

September 22, 2014

Via Electronic Mail

Hon. Kathleen H. Burgess
Secretary
NYS Public Service Commission
Three Empire State Plaza
Albany, New York 12223

RE: CASE 14-M-0101 – *Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision*

Dear Secretary Burgess:

Enclosed for filing with the Commission are the Comments of the New York Independent System Operator, Inc. (“NYISO”) in the *Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision*.

Should you have any questions on the transmittal of these comments, please contact John Cutting at jcutting@nyiso.com or (518) 356-7521. Please address any other questions to myself at (518) 356-7346 or gdauidson@nyiso.com.

Sincerely,

/s/ Gary Davidson

Gary Davidson
Team Leader, Strategic & Business Planning
New York Independent System Operator

STATE OF NEW YORK
Public Service Commission

Proceeding on Motion of the)
Commission in Regard to)
Reforming the Energy Vision)

Case 14-M-0101

Comments of the New York Independent System Operator, Inc.

On August 22, 2014, the New York State Department of Public Service (“DPS”) Staff (“Staff”) issued its “Developing the Reforming the Energy Vision Market in New York: DPS Staff Straw Proposal on Track One Issues” (“Straw Proposal”).¹ Staff’s Straw Proposal addressed many important issues that require resolution prior to implementation of the Reforming the Energy Vision (“REV”). The New York Independent System Operator, Inc. (“NYISO”) appreciates the opportunity to review and provide comment on the progress made by Staff thus far.

The NYISO believes that the Straw Proposal is another important step in implementing the Public Service Commission’s (“PSC”) REV initiative, and looks forward to working closely with DPS Staff to more fully develop the platform design, market design, and rules for the initiative.

Sections I through VI below contain the NYISO’s comments on DPS Staff’s Straw Proposal.

I. Enabling New Roles for Key Participants: DER Providers and ESCOs

The Straw Proposal contemplates a host of new roles for participants in New York’s energy markets. Some of the participants filling these roles will be new to energy markets, and others, such as energy service companies (“ESCOs”), may engage in new business activities. While some of these roles are already part of the regulatory landscape, the Straw Proposal appropriately identifies that the regulatory status of Distributed Energy Resources (DER) providers should be addressed.²

¹ Case 14-M-0101 – Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision, Developing the REV Market in New York: DPS Straw Proposal on Track One Issues (issued Aug. 22, 2014) [hereinafter *DPS Straw Proposal*].

² *Id.* at 33.

In noting that DER providers may not neatly fit in the current regulatory scheme, the Straw Proposal sought comment on whether, and to what extent, DER providers should be subject to regulatory oversight.³ The NYISO believes it may be appropriate in certain circumstances for DERs to be subject to PSC oversight, particularly to the extent that DERs are participating in Distributed System Platform (“DSP”) markets designed and approved by the PSC. However, to the extent that DERs participate in wholesale markets, they, and/or the programs in which they participate, will be subject to Federal Energy Regulatory Commission (“FERC”) regulation.

The REV initiative seeks to transform New York’s retail energy markets and, in the process expand the types and numbers of participants who actively engage in the energy industry. While the majority of this activity is expected to occur in the retail market, there is the potential for certain activities to cross over into the wholesale markets regulated by FERC and administered by the NYISO.⁴

Because there is the potential for entities to participate in both retail and wholesale markets, the NYISO intends to work closely with the PSC and relevant stakeholders to develop rules that facilitate a robust market for retail DERs, and enable market participants to clearly understand their regulatory obligations.

II. Enabling New Roles for Key Participants: Wholesale Market Interactions

A. Wholesale Benefits Resulting from Expanded Use of DERs

In its Straw Proposal, DPS staff identified one benefit of the REV initiative as the creation of a more efficient retail market load profile, which is expected to provide “direct and immediate benefits” to the bulk power system by reducing wholesale Installed Capacity (ICAP) requirements and peak generation needs.⁵ The Straw Proposal further states that this will “translate into reduced installed capacity obligations and energy costs for DSPs.”⁶

The NYISO believes the impact DERs will have on ICAP requirements will depend on many factors including resource type and the nature and design of DSP programs. System planners will need to review DSP programs, including their sustainable performance

³ *Id.*

⁴ As the REV proceeding continues, the PSC, DPS Staff, the NYISO, and other relevant stakeholders will need to work together to consider the United States Court of Appeals for the District of Columbia Circuit decision in *EPISA v. FERC*, 753 F.3d 216 (D.C. Cir. 2014), and resolve issues related to the participation of demand response resources in New York’s wholesale and retail electricity markets.

