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

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

Date: January 22, 2018

Re: Presentation made by Mark Younger at January 10 ICAPWG/MIWG Meeting

The Independent Power Producers of New York, Inc. (“IPPNY”) submits these brief comments in response to, and in support of, the presentation made by Mark Younger of Hudson Energy Economics, L.L.C. on January 10, 2018 to NYISO Staff and attendees of a joint meeting of the Installed Capacity and Market Issues Working Groups on the NYISO’s proposed On Ramp/Off Ramp concept for creating and eliminating capacity zones. IPPNY supports the need for improved capacity zone creation rules that eliminate the severe flaws with the existing deliverability based rule. The NYISO’s proposed methodology, however, due to its own flaws, does not improve the existing capacity zone creation rules and there is no need for zone elimination rules. Rather, it would be far more appropriate to let the market set clearing prices based on resource availability and the appropriate Locality demand curve.

As we have stated in previous comments, IPPNY has serious concerns with the NYISO’s proposed On Ramp/Off Ramp concept, concerns which, after Mr. Younger’s presentation, are now shared by market participants in other sectors and the NYISO’s Market Monitoring Unit (“MMU”) as evidenced by verbal feedback received during the presentation. The serious flaws that exist within the proposal would likely cause the premature elimination of capacity zones when price signals in the zones are still needed to maintain resource adequacy. The result could be premature generator retirements and a new demand curve insufficient to attract the level of generation necessary to meet resource adequacy needs. IPPNY urges the NYISO to resolve the issues identified by Mr. Younger, irrespective of the February timeframe the NYISO has established for bringing a market design concept and tariff language to a vote.

The NYISO has presented the following project design statement for the On Ramp/Off Ramp process:

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“Develop a robust and transparent process for the creation and elimination of Localities based on reliability principles to ensure locational capacity prices reflect system reliability needs and market conditions.”<sup>1</sup>

The most significant takeaway from Mr. Younger’s presentation is that the process that the NYISO has proposed fails to accurately reflect system reliability needs. When the calculations under the NYISO’s proposed On Ramp/Off Ramp test methodology, which is solely transmission security based, are compared to the minimum capacity requirements that would be set by the NYISO’s Alternative Methodology for Determining Locational Capacity Requirements (“LCRs”), which is resource adequacy based, the NYISO’s On Ramp/Off Ramp methodology significantly understates the capacity requirements within the Locality. At the January 10 meeting, the MMU expressed “profound concern” over this disparity (the On Ramp/Off Ramp proposal results in a capacity requirement that is 12% lower than the requirement established by the Alternative LCR Methodology), noting what appeared to be as high as an 1,800 MW mismatch between the level of capacity required for the Lower Hudson Valley by each of the two methods.

The incongruity of using a transmission security analysis as the basis of the On Ramp/Off Ramp test for determining when a zone should be created was again confirmed by the NYISO’s scenario in the Indian Point Energy Center retirement analysis where the NYISO determined that, in the absence of capacity additions in Southeast NY, there was a reliability need that was driven by resource adequacy violations, not transmission security violations. Again, a transmission security based analysis would seriously understate the need for capacity in the Lower Hudson Valley.

As the NYISO has acknowledged, this inconsistency between the proposed transmission security analysis based test and the resource adequacy analysis is primarily driven by the transmission security analysis being performed based on generating unit ICAP ratings, while the resource adequacy analysis fully accounts for expected forced outages. Mr. Younger suggested revising the NYISO’s proposed method to use unforced capacity ratings and to also incorporate expected derated Special Case Resources and intermittent generation capability. Revising the test consistent with Mr. Younger’s proposal would make the On Ramp/Off Ramp test consistent with the transmission security limit backstop that the NYISO has incorporated into its Alternative LCR methodology.

If the NYISO’s On Ramp/Off Ramp proposal is not revised to use unforced capacity ratings it will understate the need for capacity in a locality, potentially resulting in premature zone elimination and concomitant market price signals insufficient to attract the level of capacity needed to meet minimum capacity requirements. It would also fail to create needed zones until the market signal for the zone, once created, would show that the zone has very low levels of excess. Again, this would fail to provide appropriate signals to resources located in the zone.

IPPNY appreciates the NYISO’s attention to this critical matter and eagerly awaits its response.

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<sup>1</sup>See *On Ramps and Off Ramps: Complete Market Design* presented by David Allen, Randy Wyatt, and Lorenzo Seirup at the December 13, 2017 meeting of the BIC. [http://www.nyiso.com/public/webdocs/markets\\_operations/committees/bic/meeting\\_materials/2017-12-13/On%20and%20Off%20Ramps%20171213%20BIC%20Presentation.pdf](http://www.nyiso.com/public/webdocs/markets_operations/committees/bic/meeting_materials/2017-12-13/On%20and%20Off%20Ramps%20171213%20BIC%20Presentation.pdf)