the “planning-market gap”
  - Large load interconnection issues
  - Energy and ancillary services market incentives

Schedule

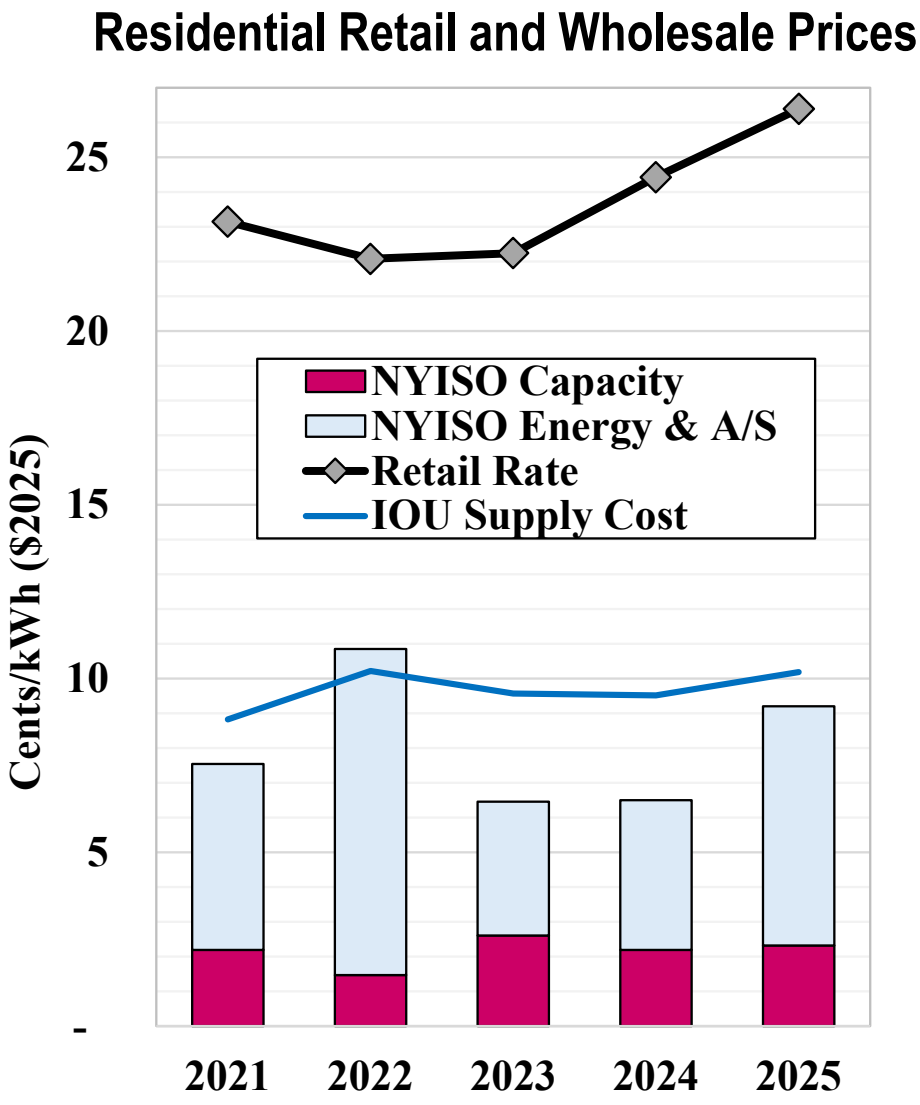
- The 2025 SOM Report was posted on May 19.
- The report is being presented at several meetings:
  - May 27: Management Committee
    - Overview – 60 minutes
  - June 2: ICAPWG
    - Capacity Market & Policy focus – 90 minutes
  - June 9: MIWG
    - Energy and Ancillary Services focus – 90 minutes
  - Additional slots can be scheduled if there is interest.

