

March 26, 2012

To: Leigh Bullock

From: Erin Hogan

Re: NYSERDA Comments on the Capacity Market Study draft Request for Proposals

NYSEERDA has the following comments on the Capacity Market Study Request for Proposals.

- NYSEERDA is concerned that the proposed Capacity Market Study scope is so broad and time-constrained that, at best, the Study will be able to accomplish only a cursory review of the topics. For this reason, any recommendations that are included in the Study results should be regarded as preliminary. If a recommendation is ultimately considered for implementation, further quantitative analysis should be conducted to determine if the merits are truly beneficial to the NYISO capacity markets. Alternatively, this Study would benefit from a phased approach, with design of each phase based on thoughtful evaluation of the results of the previous phase, rather than attempting to complete such a comprehensive analysis in one study within three months.
- Under the Scope of Analysis, it states "...analyze cost-effective modifications that could be made to the NYISO capacity market", yet nowhere under any of the objectives does it reiterate the importance and need for cost-effectiveness analysis. The need for this type of analysis may be inferred in a few of the objective descriptions, but because cost-effectiveness is universally important to all stakeholders, this concept should be explicitly identified.
- Objective 1 expects the contractor to evaluate the historical effectiveness of the NYISO capacity market, but it is unclear how effectiveness is to be measured. The criteria for determining historical effectiveness should be clearly defined.
- Objective 2 expects the contractor to "evaluate the design and performance of the capacity markets in PJM and ISO-NE, and identify their strengths and weaknesses in areas that would be applicable were the NYISO to adopt a similar market construct." As part of this evaluation, the contractor is expected to include an assessment of "the ability of these markets to attract new capacity and maintain existing economic capacity." It is unclear how the contractor will be able to determine if existing capacity is economic without full access to each PJM and ISO-NE plants' operating costs and revenue. At best, the contractor will be making high-level assumptions, and these could lead to erroneous recommendations.

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- Objective 4 expects the contractor to "evaluate the desirability of the forward capacity market.." It is not clear what "desirability" means. Perhaps instead of evaluating "desirability" the contractor should be directed to quantify the costs and benefits of a forward capacity market.
- Objective 5 expects the contractor to "evaluate the interrelationships among alternative capacity market constructs...and whether they provide efficient price signals to various capacity resources including ... varying fuel sources and technologies." The NYISO recently instituted the Electric Gas Coordination Working Group (ECGWG) "to identify and seek to resolve issues associated with outages, upgrades, scheduling, and planning for the natural gas supply resources within and into North America, and for the delivery system into and within New York particularly as it impacts the supply of natural gas to electric generating stations for the production of energy where market participants and the gas sector are discussing operating characteristics of our respective systems." It seems premature for the contractor to conduct alternative fuel source assessment considering that ECGWG is in its early phase of collecting information.
- Objective 6 requires that "any recommendation should consider design and implementation costs. We suggest that "consider" be replaced by "be cost effective given the proposed".