

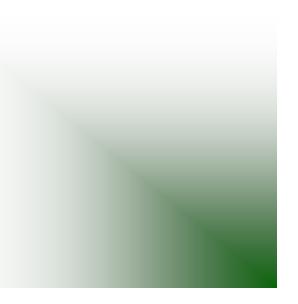
### Phase II: NYISO COMPREHENSIVE PLANNING PROCESS

### CONSIDERATION OF ECONOMIC NEEDS

Prepared By John P. Buechler

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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 22<sup>nd</sup> 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 noncontrollable 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