

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

New York Independent System Operator, Inc)))	Docket No. ER24-1800-000
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**MOTION TO INTERVENE AND COMMENTS
OF THE NYISO MARKET MONITORING UNIT**

Pursuant to Rules 212 and 214 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission, 18 C.F.R. §§ 385.212 and 214 (2019), Potomac Economics respectfully moves to intervene in the above-captioned proceeding concerning the New York Independent System Operator’s (“NYISO’s”) filing on April 18, 2024. The NYISO’s filing seeks tariff waivers, expedited action, and a shortened comment period to address problems arising from an incorrect input that was used to initially calculate the LCRs for the 2024/25 Capability Year.

Potomac Economics is the Market Monitoring Unit (“MMU”) for NYISO and is responsible for monitoring the electricity markets. As the MMU, we identify rule changes that would enhance market efficiency and competition. Potomac Economics has a unique perspective and responsibility that cannot be represented by any other party. It should therefore be permitted to intervene herein.

I. NOTICE AND COMMUNICATIONS

All correspondence and communications in this matter should be addressed to:

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II. BACKGROUND

NYISO identified an error in the calculation of the Transmission Security Limit (“TSL”) for Load Zone J for the 2024/25 Capability Year. The TSL sets a floor value for the Locational Minimum Installed Capacity Requirement (“LCR”), which was originally set to 81.7 percent for Load Zone J based on erroneous input data, while both values should have been set to 80.4 percent based on the corrected input. The erroneous input did not affect any of the other LCRs.

NYISO has filed for a waiver to correct the LCR outside its ordinary procedure in advance of the May 2024 Spot Auction, which is the first spot auction that will utilize the LCRs for the 2024/25 Capability Year. However, NYISO seeks to not correct “downstream processes” that utilize the final LCR case (and therefore could be affected by the LCR change for Load Zone J) ahead of the May Spot Auction. We recommend the Commission grant the requested waiver in an expedited time frame to allow NYISO to conduct the Spot Auction as scheduled starting on April 24 to determine capacity obligations starting May 1.

The LCRs are normally finalized by January ahead of the Capability Year that begins on May 1. In March, the LCRs are combined with the annual summer peak load forecast to determine the Installed Capacity (“ICAP”) MW requirements. NYISO operates an Unforced Capacity (“UCAP”) market whereby: (a) the qualified ICAP MW of each resource is translated to a qualified UCAP MW amount based on a resource-specific derating factor that reflects forced

outage rates and the Capacity Accreditation Factor (“CAF”) for that class of resources, and (b) ICAP requirements and demand curves are translated to UCAP quantities based on the fleet-wide average forced outage rates and CAFs. The supply-side translation from ICAP-to-UCAP described in “a” above is very similar in magnitude to the demand side translation described in “b” above. Consequently, fluctuations in the derating factors and CAFs used in the ICAP-to-UCAP translation have little or no impact on clearing prices.¹ All resource-specific inputs such as CAFs, qualified ICAP capability, and forced outage rates must be finalized by March to allow NYISO to perform the ICAP to UCAP translation.

NYISO conducts a forward strip auction for the six months from May to October in April and monthly forward auctions starting in April several weeks before the start of the Capability Year. These do not directly utilize the LCRs, demand curves, and qualified supply quantities, although the bids and offers of participants in the forward auctions are influenced by publicly available information available at the time. In the final week of April, the NYISO conducts the first monthly Spot Auction which uses the UCAP demand curves and qualified supply offers to determine clearing prices and awards for the month of May. Each monthly Spot Auction determines capacity obligations for a single month.

III. DISCUSSION

The scope of NYISO’s tariff waiver request is reasonable given the direct effects of the error and the benefits of correcting the error promptly. In general, it is important to operate the capacity markets with correct inputs since these ultimately determine the prices and awards that are designed to satisfy planning criteria in a competitive and efficient manner. However, it is

¹ The purpose of the ICAP-to-UCAP translation is to provide incentives to maintain the reliability value of resources.

also important to ensure that the auction can be conducted ahead of the delivery period and the market participants have certainty regarding the auction clearing price and purchases and sales resulting from the auction.

