POTOMAC ECONOMICS

Memorandum

TO: NYISO Staff

FROM: David Patton, Pallas LeeVanSchaick, and Joseph Coscia

DATE: December 10, 2025

RE: MMU comments on the deliverability process discussion at the TPAS/ESPWG meeting on December 3, 2025

As NYISO's Market Monitoring Unit (MMU), our goals are to help ensure that the markets administered by the ISO function efficiently and to identify and report on market design flaws. We submit these comments on NYISO's discussion of deliverability process challenges.

We welcome NYISO's efforts to explore improvements to the deliverability study process. As we have highlighted in our State of the Market reports, the current deliverability test is an inefficient barrier to new entry that insulates existing resources from competition.[1] However, no improvements to the deliverability test assumptions or methods will fully address problems caused by its basic structure and deterministic nature. We therefore strongly encourage NYISO to expand the number of capacity zones so that the scope of the Cluster Study deliverability process can be greatly reduced for several reasons:

- **The deliverability test inefficiently penalizes new resources**. It requires large numbers of proposed new resources to be deliverable simultaneously with all existing resources in the area upstream of each studied interface. Thus, new resources must be deliverable under highly unlikely circumstances because (1) many proposed new resources will never enter service, even among those that accept cost allocations to interconnect, and (2) some existing capacity would retire if some resources in the Cluster Study were built, since this would otherwise lead to oversupply in the capacity market. Project developers may be forced to accept preliminary and/or final cost allocations for expensive upgrades that will not ultimately be needed to make their capacity deliverable by the time they are built. This dynamic deters new entry, raises costs for consumers, and protects existing resources in export-constrained areas from competition by new entrants.
- **Deterministic test methods are poorly suited to the technologies seeking to interconnect**. Intermittent renewable output is highly variable and the correlation of these resources affects the timing of when they are both deliverable and contribute to reliability. Storage resources adjust output levels to manage their stored energy and complement variations in renewable output. No single UCAP derating factor accurately quantifies the output from these resources during hours when they contribute to reliability. NYISO's suggestion to use ELCC techniques to determine derating factors

[1] See Section IV.A of our 2024 State of the Market Report, available here

for storage is likely an improvement. But it is still an oversimplification because ELCC values reflect the amount of conventional capacity that provides equivalent reliability benefit, not an output level that is expected from the resource during critical reliability hours. To give a highly simplified example, if a battery has a 50% ELCC because it is modeled as operating at full output during one critical event and being depleted during another, deterministically modeling it at 50% of its UCAP does not accurately capture whether it is deliverable or not. Since the nature of these resources' contributions to resource adequacy is fundamentally probabilistic, there is likely no way to model them in a deterministic test that does not risk significantly over- or under-estimating deliverable capacity.

- **The interconnection process is not the only way to manage deliverability of capacity resources**. Several of NYISO's highway interfaces are managed with capacity market incentives rather than the deliverability process. New resources do not have to prove they are deliverable across these interfaces before selling capacity – instead, they earn a capacity price reflecting the value of additional capacity in the zone where they are located. In principle, there is no reason why any interface modeled in NYISO's resource adequacy model (GE-MARS) cannot be used to define capacity zones in this way. For example, the UPNY-SENY interface between zones A-F and G-I was once studied in the deliverability highways test and caused SDUs to be identified, but NYISO ceased studying it in the deliverability test after the creation of the G-J locality in 2013.

Therefore, we recommend pursuing capacity market changes alongside deliverability test improvements to address the structural shortcomings of the deliverability process. Changes that would allow a significant reduction of the scope of the deliverability process include:

- Establish a larger set of capacity zones based on interfaces modeled in NYISO's resource adequacy model,[2] or
- Use existing capacity accreditation processes to set Capacity Accreditation Factors (CAFs) that reflect the impact of intra-regional transmission bottlenecks. For example, a resource in Zone A would receive a CAF calculated based on the marginal benefit of capacity in Zone A relative to the benefit of 'perfect' capacity in the downstream portion of the Rest of State capacity region (e.g. Zone F).

With either of these approaches, it would no longer be necessary to perform the Highways deliverability test in the Cluster Study for most or all of the currently studied interfaces. Instead, new entry would simply affect its zone's capacity price at the time it enters service if capacity from that zone is bottled in GE-MARS. Importantly, falling prices in bottled areas would affect both new and existing resources, providing an efficient means to manage deliverability bottlenecks through both entry and retirement decisions.

We look forward to engaging further with NYISO and stakeholders on these issues.

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[2] See Recommendation #2022-4 and Section VIII.C of our 2024 State of the Market Report, available here.