

NYISO'S Comprehensive Reliability Planning Process

Prepared By
John P. Buechler

NYISO Environmental Advisory Council Meeting
April 28, 2005
Albany, NY

Outline

- NYISO's Market-Based Philosophy
- NYISO's Approach to Planning
- Phase I: NYISO Comprehensive Reliability Planning Process
 - *Stakeholder Participation*
 - *Summary of Process*
- Phase II: Economic Planning
- Summary

NYISO's Market-Based Philosophy

- NYISO is a strong believer in the power of markets and strives to achieve market-based solutions whenever possible
- This philosophy is supported by the NY PSC and other stakeholders and market participants
- The NYISO has a history of collaboration with its stakeholders and has successfully achieved consensus solutions with broad support
- The NYISO's markets (energy, Ancillary Services, congestion & capacity) support a reliable electric system
- LMP pricing signals provide the benefits of competition while achieving the intended results (e.g.– majority of new generation & Merchant Transmission have been proposed for the Southeast NY region where prices are high)

NYISO's Approach to Planning

- NYISO historically performed short-term planning
- NYISO has employed a phased approach to the development of a Comprehensive Planning Process
 - *Phase I: To address reliability needs first*
 - *Phase II: To address economic considerations*
- Anchored in NYISO's market-based philosophy
- Dedicated stakeholder group was established in June 2003 (ESPWG)
- Active participation by market participants and NYPSC Staff throughout this process

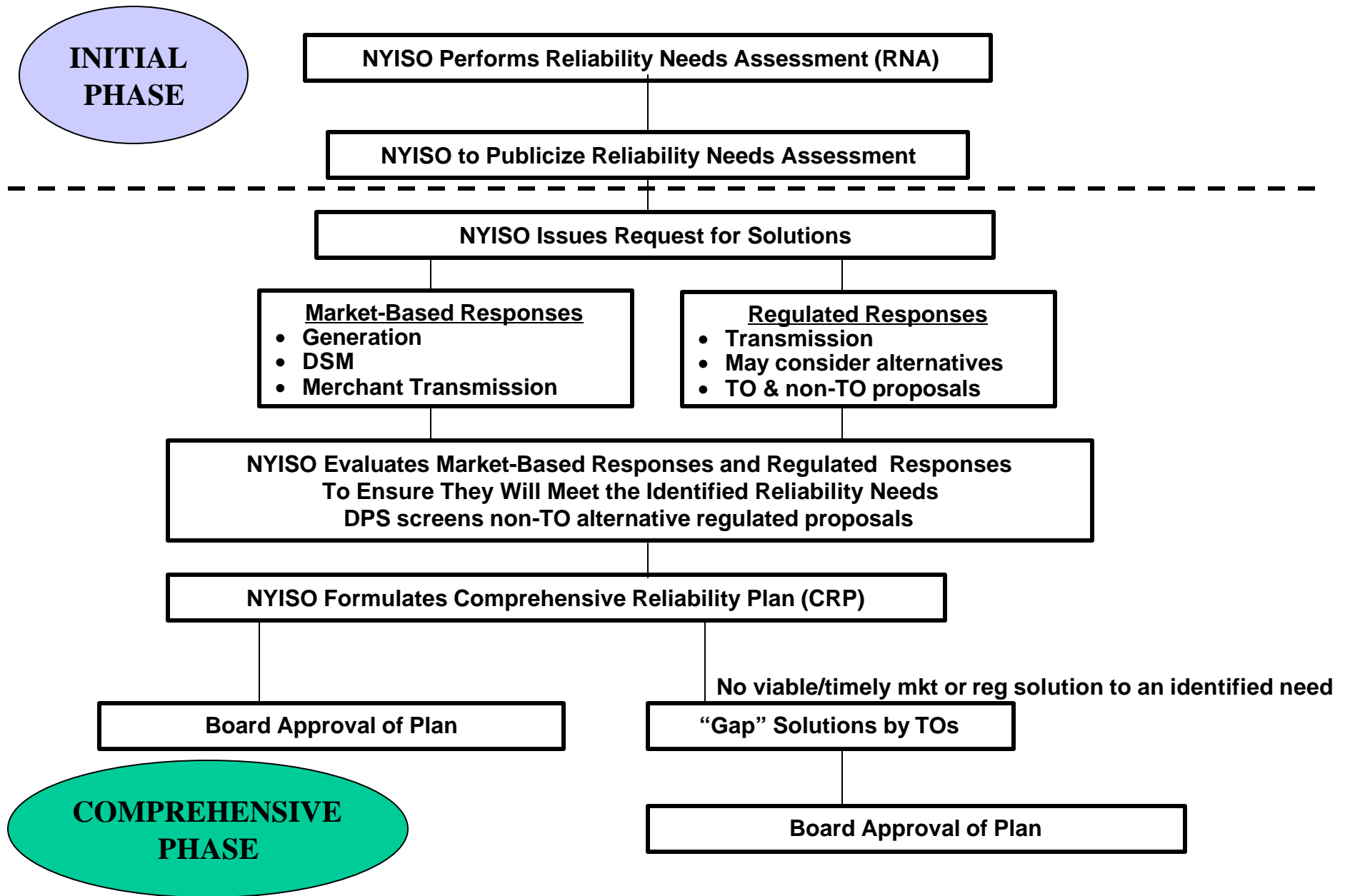
Phase I: Reliability Needs (CRPP)

