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June 10, 2016

SENT VIA ELECTRONIC FILING
Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Room 1-A209
Washington, D.C. 20426

Re: Docket No. ER16-1751-000 – New York Independent System Operator, Inc.

Dear Secretary Bose:

Attached for filing in the above-referenced proceeding, please find the Comments of The New York State Public Service Commission. The parties have also been provided with a copy of this filing, as indicated in the attached Certificate of Service. Should you have any questions regarding the attached, please feel free to contact me at (518) 402-1537.

Very truly yours,

/s/ Jay Goodman
Jay Goodman
Assistant Counsel

Attachment
cc: Service List

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

New York Independent System Operator, Inc.	)	**Docket No. ER16-1751-000**

COMMENTS OF THE NEW YORK STATE PUBLIC SERVICE COMMISSION

INTRODUCTION

Pursuant to Rule 213 of the Federal Energy Regulatory Commission's (Commission) Rules of Practice and Procedure, 18 C.F.R. §385.213, and the Combined Notice of Filings #1 issued on May 20, 2016, the New York State Public Service Commission (NYPSC) hereby submits these Comments in response to the proposed Market Administration and Control Area Services Tariff (Services Tariff) amendments filed herein by the New York Independent System Operator, Inc. (NYISO).[1] As detailed below, the NYPSC (i) opposes the NYISO's proposal to "adjust" the historical data used to calculate the Winter-Summer Ratio (WSR), which reflects seasonal differences in capacity availability between the Summer and Winter Capability Periods, but (ii) supports the NYISO's proposal to maintain the Level of Excess Adjustment used to estimate Net Energy and Ancillary Services

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[1] Docket No. ER16-1751-000, New York Independent System Operator, Inc., Tariff Filing (dated May 20, 2016).

(EAS) revenues embedded in the Installed Capacity (ICAP) Demand Curves.

COMMUNICATIONS

The NYPSC requests that all correspondence and communications concerning this filing be sent to each of the following persons, and that each person is included on the Commission's official service list for this proceeding:[2]

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DISCUSSION

The NYPSC remains engaged in the NYISO stakeholder process that is contributing to the development of new ICAP Demand Curves beginning with the 2017/2018 Capability Year.[3] The NYPSC generally supports, or does not oppose, the DCR process and methodology changes proposed in the NYISO's Tariff Filing, but notes that two proposals warrant discussion. The first

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[2] The views expressed herein are not intended to represent those of any individual member of the NYPSC. Pursuant to Section 12 of the New York Public Service Law, the Chair of the NYPSC is authorized to direct this filing on behalf of the NYPSC.

[3] This periodic process often is referred to as the ICAP Demand Curve reset (DCR).

relates to the WSR, which enables the Demand Curves to account for seasonal differences in capacity availability that contribute to variations in capacity prices throughout the year.[4] The NYISO proposes to "adjust" the historical data used to calculate the WSR, thereby eliminating the timing of actual entry and exit and failing to account for known and predictable market activity. This adjustment therefore would result in new Demand Curves that reflect inaccurate, unjust, and unreasonable capacity prices. Second, the NYISO proposes to continue the current methodology used to derive the Level of Excess Adjustment, which is a critical element of the formula used to estimate Net EAS Revenues. The current method used to derive this Adjustment is consistent with the Services Tariff.

I. The Proposed Change in Derivation of the WSR Should Be Denied

The NYISO explains in the Tariff Filing that the ICAP Demand Curves are designed to reflect variations in capacity availability between the Summer and Winter Capability Periods "that contribute to differences in capacity prices throughout the year."[5] These differences include, but are not limited to, the impact of ambient temperature on generating unit capability, changes in imports and exports, and the available supply of

[4] Tariff Filing at 14-15.

[5] Id. at 14.

Special Case Resources (which are higher in the Summer Capability Period). The NYISO explains that seasonal differences in capacity availability must be accounted for accurately in the ICAP Demand Curves "[t]o provide for revenue adequacy for the peaking plant when needed to maintain the applicable minimum capacity requirements...."[6]

The factors identified above typically result in capacity prices that are higher during the Summer Capability Period than the Winter Capability Period. Higher prices during the Summer Capability Period tend to promote new market entry in advance of the Summer Capability Period.[7] Conversely, units tend to exit the market during the Winter Capability Period when capacity prices decline.[8] During the DCR process, incumbent generators argued that these regular, market-driven trends in seasonal market entry and exit actually constitute anomalous events that bias the supply reflected in the historic data.[9] The incumbent generators contended that these known trends should be

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[6] Tariff Filing at 14.

[7] Data supporting this trend is available at: http://www.nyiso.com/public/webdocs/markets operations/services/planning/Documents and Resources/Planning Data and Reference Docs/Data and Reference Docs/2016 Load Capacity Data Report.pdf.

[8] Data supporting this trend is available at: http://www.nyiso.com/public/markets operations/services/planning/documents/index.jsp.