⁵ *DPS Straw Proposal*, *supra* note 1, at 34.

⁶ *Id.*

characteristics, to measure their appropriate impact on bulk system needs and obligations. To accomplish this, system planners will need to appropriately reflect the distributed resources and efficiency programs in order to maintain reliability and fully realize the benefit of broad integration of these resources.

DER Integration

The Straw Proposal predicts that the integration of DERs will lessen the reliance on expensive and inefficient peaking units in wholesale markets.⁷ The potential impact on bulk system practices will also depend on a uniform understanding of the performance of DERs. In order to achieve this objective, DER integration will require coordination among both distribution and bulk-system planners and operators to understand and determine how DERs can be appropriately reflected in load forecasts, real-time operations, and long-term system planning processes. While the NYISO market structure⁸ includes the fundamental design needed to continue the integration of distributed and variable resources -- such as real-time five-minute base points and settlements, the ability to submit real-time offers, interchange scheduling predominately on a 15-minute basis, and forecasting tools including wind forecasting -- additional coordination and information is needed to allow for the broader integration of DERs.

As DER penetration increases, both bulk and distribution system planners and operators will need to carefully assess DER performance characteristics to understand the benefits they bring to the wholesale market. They will need to coordinate on how best to effectuate these benefits in system operations and planning. With additional information on DER penetration, such as predominate locations, size, and performance characteristics, the NYISO will be better positioned to reflect the impact of DERs on the load forecast and identify and resolve impacts on the bulk system such as the need, if any, to procure additional ancillary services. Flexible, quick-response resources that can react to dynamic system conditions can provide significant value. Ancillary service needs may vary depending on the mix of DERs and centralized generation, making coordination between bulk system operators and planners and distribution operators and planners all the more important.

Visibility into large-scale deployment of DERs on the distribution system is vital to the NYISO's short- and long-term planning processes, particularly with regard to the initial appearance of new DERs and their operational framework. The NYISO has processes in place to provide planners with information on the entry and exit of wholesale resources. For example, proposals for new generation proceed through structured interconnection processes, and exiting assets must go through a retirement process, allowing planners to account for changes in the resource mix and maintain system reliability.

⁷ *Id.*

⁸ Including the investments made in the markets and operator tools, such as the state-of-the-art power control center, also support broader integration of DERs by providing situational awareness.

Customer-sited DERs, on the other hand, may be more likely to enter and exit the market on short or no-notice, and, in certain cases, a specific DER's contribution to the system may change as the host facility's primary operations change. These variables currently lie outside the view of bulk system operators and planners; yet they may have an impact on the ability to rely on DERs to meet system needs in the short- and long- term. Cooperation among bulk and distribution system planners and operators, and transparency in the DER market, are crucial to the mitigation of any uncertainty caused by large-scale deployment of DERs.

At this time, the industry is still working to understand the resource requirements necessary to ensure reliability under a variety of DER deployment and central generation mix scenarios. To the extent that the PSC envisions DER coordination via the DSP, a process will need to be developed to integrate these resources into bulk planning forecasts, and will need to be refined over time as the resource base changes and greater familiarity is gained with both the ability of individual DERs, as well as the ability of the DER fleet, to contribute to system reliability.

Energy Efficiency Integration

Similarly, transparency and coordination are needed to effectively integrate energy efficiency programs into bulk power transmission system planning. The Straw Proposal recommends that each utility submit an Energy Efficiency Transmission Implementation Plan ("ETIP") to facilitate the transition of energy efficiency programs to utility-administered programs.⁹ The NYISO recommends that each ETIP address how energy efficiency targets and investments will be funded, monitored, and their performance measured, so their contributions can be incorporated into the utilities and the NYISO's planning processes.

