

Market Design Concept Capacity Zone (Locality) Elimination

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Objectives

- ◆ **Resume discussions on developing market design concepts to eliminate capacity zones (Localities)**
 - *2015 Business plan obligation – Market Design Concept*
 - *Initial discussions took place at October and November 2014 ICAPWG meetings*

NYISO – Options to Eliminate Zones

- ◆ Do Nothing – prices can be expected to converge/nearly converge once the constraint is substantially relieved (all else being equal)
- ◆ Eliminate when historic or projected prices converge for a sustained period of time
- ✓ ◆ Eliminate when the deliverability constraint is no longer binding....by a substantial margin
- ◆ Eliminate based on reliability/resource adequacy criteria

Note: Check (✓) means NYISO-proposed design

Zone Elimination Design - Guiding Principles

- ◆ **Provides for Market Certainty**
 - *Minimizes likelihood of eliminating a Locality that will likely be re-created in the near term*
 - *Results from a rule that is readily predictable, based on a replicable test, and has a transparent process*

- ◆ **Minimizes inefficient outcomes and barriers to entry**
 - *Creation occurs after the barrier to investment is evident*
 - *Elimination threshold/ criteria should avoid creating barriers to investment*

- ◆ **Applies only to Localities created based on NCZ Study findings (*i.e.*, the deliverability test)**

Options for Elimination Objective: Price Convergence

- ◆ Eliminate the zone when the constraint that gave rise to the NCZ is no longer binding
- ✓ ◆ Eliminate the zone when the headroom on the binding constraint exceeds a specified trigger level, and for a significant time duration based on the NCZ Study (deliverability) methodology
- ◆ Eliminate the zone when sustaining a continued price signal to the Locality provides no additional value
 - *Reliability Value*
 - *Long term price certainty*

Deliverability Based Trigger

Candidate Triggers for Zone (Locality) Elimination

- ◆ **Deliverability constraints are no longer binding by a substantial MW margin (i.e., headroom), and for a significant time duration**
 - *Incremental MW of interface deliverability capability (headroom) has been created to eliminate the likelihood that the interface will become constrained within the horizon period*
 - *Ensures stability because the market structure would not constantly oscillate between capacity zone elimination and creation*

System Planning Based Criteria (continued)

Candidate Triggers for Zone (Locality) Elimination

- ◆ What MW margin (headroom) threshold is required to cause elimination?
 - *Equal to the size of the proxy plant for the Demand Curves applicable to the Locality at the time of the evaluation*
 - *Equal to the size of the plants that are entering the market (CC) on the unconstrained side of the interface*
 - ✓▪ *Equal to the size of the largest contingency in the Locality*

System Planning Based Criteria (continued)

Candidate Triggers for Zone (Locality) Elimination

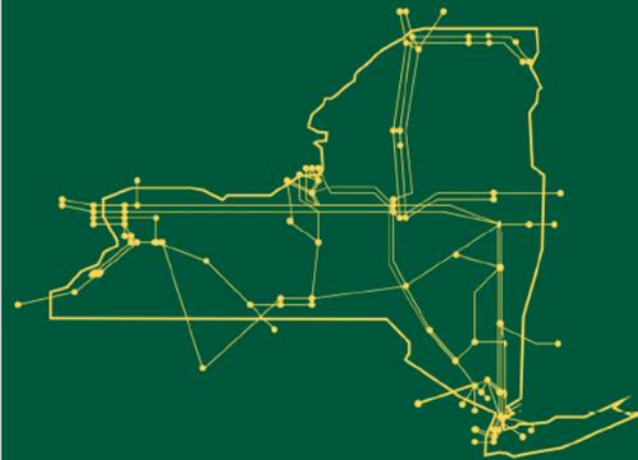
- ◆ How often will elimination be evaluated?
 - ✓ ▪ *Every 3 years, at the time of the NCZ Study used to create*

- ◆ What time duration is required to show the deliverability constraint has been adequately relieved ?
 - *Planning time horizon*
 - ✓ • 5 year load forecast consistent with NCZ Study
 - 10 year load forecast consistent with long term reliability studies
 - *Persistence*
 - ✓ • Elimination Study must show that the MW margin (headroom) is exceeded over two consecutive studies

Next Steps

- ◆ **Continue discussion of top level concepts**
- ◆ **Mitigation design**
- ◆ **Impacts of zone elimination on other NYISO studies**

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