[9] Tariff Filing at 15.

eliminated from calculation of the WSR because market entry and exit that tracks seasonal changes in capacity prices would impact the WSR.[10]

The NYISO proposes in the Tariff Filing to "adjust" the actual historical data to remove from the WSR calculation the seasonality of unit entry and exit. However, this adjustment is critical because ICAP reference prices for the Summer and Winter Capability Periods are set to levels that the proxy unit would need for revenue adequacy.[11] If, as the NYISO proposes, the WSR is altered in a way that ignores known market-driven events, then the reference price for the Summer Capability Period would be set at a level of excess that would be artificially high level based on the expected continuation of the historic pattern of seasonal market entry and exit.

Using an actual representation of the ratio of expected available capacity is imperative. Overstating, by any amount, the level of capacity available in the Winter, or understating the amount available in the Summer, artificially increases the WSR. Increasing the WSR has the effect of decreasing expected capacity revenues in the Winter, which then increases the revenues required by the reference peaking plant

[10] Tariff Filing at 15.

[11] Ensuring revenue adequacy for the proxy unit is the essential purpose of the administratively-determined ICAP Demand Curves.

(and subsequently the reference price) in the Summer. The Summer reference price is the point that actually anchors the Demand Curve. The proxy unit thus would be expected to receive revenues that exceed the minimum amount needed for revenue adequacy, if the WSR is modified as proposed. Significantly, the NYISO neither claims nor demonstrates that the historic pattern of seasonal market entry and exit will not be repeated during the life of the reference peaking plant. The proposed WSR, therefore, would result in ICAP Demand Curves with reference prices that are excessive, unjust, and unreasonable.

II. The NYISO's Decision to Retain the Level of Excess Adjustment, as Required by the Services Tariff, Should Be Approved

Pursuant to the Services Tariff, annual Net EAS Revenues estimated for the proxy unit peaking plant must "reflect market conditions in which the level of available capacity is equal to the applicable minimum [ICAP] requirement, plus the MW value of the relevant plant's capacity."[12] The NYISO explains that this Level of Excess Adjustment is required to ensure revenue adequacy for a peaking plant whose market entry is necessary to maintain reliability.[13]

[12] Tariff Filing at 7.

[13] Id.

According to the NYISO, actual market conditions have historically exceeded the incremental capacity reflected in the level of excess adjustment.[14] The NYISO consequently adjusted the Net EAS Revenue estimate to forecast the earnings appropriate for the level of excess specified in the Services Tariff.[15] Recently, however, capacity levels have diminished in New York as facilities were mothballed or retired. The NYISO reports that "certain stakeholders" argued that recent and potential future reductions in excess capacity should be addressed by eliminating from the ICAP Demand Curves any level of excess adjustment.[16]

The NYISO instead proposes to continue the existing Level of Excess Adjustment methodology, and to sustain the derived Adjustment throughout the four-year period of the updated ICAP Demand Curves.[17] According to the NYISO, this proposal is consistent with the Services Tariff and past DCR processes.[18] The NYISO explains further that the development of this Adjustment factor is complex, and any alternative would be subject to a similar degree of imprecision.[19] The NYISO also

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[14] Tariff Filing at 7.

[15] Id.

[16] Id.

[17] Id. at 8.

[18] Id.

[19] Id.

declined to update the Level of Excess Adjustment on an annual basis because the complexity – and likely controversy – of the calculation could increase the risk of litigation, "thereby undermining the stability and predictability" intended by the annual update process.[20]

The NYPSC agrees with and supports the NYISO's proposal to continue to apply Services Tariff rules pertaining to the Level of Excess Adjustment. The Services Tariff stipulates that the Net Cost of New Entry (CONE) indicated by the ICAP Demand Curves should be calculated at the minimum ICAP requirement plus the MW value of the reference peaking plant.[21] The NYISO correctly determined that the reference peaking unit capacity represents the proper level of excess above the reserve margin for calculation of the Net CONE.[22] However, because the EAS Revenues embedded in the Net CONE are based on three years of historic location-based marginal prices and ancillary services prices under a level of excess greater than that required by the Services Tariff, this calculation understates the EAS Revenues.[23] The Level of Excess Adjustment thus needs to

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[20] Tariff Filing at 9.

[21] Id. at 7.

[22] NYISO Services Tariff, §5.14, Installed Capacity Spot Market Auction and Installed Capacity Supplier Deficiencies.

[23] Tariff Filing at 7.

to be applied to account for the fact that the historic level of excess is significantly higher than the MW value of the reference peaking unit. That is, the Level of Excess Adjustment remains necessary for ICAP Demand Curve accuracy. The NYPSC also agrees that annual updates to the Level of Excess Adjustment would be complex, controversial, and incompatible with the simple, transparent, and formulaic method that is an absolute necessity for effective annual updates.

CONCLUSION

For the foregoing reasons, the Commission should (i) reject the NYISO's proposal to "adjust" the historical data used to calculate the WSR, and (ii) approve the NYISO's proposal to retain the Level of Excess Adjustment, as required by the Services Tariff.

Respectfully submitted,

Kimberly A. Harriman

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated: Albany, New York
June 6, 2015

/s/ Jay Goodman

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