

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

New York Independent System Operator, Inc.)

Docket No. ER16-425-000

**COMMENTS IN SUPPORT OF
INDEPENDENT POWER PRODUCERS OF NEW YORK, INC.
AND THE ELECTRIC POWER SUPPLY ASSOCIATION**

On November 30, 2015, the New York Independent System Operator, Inc. (“NYISO”) filed with the Federal Energy Regulatory Commission (“Commission”) proposed revisions to its Market Administration and Control Area Services Tariff (“Services Tariff”) and Open Access Transmission Tariff (“Tariff”) to implement improvements to scarcity pricing in the Real-Time Market (“Scarcity Pricing Proposal”).¹ Independent Power Producers of New York, Inc. (“IPPNY”)² and the Electric Power Supply Association (“EPSA”)³ (collectively, “IPPNY/EPSA”) support the Scarcity Pricing Proposal because it will improve the accuracy of real-time energy prices, support efficient dispatch, and reduce uplift costs. While the proposal represents a positive improvement in supporting price formation, we continue to support the Commission’s efforts to work with the NYISO to further improve price formation.

¹ *New York Indep. Sys. Operator, Inc.*, Docket No. ER16-425-000, Proposed Revisions to Services Tariff and OATT to Implement Improved Scarcity Pricing (Nov. 30, 2015) (“November 30 Filing”). Capitalized terms that are not otherwise defined herein shall have the meaning specified in the NYISO OATT and Services Tariff, including in the proposed revisions to those tariffs included in the November 30 Filing.

² IPPNY is a not-for-profit trade association representing the independent power industry in New York State. Its members include nearly 100 companies involved in the development and operation of electric generating facilities and the marketing and sale of electric power in New York. IPPNY’s members include suppliers and marketers that participate in the NYISO’s energy and capacity markets. This pleading represents the position of IPPNY as an organization, but not necessarily the views of any particular member with respect to any issue. IPPNY filed a doc-less Motion to Intervene in this docket on December 17, 2015.

³ EPSA is the national trade association representing leading competitive power suppliers, including generators and marketers. Competitive suppliers, which collectively account for 40 percent of the installed generating capacity in the United States, provide reliable and competitively priced electricity from environmentally responsible facilities. EPSA seeks to bring the benefits of competition to all power customers. This pleading represents the position of EPSA as an organization, but not necessarily the views of any particular member with respect to any issue. EPSA filed a doc-less Motion to Intervene in this proceeding on December 16, 2015.

I. THE COMMISSION SHOULD ACCEPT THE SCARCITY PRICING PROPOSAL

The NYISO proposes to incorporate scarcity pricing into the real-time optimization by establishing a supplemental 30-minute reserve requirement in the Real-Time Market when it activates Special Case Resources and/or Emergency Demand Response Program resources (collectively, “Demand Response Resources”). The NYISO utilizes scarcity pricing during Real-Time Market periods when the NYISO has called upon Demand Response Resources to provide load reduction to maintain system reliability. Scarcity pricing is intended to ensure that Real-Time Market prices appropriately reflect the costs associated with deploying these Demand Response Resources. The NYISO currently uses ex-post logic to adjust Real-Time Market prices after resource schedules have been established by evaluating whether the NYISO would have likely experienced a shortage of operating reserves absent the activation of Demand Response Resources. This ex-post logic has the potential to result in uplift costs. The Scarcity Pricing Proposal is consistent with the Commission’s price formation efforts and will more accurately reflect real-time needs in the market clearing price, thereby reducing uplift costs and supporting system reliability.

In June 2014, the Commission initiated the price formation proceeding to evaluate issues regarding price formation and noted that:

[i]deally, the locational energy market prices in energy and ancillary services markets would reflect the true marginal cost of production, taking into account all physical system constraints, and these prices would fully compensate all resources for the variable cost of providing service.⁴

The Scarcity Pricing Proposal is consistent with the Commission’s goals, as it will improve price formation during periods of scarcity by more accurately and transparently reflecting scarcity

⁴ *Price Formation in Energy and Ancillary Services Markets Operated by Regional Transmission Organizations and Independent System Operators*, Docket No. AD14-14-000, Notice (June 19, 2014), at 2.

situations in market outcomes. The supplemental 30-minute reserve requirement is more likely to incent market participants to take actions and make investments in their capabilities to respond to shortage pricing signals, which, in turn, will support reliability.

The Scarcity Pricing Proposal also aligns with other principles the Commission has pursued in the price formation proceeding. Specifically, the Commission also issued a Notice of Proposed Rulemaking proposing to require that each regional transmission organization (“RTO”) and independent system operator (“ISO”) trigger shortage pricing for any dispatch interval during which a shortage of energy or operating reserves occurs.⁵ In the NOPR, the Commission emphasized that the proposal “should ensure that a resource is compensated based on a price that reflects the value of the service the resource provides.”⁶ The NYISO’s proposal to incorporate the shortage pricing methodology into real-time optimization through a new 30-minute reserve product is consistent with the Commission’s efforts to ensure that shortage pricing is triggered during the period when there is a shortage and the resulting prices appropriately reflect the value of the service provided.

For these reasons, IPPNY/EPISA support and are encouraged by the Scarcity Pricing Proposal, not only as consistent with the Commission’s price formation efforts, but also as a valuable reform to the market construct that will ensure accurate Real-Time Market prices that reflect the systems needs and the value of the service.⁷ While this proposal is a positive

⁵ *Settlement Intervals and Shortage Pricing in Market Operated by Regional Transmission Organizations and Independent System Operators*, 152 FERC ¶ 61,218 (2015) (“NOPR”).

⁶ *Id.* at P 51.

⁷ EPISA has consistently urged the Commission through comments, priority principles and recommendations, and expert reports to ensure that uplift and underlying issues are addressed as key elements of the overall solution to improve price formation across the ISOs/RTOs. *See, e.g., Settlement Intervals and Shortage Pricing in Markets Operated by Regional Transmission Organizations and Independent System Operators*, Docket No. RM15-24-000, Comments of the Electric Power Supply Association (Nov. 30, 2015); *Price Formation in Energy and Ancillary Services Markets Operated by Regional Transmission Organizations and Independent System Operators*, Docket No. AD14-14-000, Post-Technical Workshop Comments Of The Electric Power Supply Association (Mar. 6, 2015);

improvement, the NYISO and the Commission should continue to pursue additional improvement to price formation, consistent with the price formation principles.

II. CONCLUSION

For the foregoing reasons, the Commission should accept the Scarcity Pricing Proposal by January 29, 2016, as the NYISO requested, so that it can go into effect on or before June 30, 2016, once the NYISO had implemented the necessary software modifications.

Respectfully submitted,

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Winter 2013-2014 Operations and Market Performance in Regional Transmission Organizations and Independent System Operators, Docket No. AD14-8-000, Post-Conference Comments of the Electric Power Supply Association (May 14, 2014); Susan L. Pope, *Price Formation in ISOs and RTOs: Principles and Improvements*, (Oct. 29, 2014), available at http://www.epsa.org/forms/uploadFiles/2CC210000016F.filename.EPSA_Price_Formation_Oct_29_2014_FINAL.pdf; A. Joseph Cavicchi, *The Polar Vortex: Implications for Improving the Efficiency of Wholesale Electricity Spot Market Pricing* (Mar. 31, 2014), available at http://www.epsa.org/forms/uploadFiles/29D4100000011.filename.Compass_Lexecon_Polar_Vortex_Implications_aper_3_31_2014.pdf.

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 at Albany, NY, December 21, 2015.

By: David B. Johnson
David B. Johnson