

NRG Comments on the Elimination of Capacity Zones

NYISO is requesting stakeholder comments/concerns with the Market Design proposal it presented in December 2015 for the elimination of capacity zones.

NRG has a number of concerns with the proposal NYISO presented, including significant concerns that the focus on zone elimination distracts from a needed discussion on broader capacity market reforms in the NYISO. The MMU continues to point out that “market design changes are needed to provide better incentives for the markets to help satisfy the reliability needs of the system,” most recently in comments provided on the 2016 RNA results.¹ In addition, the November 2014 FERC Order on NYISO’s Technical Conference recognized that “valuable market rule changes that could reduce costs should not be unduly delayed,”² referring to various market design proposals presented by the NYISO MMU, which do not include zone elimination. While the NYISO has begun a number of stakeholder discussions on possible capacity market design changes, there is not a comprehensive discussion on what capacity market design changes might be necessary to both incent new resources and retain existing resources. Instead, there are occasional discussions on separate design elements that may or may not be needed if a more comprehensive assessment were conducted.

Ongoing discussions on the current capacity market design and whether it is sufficient to both incent new resources and maintain existing units, especially as we transition into an increased renewable system, remain important. NRG continues to support the move toward a Forward Market Construct, but also supports many of the MMU proposals to provide more locational investment signals (pre-defining zones, modeling the 115kv system, etc.) in both the energy and capacity markets.

The Zone Elimination Construct is Misguided

- FERC declined to require NYISO to define criteria regarding the potential elimination of a new capacity zone,³ and repeatedly restates that it has declined to require NYISO to do so.⁴
- NYISO should be discussing pre-defining zones, which has been an outstanding concern with the NYISO capacity market structure for maintaining resource adequacy.
- The current New Capacity Zone (NCZ) process is only conducted at each Demand Curve Reset (DCR). This means that if a market incentive were needed to meet locational capacity needs, the process to create the price signal would only take place every four years. This is just to start the process. If the NCZ Study identified the need for a zone, the actual creation would take much longer.
- As the MMU recognized, the 2016 RNA identified potential LOLE violations if significant amounts of capacity were removed from various ROS Zones. In this assessment, NYISO points out that it did not consider the actual impact on the transmission system if specific units were to exit. The

¹ MMU Review of the NYISO’s 2016 RNA

² November 24, 2014 Order, 149 FERC 61,164 at P. 23

³ September 8, 2011 Order, 136 FERC 61,165 at P. 70;

⁴ See for example, May 27, 2014 Order 147 FERC 61,152 at P. 45, August 13, 2013 Order 144 FERC 61,126 at P. 82.

analysis indicates that resource adequacy violations would likely occur if significant amounts of upstate capacity exited the market. If interfaces *within* ROS bind due to these unit exits, but there is not defined zone for that transmission constraint because zones have not been predefined, then costly RMRs could be the result.

NYISO Should Focus on Comprehensive Capacity Market Reforms⁵, Including the Following:

- A Forward Market Design
- An IRM process that appropriately reflects the sensitivity of interface limits within the MARS Model. For example, rather than rely on an after-the-fact decrease in the locational requirement (LCR) because of identified energy market benefits, these interface sensitivities should be captured in the model from the beginning.
- An LCR Methodology that appropriately defines market incentives for locational capacity

A holistic assessment that begins with a significant focus on the IRM modeling and the LCR methodology is more important than ever. Many of the capacity market design flaws have been identified through the NYISO's attempts to address individual market design constructs, without starting with the IRM/LCR process. A more comprehensive assessment that evaluates the ability of the current capacity market design to both incent new and retain existing resources, especially given the expected transition to more renewable generation, is crucial.

⁵ NYISO should also focus on energy market reforms to appropriately model constraints on the 115 kv system.