

To: ESPWG
From: Larry DeWitt
Subject: Comments on Developing a NYISO Plan for Responding to Persistent Economic Congestion
8 September 2004

I have been impressed, amazed actually, at the progress market participants and the NYISO staff have made at developing a common position on how to define “economic congestion” and how to characterize its size, scope and impact in the New York Control Area. Given the extreme volatility of the subject matter, not to mention the personalities involved, this is astounding—and may offer a shortcut through an otherwise long and impenetrable thicket that would yield little of practical value in any case. My fear is that although we agree pretty much on the definition of congestion and agree on the current lack of any real congestion to be concerned about, we would have great difficulty coming up with a process for intervening to resolve congestion. In fact, my read is that we might well not be able to come up with a 58% vote in favor of any system for intervening to solve congestion. This memo is written in the spirit of initiating some creative thinking now on how we address this situation—and how we avoid wasting innumerable hours fighting over the design of a process that most of the combatants might vote against anyway.

What We Agree On

We have conceptually agreed on four definitions of economic congestion, and most of us gravitate to the “Bid Production Costs” concept as the one best defining the “lost economic opportunity” that results from occasional congestion. Based on the Probe modeling work, I think that virtually all of us agree that the current NYISO system offers no significant, if any, opportunities for intervening to correct persistent economic congestion. Were we eventually to find instances of significant congestion, most of what some methods of intervening would accomplish would be to raise prices in the uncongested area while reducing them in the congested area. In some instances, consumers collectively would pay more after the intervention.

What We Must and Can Reasonably Agree On

We must develop a thorough and systematic plan for estimating current and prospective economic congestion. Probably we need to come up with some standards to define “persistence” (e.g. 2 or 3 years) since no one is suggesting we intervene in situations where the market has not had a chance to respond or where the congestion may be transitory in nature. We need to have a process for alerting the market to congestion that shows some signs of being persistent. Probably we also need to come up with a definition or standard for what is a “significant” amount of persistent congestion (net of the cost of the solution)—is it \$10 million per year or \$100 million per year? It is not \$1 million per year. We need to define what the TOs do in the normal course of events to improve their transmission systems to make them more effective and efficient—some of which may be directed toward reducing congestion.

The Intervention Process

The most difficult problem confronting us—if we confront it-- is to come up with the process we would use to intervene with a regulated solution to correct persistent and significant economic congestion (presumably based largely on “bid production cost” approach). Having just weathered the development of the process for a reliability intervention, I have no appetite for doing the same all over again for “significant, persistent economic congestion”, especially if there is an extremely low probability that a situation will arise that would require invoking the process, and little chance of getting a 58% positive vote at the Operating Committee or Management Committee. Not only is there a limited likelihood of a “need” for such an intervention, but I also think that if such a need did arise, it would probably be several years from now, and then we would have to take at least several years to see if it both persisted and was significant—that takes us 5 years down the road. By then our process for intervening might be out of date anyway. So, I feel no great urgency in moving forward with specific and detailed plans on how we would handle this possible eventuality. FERC may feel some urgency to do something.

My understanding is that an intervention to resolve such congestion would involve the NYPSC. I think there are several options that we could adopt that would avoid going through the whole process, from the ground up, of defining an intervention process for congestion. In any case, my goal is to find a way to avoid doing so.

Option 1: Specify a very general description of how the process would work (based probably on our reliability approach), but leave any specific details to be worked out on an ad hoc basis at the time of filing with FERC and review by NYPSC. This approach would argue that the specific process would be determined in significant part by the nature and location of the congestion problem to be resolved, and since we have no such problems even visible on the horizon now, there is no real reason to develop a full-blown process that may not be applicable to any instances that may occur, and which may be obsolete by the time one arises, if it ever does.

Option 2: Adopt, with modifications, the process we just submitted to FERC for treating reliability problems. I do not believe we are going to establish a better process for an economic congestion intervention than the one we just established for a reliability intervention--nor do I see any reason why the fundamental approach should be different. I would not expect such a proposal to receive a favorable 58% vote, but at least we would be done with it and put it before the NYISO Board--where any specific intervention proposal will end up anyway.

Either of these approaches, or additional ones proposed by others, should include a thorough and rigorous evaluation and planning process that looks for economic congestion problems, both current and prospective, and gauges their severity and persistence. Probably there are other and better solutions. My main purpose here is to stimulate a discussion of how we approach the task before us without wasting an enormous amount of time, while keeping FERC mollified.

A further FERC thought: Are they driven to their aggressive position on intervening to solve congestion problems because of their assumption that there is a very large amount

of persistent congestion that results from significant underinvestment in the transmission system? I used to think that for New York. Now I wonder if there aren't misleading analyses of congestion in other control areas as well. Has PJM or ISO-NE done studies comparable in quality to the Probe ones that Jim Mitsche and company have done here? I now wonder how well the USDOE and other studies of underinvestment in transmission stand up to that kind of scrutiny. And do they examine the extent to which the needs identified can be more cost effectively met by locating generation and demand response inside congested areas?

Any thoughts on how we might move to some reasonable cloture on how to treat possible economic congestion at the NYISO would be greatly appreciated.