All In Price Trends



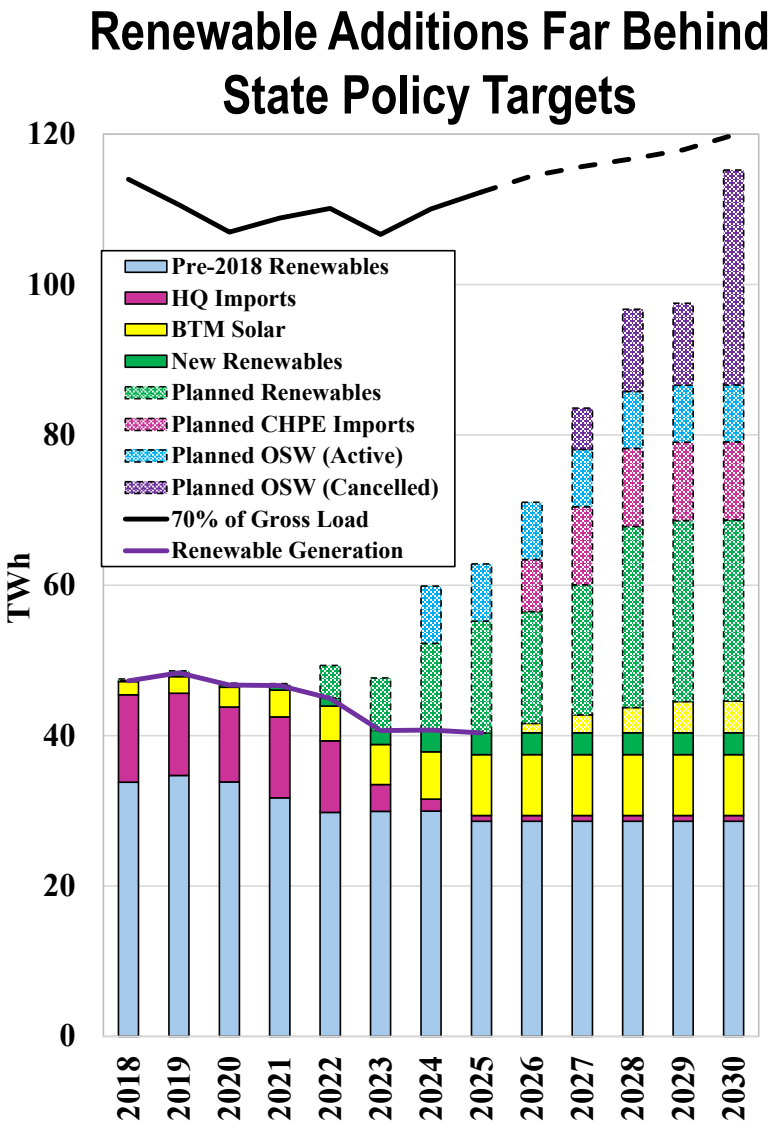
- Energy prices rose significantly (66-79%) from 2024 due to:
  - Higher (60-110%) gas prices, especially during winter months
  - Higher summer & winter peak loads
  - Reduced OOM commitment led to higher operating reserve prices
  - Increased exports to Quebec
  - Reduced availability of hydro generation
- Capacity charges rose 38% from 2024 outside NYC because of a higher IRM and reduced imports
- Capacity charges were relatively flat in NYC

Residential Retail and Wholesale Price Trends



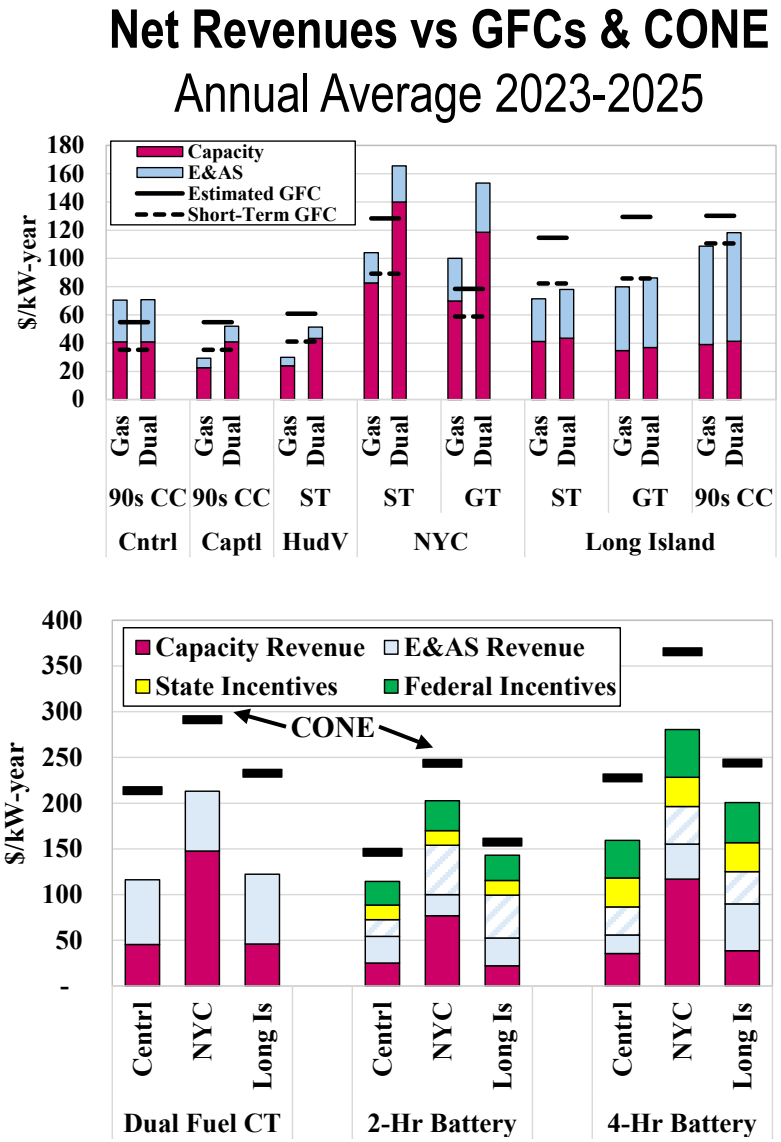
- Wholesale capacity and energy prices combined average just 34% of residential retail bills
  - Average IOU supply costs are higher (at ~40%) due to forward contracting & distribution losses
- To the extent wholesale charges have risen, it is primarily:
  - Natural gas prices
  - RGGI compliance costs
- Retail bills rising mainly due to T&D charges (rather than wholesale market performance)

