

Phase II: NYISO COMPREHENSIVE PLANNING PROCESS

CONSIDERATION OF ECONOMIC NEEDS

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Draft – for discussion purposes only

FERC Policy

- FERC policy has clearly indicated that ISOs/RTOs must have a planning process in place which will address both reliability and economic needs
 - *Order 2000: Function 7: Planning & Expansion*
 - ▶ "...to provide efficient (and) reliable ...transmission service..."
 - *SMD White Paper*
 - ▶ "Economic enhancements would be included in the regional transmission plan..."
 - *PJM RTO Order*
 - ▶ FERC conditioned its approval on the development of an economic planning process
 - *ISO-NE Order*
 - ▶ FERC approved a planning process which addressed reliability and economic needs

FERC Policy (Cont'd)

- **New York's SMD Technical Conference (Oct 2003)**
 - *FERC Commissioners focus on planning for economic needs*
 - *Pat Wood letter indicates NYISO planning process "will clearly lay out responsibilities for all aspects of transmission planning," and*
 - *Should "identify the process...to be used in cost benefit studies involving studies to relieve that congestion."*
 - *NYISO response to Wood letter indicated a commitment to "focus on the potential need for economic upgrades" once the reliability planning process had been completed*

Other Recent Initiative

- DOE issued NOI on July 22nd re: designation of National Interest Electric Transmission Bottlenecks (NIETB)
- Proposes three criteria for NIETBs
 - *Jeopardizes National security*
 - *Risk to grid reliability*
 - *Risk of significant cost increases in electric markets*
- CAISO release of its Transmission Economic Assessment Methodology ("TEAM") Report in June 2004

Possible Approaches

(Not Mutually Exclusive)

- Information approach
- “PJM-type” approach
- Development of market-based incentive mechanisms
- Bill Hogan’s “Transmission Market Design” Concept

Information Approach

- **Analysis of historic congestion**
 - *Continue with current PowerGEM congestion reporting*
 - *Expanded analysis; need to define scope*
- **Estimates of future congestion**
 - *Same definition/matrix used for historic congestion*
 - *10-year planning horizon*
 - *Base case & scenario analysis*
- **NYISO provides information to marketplace**
 - *Market participants make decisions*

“PJM-type” Approach

- NYISO continues to monitor/report on historic congestion
 - *Develop a “threshold” level*
 - *Exceeding threshold starts the clock*
- NYISO proposes solutions
- NYISO calculates “cost-benefits” for each solution
- If no market-based solution appears, NYISO designates TO to build a regulated solution

Market-Based Initiatives

- Development of a permanent methodology for expansion TCC's
- Consider providing TCC's as options for expansion
- Develop "end-state" TCC auction model
 - *Evaluate use of a DC model*
- Develop cross-border TCC options
- Evaluate expansion of UDR concept to non-controllable lines
- Develop alternate methodology to provide capacity value for transmission expansion in addition to TCCs

Bill Hogan's Market Design Concept

- "Transmission Market Design" April 2003 & Other Recent Papers
- Proposes a "hybrid model" allowing both regulated and merchant transmission
- Difficulty in "drawing the line" between the two
- "Slippery slope" back to a regulated "IRP"-type regime unless that line is drawn properly
- Focus on a workable definition of "market failure"
 - *Under SMD some worthwhile investments may not be made under strictly merchant conditions*
- Must include well-defined property rights for investors
 - *E.g. – Financial Transmission Rights (FTRs)*

Hogan Proposal (Cont'd)

- **Regulated Investment: Limited to “large, lumpy” projects which would have a large impact on market prices**
 - *Would likely apply only to large transmission projects*
 - *Need for a clear definition to provide certainty to market*
 - *Must also meet an overall “societal” cost-benefit test*

- **Merchant Investments: Everything else**
 - *Smaller transmission projects*
 - *Generation*
 - *Demand Side measures*