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Via Electronic Mail to deckels@nyiso.com

To: New York Independent System Operator, Inc. ("NYISO")

From: Matthew Schwall, Director of Market Policy & Regulatory Affairs

Date: January 8, 2019

Re: **More Granular Operating Reserves**

At today's joint meeting of the Installed Capacity and Market Issues Working Groups, the NYISO made a presentation on anticipated schedules and deliverables for projects prioritized by stakeholders for 2019. Among those projects is the More Granular Operating Reserves project, which is composed of three components including a proposal to establish a 10-minute reserve requirement for New York City. The market design concept for the entire project is slated to be completed in Q3 2019 but, in response to concerns previously raised by Market Participants and the importance placed on this issue by the Market Monitoring Unit ("MMU"), Potomac Economics, the NYISO today requested stakeholder feedback on whether the 10-minute reserve requirement component of the project should be accelerated for completion by Q1, so that it may be implemented by June 2019. IPPNY is strongly supportive of this project in its entirety and appreciates the NYISO's willingness to bifurcate the project to allow market benefits to be garnered in 2019. IPPNY is fully in favor of accelerating project development and holding a stakeholder vote on the 10-minute reserve requirement component by March, 2019.

During the meeting, a concern was raised when the NYISO stated that a consumer impact analysis of the project could not be completed in time for a Q1 vote. IPPNY acknowledges the benefit of consumer analyses as a general matter but, given the facts and circumstances faced in this case, IPPNY wishes to impress upon the NYISO, on balance, the importance of proceeding to implement a market design for procuring additional operating reserves in Zone J by the summer 2019 capability period. First, the potential reliability impacts of delaying project implementation cannot be overlooked. Second, until this correction is made, market signals will be artificially suppressed from the efficient levels. This change is needed to align the NYISO price determination with the reliability requirements that the NYISO implements in its system.

The flaw identified in the NYISO's market structure is having real world consequences. In its Quarterly Report on the New York ISO Electricity Markets for the Third Quarter of 2018, the MMU highlighted a two-day period during the summer 2018 capability period where the NYISO was forced to deploy demand response to prevent capacity deficiencies in Zone J. The estimated actual reserve needs during these deployments averaged nearly 650 MW. However, because the existing NYISO software does not explicitly model this reserve need, out-of-market actions are instead used to satisfy reserve requirements. In Q3 of 2018 alone, these necessary actions led to $10 million in uplift payments that cannot effectively be hedged. The out of market actions also suppressed energy prices by overcommitting the system relative to what would be required without the non-modeled reliability requirement. This shortcoming of the market software would be addressed by the NYISO's proposed project to procure more granular operating reserves. The MMU supports this change, which will eliminate the inefficient operation of the system to the detriment of consumers that currently occurs.

The need to move forward now to correct this market design flaw is further demonstrated by the software limitations the NYISO faces. As identified by NYISO staff during today's meeting, failure to implement the first component of this project by securing a stakeholder vote by March 2019 is likely to result in an implementation delay of at least 3 years, due to the deployment of the EMS/BMS software and then the deployment schedules of other stakeholder/NYISO prioritized projects.

IPPNY appreciates the NYISO's presentation of the issue to stakeholders, and fully supports completing the 10-minute reserve requirement component of this market design and holding a stakeholder vote on it by March, 2019.