Inconsistent Policy Implementation Causing the Conventional Generation Fleet to Run Harder



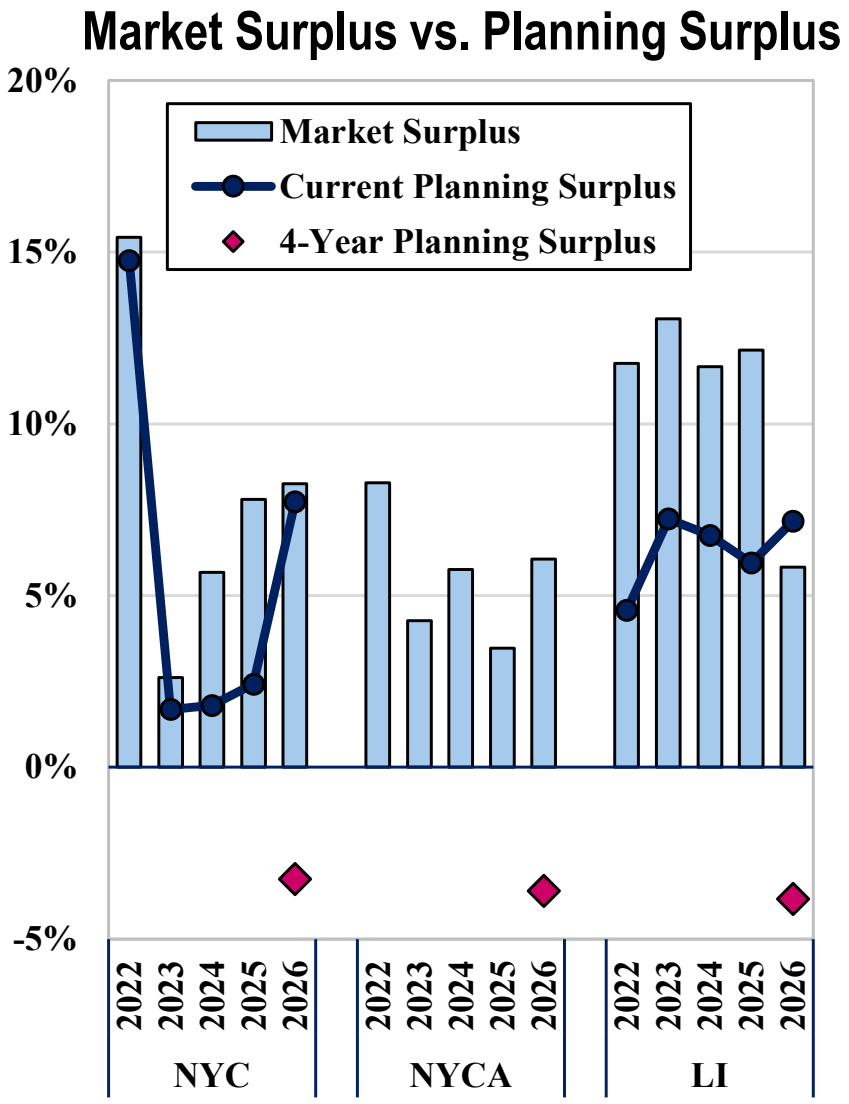
- State policy has caused 3.7 GW of *fuel-secure* retirements since 2019
- 12 GW of 40+ yr-old fossil fuel generation currently in service:
  - Capacity Factor up 84% from 2019
  - Time on outage up 29% from 2019 to average of 13 weeks per year
  - Falling availability of outage slots
  - Rising maintenance costs
- Uncertain policies re large load interconnections make load forecasting a challenge
- Critical need for policy to allow fossil fuel generation on the horizon