- A compromise was forged after an intensive stakeholder effort that lasted more than a year.
- Establishes a Comprehensive Planning Process for the identification and resolution of reliability needs that was approved by FERC on December 28, 2005
- Includes a methodology for the analysis and reporting of historic congestion costs
- FERC found the NYISO CRPP:
 - *to “properly balance” consideration of market-based and regulated solutions; and that*
 - *“It is certainly a substantial improvement over planning processes that have traditionally depended upon TO developed regulated solutions.”*

NYISO Comprehensive Reliability Planning Process (CRPP)

- Establishes a formal long-term (10-year) planning process for the NYISO
 - *Provides for both market-based & regulated backstop solutions*
 - *Addresses roles of NYISO, FERC and NY PSC*
 - *Addresses cost allocation and cost recovery issues*
 - *Provides a commitment to investigate cause of potential market failure and to modify market rules as needed*
 - *NYISO-TO Agreement addresses TOs' rights and obligations under CRPP*
- Meets NYISO Objective: To ensure that upgrades will be built when needed for reliability

NYISO Reliability Planning Process



Phase II: Economic Planning

- Analysis of historic congestion has not revealed any pressing need for “economic upgrades” in NY
 - *Bid Production Cost Impact = \$85M (2003); \$72M (2004)*
- NYISO “Strawman” approved by OC in Feb '05
- Key Elements:
 - *Expanded reporting of historic congestion*
 - *Focus on enhanced market-based initiatives*
 - *NYISO to perform future estimates of congestion*
 - *Market Participants to evaluate opportunities/propose projects*
 - *NYISO to analyze proposed economic upgrades*
- NYISO to convene a Technical Workshop: Summer '05

Market Risks Resulting From Regulatory Intervention

- “Economic” transmission built with regulated funds is likely to pose threats to the market
- Higher LBMP’s in congested areas are working in NY to attract new generation which lowers prices through competition
 - *The threat of regulatory intervention forcing a transmission solution may have a chilling effect on such new generation*
- Developers and investors can assess normal market risks reasonably well
 - *Risk of regulatory intervention is less certain since non-market, governmental considerations are difficult to predict*

Summary

- Locational marginal pricing (LMP) can provide the appropriate pricing signals for new resource development in a market-based environment
- In order to remain effective markets must be allowed to work
- Planning processes should make an affirmative effort to search for market-based solutions wherever possible
 - *NYISO's Planning Process may serve as an appropriate model for other regions*
- Regulatory intervention should be kept to a minimum