The NYISO's ability to account for energy efficiency initiatives in its planning processes has evolved over nearly a decade of dialogue among the NYISO, DPS, New York State Energy Research and Development Authority ("NYSERDA"), utilities, and other stakeholders. The NYISO has generally reflected energy efficiency programs, such as those provided by the Energy Efficiency Portfolio Standards ("EEPS"), in its load forecasts to the extent that such programs are approved and funded through a PSC order, and implemented by NYSERDA and/or the investor-owned utilities, or funded by the New York Power Authority or Long Island Power Authority. Transitioning energy efficiency program administration from the existing model to one administered by utilities may introduce new considerations to the bulk system planning processes. As the NYISO stated in its comments submitted July 18, 2014 in this proceeding ("July 18 Comments"), integration of energy efficiency planning into bulk power transmission system forecasts will provide efficient market signals, helping to realize the benefits attributable to investments in energy efficiency.¹⁰ Appropriate forecasting of changes in load levels and load location due to energy efficiency initiatives will help maximize the benefit of such programs.

⁹ *DPS Straw Proposal*, *supra* note 1, at 51.

¹⁰ Case 14-M-0101, Comments of the New York Indep. Sys. Operator, Inc., July 18, 2014, page 4.

B. Coordination Between DSPs and the NYISO

The Straw Proposal identifies the need for thoughtful integration of DER capacity into the bulk power system to achieve the benefits described throughout the Proposal. The Proposal further states that to facilitate the efficient and properly valued integration of DER resources, any forthcoming market rules will need to ensure that DSP-controlled DERs “receive the value of benefits provided not only to the distribution system, but to the bulk power system.”¹¹

The NYISO agrees that the benefits identified by DPS staff in the Straw Proposal are desirable and may occur with the implementation of the REV. Coordination among all stakeholders, including the NYISO and DPS staff, during market design processes will assist in the transition to the REV. This is particularly true where an entity intends to participate in both PSC and NYISO programs. DERs may benefit the distribution or bulk system, depending on their deployment, and the NYISO intends to appropriately account for the benefits provided to the bulk power system.

The NYISO looks forward to working closely with stakeholders to ensure the full value DERs provide to the system is realized, and is committed to compensating appropriate entities for the value they provide to the wholesale market.

III. Building the DSP Market: Interconnection Procedures

The Straw Proposal identified a potential gap in interconnection procedures for DERs greater than 2 MW in size, but smaller than 5 MW.¹² The Proposal further identified a need to increase the transparency of the interconnection process and to make it easier for market participants to interconnect, particularly those attempting to introduce new DER technology.¹³

While the NYISO agrees with the Straw Proposal that greater transparency and less burdensome interconnection rules help remove barriers to entry, the NYISO clarifies that the NYISO’s interconnection procedures apply to all FERC-jurisdictional interconnections, including those between 0 and 5 MW. FERC-jurisdictional interconnections 20MW and smaller participate in the NYISO’s Small Generator Interconnection Procedures.

The NYISO currently receives very few requests for FERC-jurisdictional Small Generating Facilities with a capacity of 5 MW or less (approximately 6 MW out of over 13,000 MW of the current interconnection queue). Since the implementation of its Small Generator Interconnection Procedures, the NYISO has received only fourteen (14) interconnection requests from facilities with a capacity of 5 MW or less. Ten (10) of those fourteen withdrew from the NYISO’s interconnection queue (in most cases because they were determined not to be

¹¹ *DPS Straw Proposal, supra* note 1, at 35.

¹² *Id.* at 58.

¹³ *Id.*

connecting to FERC-jurisdictional facilities. Most requests for generating facilities of this size are submitted to the New York Transmission Owners to interconnect with distribution utilities not subject to FERC jurisdiction.