Low Net Revenues for Existing and New Generation



- Net revenues below GFC for some types in Capital, LHV, & Long Island
  - Poor incentives for maintaining generation in a reliable condition
  - Gas-only units at greater risk
  - 1.2 GW of Retirement Notices
- Battery net revenues too low without additional subsidies
- Dual Fuel CT net revenues too low
- Issue #1: Demand curve CONE well below true cost of entry in ROS, LHV, & Long Island
- Issue #2: Planning-Market Gap
  - Partially corrected for 2026/27 LCRs

Planning-Market Gap Undermines Investment Incentives



- Current-year planning-market gap addressed in 2026 for LCRs
- 4-year gap in 2026-Q1 STAR driven by assumptions ≠ expectations:
  - "High demand" load forecast
  - New project delay assumption
- Gaps can lead to OOM retention that undermine the market
- Key Recommendations:
  - RPP Memo: Adopt principled planning assumptions
  - #2025-1a: Raise the Level of Excess in the demand curve to reflect the conservative planning assumptions and underlying uncertainties

Recommended Market Enhancements Would Help Offset Capacity Price Increases

- To address the planning-market gap, we recommend raising the capacity market's target LOE ("Level of Excess")
  - This would shift the top of the demand curve and increase capacity prices
  - This should be coupled with changes to capacity demand curve related to: (a) demand curve technology, (b) economic life, and (c) "shape & slope"
- The following enhancements would tend to reduce consumer costs:
  - #2025-2 & #2022-4: *Locational capacity pricing*
    - Would reduce capacity payments to reflect deliverability and improve investment/retirement incentives by improving alignment with reliability
  - #2022-1: *Compensate based on transmission security value*
    - Would reduce over-payments to SCRs and large contingency resources that raise capacity requirements
  - #2022-2: *Additional Winter Capacity Enhancements*
    - Would enable firm fuel procurement to lower capacity prices by reducing winter risk

Coordinated Evaluation of Large Load Interconnections

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- Local utilities are attracting large load facilities
  - State law assigns local upgrade costs to large load customer
  - Bulk Power System ("BPS") impacts not evaluated in a coordinated process
  - NYISO does not have detailed information (e.g., Interconnection Agreement)
- In recent comments, we recommended:
  - Interconnection Agreements distinguish between firm & non-firm rights
  - "Prospective" large load interconnections be studied in at least one STAR (on top of any "committed" large loads) before approval of their IA.
- This process would facilitate:
  - Evaluation of BPS impacts in STAR of cumulative load before IA approval
  - Separate fast-track for non-firm loads (incl. loads that bring generation)
    - Would require a modification to convert non-firm rights to firm rights
  - Better information for decision-making related to siting, permitting, & interconnection

Energy & Ancillary Services Markets Provide Essential Performance Incentives

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- Efficient energy and ancillary services markets improve performance incentives and increase net revenues for flexible units, which:
  - Reduces need for capacity revenues
  - Ensures necessary flexible and available existing units will not retire
- Highest-priority recommendations to improve price formation:
  - **2017-2: Reform shortage pricing by improving its reserve demand curves to better the marginal reliability value of reserves**
  - **2015-16, 2016-1, 2019-1: Dynamically adjust reserve requirements to align with reliability needs**
  - **2024-1: Full representation of locational reserve requirements**
- Other key recommendations to improve price formation
  - 2023-2: Modify fast start pricing eligibility criteria
  - 2021-3: Model "TVR" requirements in pricing and schedules that require out-of-market dispatch in eastern Long Island
  - 2020-2: Eliminate offline fast-start pricing – it masks transmission shortages