The primary direct effect of the error was to increase the original TSL and LCR for Load Zone J from 80.4 percent to 81.7 percent. This caused a rightward shift of the original Zone J capacity demand curve by 1.62 percent.² Zone J currently has very little surplus UCAP, so if the correct surplus UCAP margin would be around 4 to 5 percent, the erroneous LCR would increase UCAP price by 11 percent for a total increase in capacity market value of about \$17 million for May 2024. Hence, correcting the LCR before the May 2024 spot auction will reduce the market value significantly, although this impact would be reduced to the extent that some buyers and sellers have already contracted bilaterally or through the strip auction.

The second direct effect of the error was to potentially change the CAFs that were calculated for the 2024/25 Capability Year, although the magnitude would likely be very small relative to the first direct effect. Importantly, the error would have *no* effect on thermal resources, which constitute the vast majority of resources in New York. It would likely have small effects on other types of units, including storage resources, energy-limited resources and intermittent resources.

NYISO calculates CAFs for each Capacity Accreditation Resource Class (“CARC”) using the final LCR case of the resource adequacy model. The CAFs represent the estimated marginal reliability value of individual CARCs in each region. For the 2024/25 Capability Year, NYISO has over thirty CARC-location combinations, so recalculating the CAFs would be a major modeling effort. Since the LCR case assumes the NYISO has an amount of capacity in

² The slope of Zone J demand curve results in a decrease of \$1.15 per UCAP kW-month for a 1 percent increase in the surplus UCAP margin for Zone J.

each region equal to its LCR or IRM, the error caused the amount of ICAP MW in Zone J to increase by 145 MW and the amount of ICAP MW in Zones G, H, and I to decrease by the same amount. Rerunning the CAFs with a slightly different distribution of capacity is expected to have some at least random effects on individual CAFs, since they are calculated to the nearest 0.01 percent, but the magnitude of the effects are likely to be very small, and it is unclear whether resulting changes would increase or decrease individual CAF values.

Since NYISO has not had sufficient time to recalculate all of the CAFs based on the corrected LCR case, they cannot be updated before the May Spot Auction. However, the NYISO released preliminary updated CAF information for 4-hour energy storage resources, which are generally thought to be most sensitive to changes in the resource mix in the resource adequacy model. NYISO found the changes in CAFs for 4-hour energy storage ranged from a maximum of 2.33 percent in Rest of State and to a minimum of *minus* 1.35 percent in New York City.³ The overall effects of changes in CAFs are proportionally smaller than the primary direct effect of the LCR. In addition, the changes in CAFs would apply to a much smaller share of the resources in NYCA because the vast majority of capacity is in the Generator and Large Hydro resources classes whose CAFs will not be affected, while the LCR change would affect the price for all capacity in Zone J.

In weighing the costs and benefits of correcting the LCR and the CAFs, it is important to consider that the total value of the LCR change is substantial, while the CAFs of most resources would be unaffected. For those that are affected, which are limited to non-thermal resources, the effects are likely to be small. In addition, the LCR change can be made quickly in advance of the May auction, while the CAFs would take much longer to recalculate and make it impossible

³ See *Notice of Potential Market Problem: Load Zone J TSL Floor Value for the 2024-2025 Capability Year*, presented to the NYISO Operating Committee on April 19, 2024.

to correct the first issue before the spot auction for May. Therefore, we respectfully recommend that the Commission grant NYISO's request for a waiver to correct the LCRs and not CAFs so that the May spot auction and all future auctions may be completed prior to the delivery period and produce just and reasonable prices.

IV. CONCLUSION

For these reasons, we respectfully recommend that the Commission accept NYISO's proposed tariff waiver and request for expedited treatment.

Respectfully submitted,

/s/ David B. Patton

David Patton
President
Potomac Economics, Ltd.

April 19, 2024

CERTIFICATE OF SERVICE

I hereby certify that I have this day e-served a copy of this document upon all parties listed on the official service list compiled by the Secretary in the above-captioned proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated this 19th day of April 2024 in Fairfax, VA.

/s/ David B. Patton
