

**DEPARTMENT OF PUBLIC SERVICE STAFF COMMENTS ON**  
**PROPOSED CAPACITY ZONE MODIFICATION**

To memorialize feedback provided at meetings of the Installed Capacity (ICAP) Working Group, the Department of Public Service Staff (DPS Staff) submits these comments regarding the need for capacity market rule changes that introduce balance to the designation of ICAP Zones. Specifically, the NYISO's Market Administration and Control Area Services Tariff (Tariff) specifies the methodology used to determine whether and where a new capacity zone is needed, and defines the process used to establish new capacity zones. The Tariff, however, does not include a complementary methodology to determine when it would be appropriate to eliminate a capacity zone, or a process to eliminate capacity zones that no longer are needed. The complementary rules described below are needed to promote the efficient, long-term operation of the capacity market by avoiding an accumulation of unnecessary regulatory constructs that may lead to erroneous price signals.

In light of the fact that NYISO stakeholders have failed to reach consensus on market rules governing capacity zone elimination despite several years of periodic effort, DPS Staff recommends an alternative approach. The establishment of the reference price and subsequent capacity prices are products of the ICAP Demand Curve reset process that focuses on a hypothetical proxy peaking unit. Prices, therefore, should not diverge across zones where energy from a new unit would be fully deliverable throughout those zones. In PJM, when the interfaces between capacity zones do not bind, prices converge across capacity zones and the converging zones default to a broader Demand Curve, but no individual capacity zone is eliminated.

Stakeholders should consider a similar design that would ensure price convergence when appropriate. Under this proposal, prices would converge when there is sufficient deliverability on a transmission interface to fully support a new proxy peaking unit. (An exception should be included to preserve Zones J and K, which are geographically unique, import-constrained, and subject to locational capacity requirements.) The NYISO would determine annually whether the addition of a new proxy peaking unit would cause transmission interfaces to bind. When there is sufficient headroom for capacity

from the new proxy peaking unit to be deliverable to other capacity zones, the ICAP Demand Curve utilized for the zone where the new proxy peaking unit is located would default to the New York Control Area (NYCA) Demand Curve. For instance, if a new peaking unit located in Zone F would be deliverable throughout Zones A-to-I, prices for that unit would converge throughout Zones A-to-I without adjustment by the artificial constructs of each capacity zone and capacity prices would default to the NYCA ICAP Demand Curve. One benefit of this design is that it treats a newly-defined capacity zone as part of a larger market when the conditions underlying the need for the new zone are absent, while retaining the newly-defined capacity zone for future use on an as-needed basis.

Finally, additional rules applicable to a new capacity zone should be suspended while the locality is as described above. For instance, rules that mitigate potential exercises of market power by capacity buyers and sellers should be suspended while the locality is not needed. Mitigation rules have not been applied to the Rest-of-State (ROS) region because the Federal Energy Regulatory Commission determined that the size and competitiveness of the ROS market were sufficient to obviate the need for mitigation rules. If a locality is absorbed into the NYCA as described above, there would be no need to continue local mitigation rules that applied in the smaller, less competitive market.