

Treatment of Zone K Export Constraints into the G-J Locality : Market Design Concept

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Background: How did we get here?

- ◆ The NYISO Tariff provides for the creation of import constrained zones (Localities)
- ◆ Tariff prescribed triennial process
 - *New Capacity Zone (NCZ) Study / Highway deliverability constraint test*
 - *MST §5.16.2 – “In determining the New Capacity Zone Boundary, the ISO shall consider the extent to which incremental Capacity in individually constrained Load Zones could impact the reliability and security of the other constrained Load Zones, taking into account interface capability between the constrained load zones.” (emphasis added)*
 - *Other than the above, the tariff is silent on treatment of export constraints into a Locality*
 - *On April 30, 2013 the NYISO filed with FERC to create a G-J NCZ*
 - K was not included in the NCZ boundary based on reliability analysis, (MST §5.16.2)
 - 2013 BPWG Process identified MDCP for modeling export constraints in the ICAP Auction

FERC Tech Conference

- ◆ **The purpose of the conference was to discuss whether or not to model Load Zone K export-constraints in future Demand Curve reset proceedings.**
- ◆ **NYISO presented transmission security analysis and resource adequacy analysis material that demonstrates a 300 MW export limit from K to GHI**
- ◆ **MMU and stakeholder comments support valuing K capacity reliability benefits in the new Locality**

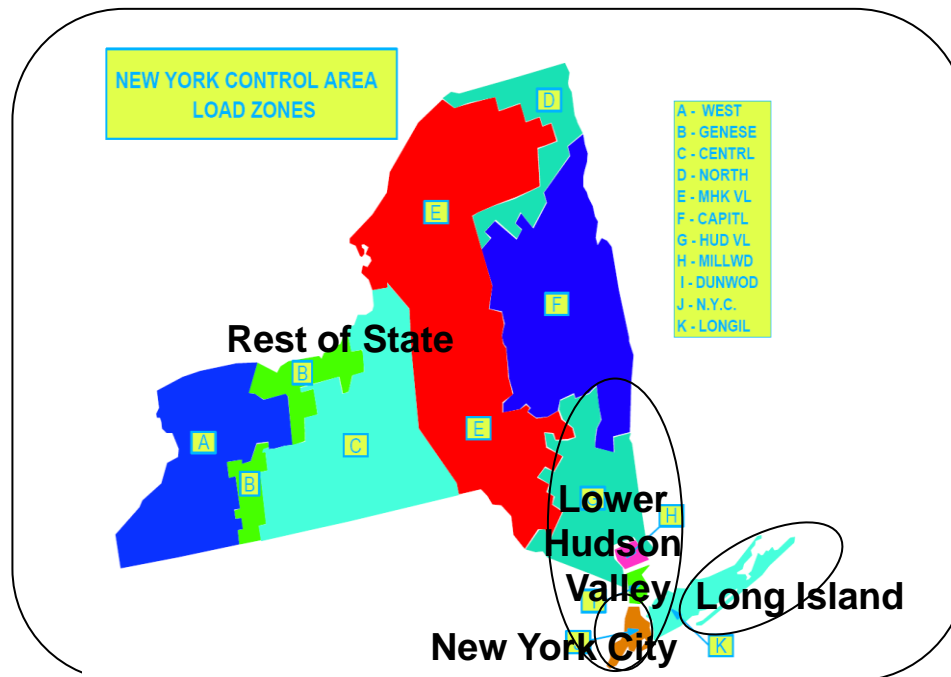
Resulting from the FERC Technical Conference

◆ FERC's order

- *Directed the NYISO to work with stakeholders “to explore whether a proposal can be developed that could reduce the cost of procuring capacity while meeting the NYISO LOLE objective.”*
- *Directed the NYISO to “explore the issues and evaluate the proposals discussed at the conference, including the MMU’s recommendations, through its stakeholder process and file an informational report with the Commission by June 1, 2015.”*
- *“[A]gree[d] with NYISO that it is premature to require it to file tariff language by June 1, 2015.”*

Pricing Hierarchy Rules

- ◆ Hierarchy rules link Market-Clearing Price (MCP) outcomes in the auctions
 - *If NYC MCP < G-J* MCP, set NYC MCP = G-J* MCP*
 - *If G-J MCP < ROS MCP, set G-J MCP = ROS MCP*
 - *If LI MCP < ROS MCP, set LI MCP = ROS MCP*



* G-J Locality consists of the Lower Hudson Valley (Zones G-I) and New York City (Zone J)

Capacity Market Mechanics: Background

- ◆ **Conduct and solve Spot auctions for all Demand Curve “regions” (i.e., the 3 Localities and the NYCA), MW that clear above a Locality’s Locational Minimum Installed Capacity Requirement (LCR) are automatically “offered” to satisfy LSEs’ additional minimum requirements as follows**
 - *Zone J MW that clear above requirements are offered in the G-J Locality.*
 - *Zone K MW and G-J Locality MW that clear above requirements are offered in NYCA.*
 - *Resale of the MW that cleared above LCRs offsets the cost to load in the Locality*
 - *Revenue to ICAP Suppliers in Localities where MW cleared above requirements is not impacted by the resale*

NYISO's Proposed Market Design Concept

- ◆ Originally presented at FERC Tech Conference
- ◆ NYISO conceptual design elements
 - *One export constrained zone: Load Zone K*
 - *Set up rules to ensure equivalent results to a simultaneous solution*
 - Determination of a cap on Zone K capacity that could be used to satisfy the G-J LCR
 - Model Zone K export caps in the Spot Auction
 - This cap would stay fixed in the Spot auction
 - Explore mitigation rules and subsequent settlement rules

Market Design Concept: **Auction Mechanics for Treatment of Export Constraints into a Locality**

- ◆ **Solve the auction as we do today, apply hierarchical pricing rules to result in a simultaneous auction outcome, with an additional step**
- ◆ **Offer the MW that clear above the Zone K LCR, up to the K export limit MW, into the G-J auction at a zero price**
- ◆ **Offer the remaining MW that clear in K above the Zone K LCR (i.e., those above the export limit) into NYCA at a zero price**
- ◆ **Clear NYCA same as today**

Questions and Comments

- ◆ **The NYISO is seeking comments on the treatment of Zone K export constraints**
- ◆ **Additional comments, beyond those received at today's presentation, should be sent to DEckels@NYISO.com by January 7, 2015**

Next Steps

- ◆ **January - review feedback from stakeholders re: Treatment of Zone K Export Constraints**
- ◆ **February - Continue discussions with stakeholders including stakeholder feedback and alternative approaches**

The New York Independent System Operator (NYISO) is a not-for-profit corporation responsible for operating the state's bulk electricity grid, administering New York's competitive wholesale electricity markets, conducting comprehensive long-term planning for the state's electric power system, and advancing the technological infrastructure of the electric system serving the Empire State.



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