

May 3, 2017

By Electronic Delivery

Hon. Kathleen H. Burgess
Secretary
New York State Public Service Commission
Three Empire State Plaza
Albany, New York 12223-1350

Subject: Case 17-G-0011 – In the Matter of a Review of Tariff Provisions Regarding Natural Gas Service to Electric Generators

Dear Secretary Burgess:

In accordance with the Notice Soliciting Comments issued on January 19, 2017 and the Notice Regarding Submission of Comments issued by the New York State Public Service Commission (“Commission”) on April 11, 2017, both in the above-referenced case, the New York Independent System Operator, Inc. (“NYISO”) hereby submits the attached comments.

Respectfully submitted,

/s/ Alex M. Schnell

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Assistant General Counsel/

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**STATE OF NEW YORK
PUBLIC SERVICE COMMISSION**

Case 17-G-0011 - In the Matter of a Review of Tariff Provisions Regarding Natural Gas Service to Electric Generators

**COMMENTS OF
THE NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.**

I. Introduction

In accordance with the Notice Soliciting Comments issued on January 19, 2017 and the Notice Regarding Submission of Comments issued by the New York State Public Service Commission (“Commission”) on April 11, 2017, both in the above-referenced case, the New York Independent System Operator, Inc. (“NYISO”) hereby submits the following comments.

II. Background

The NYISO is the independent, not-for-profit entity responsible for administering markets for electricity and capacity, for providing open-access transmission service, and for maintaining electric reliability in New York. The NYISO has reviewed the Staff Initial Findings Report (“Staff Report”) that was issued on January 19, 2017. The NYISO agrees with a number of the Department of Public Service Staff’s (“Staff’s”) stated goals and recommendations. The NYISO limits its comments to addressing two specific rate design components—Balancing Services and the Minimum Bill component.

III. Gas Balancing Services

Local Distribution Company (“LDC”) gas balancing tariffs should incorporate the costs that each LDC demonstrates it incurs to provide various levels of gas balancing services to electric generators, including the cost an LDC incurs to provide any “enhanced” balancing services the LDC offers, while maintaining a secure gas system.¹ Once the gas tariffs are

¹ See Staff Report at 10-11.

updated to incorporate just and reasonable rates for providing gas balancing services, it should no longer be necessary to treat the use of any and all gas balancing service beyond a nominal (+/- 2%) amount as being “unauthorized” or subject to a “penalty” at times when sufficient capability exists on the gas delivery system to make additional gas balancing service available to electric generators. It would be beneficial to develop gas tariffs that permit electric generators to purchase the gas balancing services that the LDC offers, and to set limits on electric generators’ use of gas balancing service that are tied to gas system reliability concerns.

The designation of gas overburn or underburn that falls outside a narrow +/-2% band as being subject to a “penalty” may have adverse consequences under the NYISO’s currently effective Federal Energy Regulatory Commission (“FERC”) electric tariffs. The NYISO’s tariffs currently preclude it from permitting an electric generator to include gas balancing “penalty” costs in the reference levels it develops to determine whether electric generators’ offers are competitive.² Potential consequences of the “penalty” designation may include requiring electric generators to burn more expensive and polluting oil at times when the LDC may otherwise be able to provide gas balancing service, or generators refusing to offer all or a portion of their capability into the real-time electric markets that the NYISO administers because they are concerned that they will not be able to recoup gas balancing costs they incur to provide electric service.

The gas balancing rules each LDC submits could specify, on a seasonal basis or based on expected next-day load, the amount of enhanced gas balancing service electric generators on the LDC’s system may procure and pay for, before their use of balancing service might place gas

² See NYISO Market Administration and Control Area Services Tariff § 23.3.1.4.6.2.1.

system reliability at risk. Permitting electric generators to use available gas balancing service will benefit both the gas and electric systems.

Firm gas customers will benefit because electric generators will continue to provide a contribution toward overall system costs. LDCs will benefit because they will recover their actual cost of providing gas balancing service or enhanced gas balancing service, including a contribution toward the cost of facilities that are necessary to make gas balancing service available to all gas customers.

Electric system reliability will be enhanced because electric generators will have greater operating flexibility and will be able to offer to operate instead of being withheld from the electric market. Having a greater variety of resources available enhances electric grid reliability.

Finally, the cost incurred to serve electric load (electric load includes many of the same retail customers that purchase natural gas) will be reduced at times when the price of procuring allowed balancing gas is lower than the cost of alternative fuel sources.

For the foregoing reasons, it would be beneficial to allow LDCs to offer gas balancing services, including “enhanced” gas balancing services, to electric generators at a rate that permits LDCs to recover their demonstrated costs of providing the balancing services. Electric generators’ authorized use of gas balancing services need not necessarily be limited to a +/-2% window.

IV. Minimum Bill Component

The NYISO agrees with the Staff Report (at 9-10) that the minimum bill component of the rate electric generators pay for natural gas service from LDCs should take into account the capacity factor of electric generators. As explained below, imposing significant demand charges on electric generators that are rarely scheduled to operate would result in an unduly onerous rate

and might cause low capacity factor electric generators that are needed for reliability during peak system conditions to deactivate or retire. The proposed minimum bill component could also significantly increase the cost New York electric customers must pay to procure Installed Capacity.

The NYISO's review of the proposed requirement that electric generators that are connected to an LDC be required to purchase sufficient gas to satisfy 50% of their maximum possible annual demand could have an adverse effect on the financial health of electric generators – more specifically, peaking units – on Long Island and in New York City, as well as a potential adverse effect on any electric generator in the Lower Hudson Valley that is not able to connect to an interstate pipeline. Because peaking units generally operate far less than 50% of the time, NYISO's analysis indicates that imposing a 50% minimum bill component may make it economic for these resources to disconnect from their LDC (if the costs of burning natural gas exceeds the electricity market revenues the unit would expect to earn), or affected peaking units might exit the electricity market, which could, in turn, impact the reliable provision of electric service to New York electric loads.

The minimum bill component could also significantly impact Installed Capacity Market electricity prices and the total cost of procuring Installed Capacity to serve New York electric loads. Electric capacity prices are determined through a combination of tariff pricing rules and the quantity of capacity that clears in the market. The NYISO's pricing rules generally set a baseline capacity price that will permit a hypothetical peaking generator to fully recover its capital and operating costs after accounting for the peaking generator's net energy and ancillary service revenues. Thus, any requirement that decreases the net energy revenue³ of the

³ Expected energy and ancillary service revenues – expected costs to produce the energy and ancillary services = net energy revenues.

hypothetical peaking unit has the potential to increase capacity prices and electricity consumer costs. The NYISO's preliminary analysis indicates that a 50% minimum bill component would substantially decrease, perhaps to a negative value, the net energy revenue of an electric generator that only operates on-peak. If NYISO included the expected additional costs in the costs of the hypothetical peaking unit it uses to develop capacity market clearing prices, then the increase to consumer costs incurred to procure electric capacity, particularly in New York City, could be significantly impactful.

V. Conclusion

The NYISO respectfully requests that the Commission accept these comments on the Balancing Service and Minimum Bill rate design components discussed in the Staff Report.

Respectfully submitted,

/s/ Alex M. Schnell

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Rensselaer, NY this 3rd day of May 2017.

/s/ Joy A. Zimmerlin

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