

National Grid Comments for ESPWG on the 01/14/2005 Straw Proposal for a NYISO Economic Planning Process

Significant progress has been made within the ESPWG in working to develop a NYISO economic planning process. Nevertheless, we believe that three additional components need to be added to result ultimately in a comprehensive economic planning process.

We also recommend that several qualifications/clarifications be added to the proposal to address some important issues and concerns that have been raised. The Market needs to be given as much information as possible on potential economic opportunities/problems, and fair and ample opportunity to respond to economic opportunities/problems. However, a process needs to be in place which allows for effective regulated solutions to economic problems if the Market does not respond.

Recommended Additional Components for the Straw Proposal to Define a Comprehensive Economic *Planning* Process

1. Mechanism/procedure for NYISO to **identify** economic problems, e.g., where
 - a. Options for responding to economic problem have been identified but not implemented even though projected benefits exceed costs by a significant margin
 - b. No options have been identified but economic problem appears to exist due to market prices that exceed some threshold (to be defined by ISO with input of stakeholders and from PSC?)
 - c. Inefficient market price signals imply the need for market rule modifications (e.g., what the PSC plans to explore in its anticipated seminar/workshop)
2. Clarify the **evaluation/certification process** for regulated economic projects (E.g., How would Article 7 review apply for regulated “economic” transmission projects? What is the review process for regulated economic non-transmission projects if they are anticipated?)
3. **Cost recovery/cost allocation** mechanisms for certified/approved regulated economic projects
 - a. Cost allocation calculated by NYISO in accordance with agreed upon principles (e.g., beneficiaries pay)
 - b. Cost recovery through NYISO tariff (across Transmission Districts)
 - c. PSC cost recovery/cost allocation at the retail level

Recommended Additional Qualifications/Clarifications to Address Important Issues and Concerns

1. **Need for Framework vs. Unnecessary Detail** – The overall Comprehensive Economic Planning Process should be well enough defined so that potential project proponents (a) have enough information to make decisions about going forward and (b) understand the general principles/mechanism by which they will get cost recovery.

The degree of definition at this point in time should reflect a balance between a relatively unambiguous framework sufficiently defined to constitute an economic planning *process*, and the reluctance by some to expend resources to develop a level of detail (with its associated complexity and potential for contentious debate) that some argue may not ultimately be needed and others view as unnecessary in the near term.

2. **Market Should be Given Fair Opportunity** – To provide the Market with an ample and fair opportunity to solve economic problems:
 - a. An economic planning process should provide sufficient and useful information to the market to help it respond effectively to economic problems. (I.e., it should identify potential economic problems.)
 - b. An economic planning process should provide sufficient information to reveal any need to modify market rules and improve price signals.
 - c. Perceived “unfair advantages” of and or interference in the market by regulated projects over Market-based solutions should be analyzed to determine whether they actually exist and any appropriate means to prevent this outcome.
 1. E.g., consideration should be given to the possible chilling effect that a potential regulated project may have on market-based solutions.
 2. Nevertheless, a balance needs to be struck so that this does not become a de facto mechanism for precluding regulated solutions to economic problems or responses to economic opportunities.

3. **Protection Against Unnecessary or Excessively Costly Regulated Economic Projects** – Protective mechanisms/procedures should be developed that

- a. Effectively prevent unneeded regulated economic projects from being approved without precluding worthwhile regulated economic projects.
 - b. Prevent pass-through of cost over-runs of regulated economic projects (perhaps through the implementation of fixed fee projects and/or performance based rates).
- 4. **No Cost Estimates Performed by NYISO** - It should be stipulated that the potential constructors of proposed economic projects (whether market-based or regulated) should provide and be responsible for cost estimates associated with those projects. As part of this economic planning process, the NYISO will not engage in the development of project cost estimates. The NYISO, as the entity with access to the necessary data and modeling capabilities should, however, provide a forecast of potential benefits associated with proposed projects so that a benefit/cost analysis easily follows.
- 5. **No Mandated Construction** – The proposal should stipulate that the construction of regulated economic projects will not be mandated.