Those small interconnection facilities that are subject to FERC jurisdiction, and NYISO interconnection procedures, are reviewed and processed in a timely manner in accordance with FERC-approved tariffs. The NYISO's administration of small generator interconnection requests capitalizes on the flexibility in the Small Generator Interconnection Procedures to streamline the time and costs of the interconnection process for small generating facilities. To the extent suggested process improvements have been identified with respect to the NYISO's Small Generator Interconnection Procedures, the NYISO has continued to work with stakeholders to improve its procedures and has proposed improvements to the FERC that have been supported by stakeholders and subsequently approved by the FERC. Indeed, the NYISO recently filed tariff revisions with FERC on August 1, 2014 that incorporate additional enhancements and efficiencies to the Small Generator Interconnection Procedures, particularly with respect to expanded eligibility for the Fast Track Study process – an abbreviated study process previously only available to certain small generator facilities under 2MW.

IV. Building the DSP Market: DSP Platform and Market Vision Planning

Staff's proposal concludes that "there is significant work needed to further define, scope, and plan for the full implementation of the DSP platform and market,"¹⁴ and recommends a three-part planning process that includes a Technical Platform Design Stakeholder Process, a Market Design Stakeholder Process, and a Jointly Filed Uniform DSP plan. The proposal suggests these efforts are essential to develop the technology platform for the DSP market, the market design for the DSP market, and to offer a level of standardization and uniformity across utility service territories that will help to ensure greater market efficiencies.

The NYISO agrees with Staff's goals to maximize standardization in order to achieve greater efficiencies, and agrees that a collaborative stakeholder process is essential to ensure that such standardization can be achieved in a manner that reflects industry and technological trends. Such a stakeholder process will also help to incorporate progress made to date by standard-setting entities such as the National Institute of Standards and Technology ("NIST") to ensure that New York's markets evolve in a manner that aligns with national trends.

The NYISO believes that the three primary areas where Staff calls for stakeholder engagement – technical platform design, market design, and the identification and development of uniform functions and capabilities – are interrelated, and should be addressed in a single, integrated stakeholder process. One possible stakeholder effort is that proposed by the New York Smart Grid Consortium. The NYISO supports approaches like this and intends to participate and offer any expertise it can on platform technology and market design issues.

¹⁴ *Id.* at 66.

V. Demand Response Tariffs

As stated in the Straw Proposal, the United States Court of Appeals for the District of Columbia Circuit ruled on May 23, 2014 that FERC did not have jurisdiction under the Federal Power Act to issue Order No. 745, regarding energy payments for demand response in wholesale electric markets.¹⁵ FERC thereafter sought rehearing *en banc*, but that rehearing request was denied by the Court on September 17, 2014.¹⁶

In response to the Court's decision, the Straw Proposal proposed that the PSC direct a process whereby stakeholders work with utilities, DPS staff, and the NYISO to immediately develop programs that would allow demand response providers to respond to bulk power system needs, as currently provided under the NYISO's Special Case Resource ("SCR") and Emergency Demand Response Programs ("EDRP"), through distribution utilities.¹⁷ The Straw Proposal further proposed that distribution utilities should revise reliability-based demand response programs, as needed, to economic-based programs in order to ultimately include DERs in supply portfolios.¹⁸

The NYISO notes that to the extent there is a transition from current demand response programs, that this transition should be completed in an orderly manner that adequately considers market impact and reliability.

VI. Mitigating Market Power

In its July 18, 2014 comments in this proceeding, the NYISO indicated that it had certain concerns regarding market power in situations where a single entity acted as the DSP, distribution utility, and DER provider or owner, and recommended that an appropriate set of market rules be designed to mitigate any potential issues. The NYISO appreciates the extensive discussion contained in the Straw Proposal addressing how such market power could be monitored and mitigated when necessary, and looks forward to working with the PSC to ensure open, fair, and transparent markets moving forward.

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¹⁵ *EPSA v. FERC*, 753 F.3d 216 (D.C. Cir. 2014).

¹⁶ *EPSA v. FERC*, No. 11-1486 (D.C. Cir. Sept. 17, 2014) (order denying respondent's petition for rehearing *en banc*).

¹⁷ *Id.* at 63.

¹⁸ *Id.* at 64.