

# **National Grid Comments on Phase II NYISO Comprehensive Planning Process – Consideration of Economic Needs**

## **Introduction**

These comments are in response to the slides presented by John Buechler of the NYISO along with the ensuing stakeholder discussion at the ESPWG meeting of August 11, 2004.

## **The Need for a Comprehensive Economic Planning Process**

Presumably, FERC's intent is to have the market respond to provide solutions that lead to reduced uneconomic congestion, wider markets, improved overall competition, improved efficiency, and lower overall costs of delivered electricity. But FERC is also concerned that, for whatever reason, the market may not implement economic options that will make the market more efficient. In this case, FERC expects a process to be in place which can help drive the market to improved efficiency if the market does not respond.

With regard to the four possible approaches presented at the meeting, each needs to be evaluated in the context of the FERC Policy stated on the second slide (and further reinforced on the next two slides); namely:

**FERC policy has clearly indicated that ISOs/RTOs must have a planning process in place which will address both reliability and economic needs.**

We agree that the possible approaches are “not mutually exclusive” (as stated at the meeting), and that a preferred consensus approach may actually be a combination or overlapping of some or all of those approaches.

## **Discussion of Information Approach**

An analysis of historic congestion along with estimates of future congestion is a necessary but insufficient ingredient of an economic planning process. It does not identify economic problems per se, nor will it evaluate the impact or efficacy of potential solutions. It relies solely on the market to identify and correct economic problems. Worse, it may mask problems – giving a false sense of security – by making it difficult to even ascertain if an economic problem that can be solved economically actually exists.

Admittedly, no economic problems may exist. Unfortunately, however, even if a consensus were to agree that an economic problem does in fact exist, the Information

Approach will not provide a mechanism to correct the problem if the market does not respond. The Information Approach seems to imply that “we don’t anticipate any economic problems that won’t be solved by the market itself, and therefore we don’t need an economic planning process”.

We believe it is important to have an economic planning process in place in case the market does not respond (and to define what is meant by the market not responding). Due to their characteristics, we believe (and there is good evidence to support) that transmission market projects are less likely to be developed to meet a need (than say a generation project). For instance: large lumpy projects may lead to problems in capturing enough of the value created because the resulting LBMP and Locational ICAP price differentials (after the project is in place) will be reduced; free-rider issues may prevent economic projects from going forward; and problems in defining property rights for AC upgrades (which may be the most economic solution to a requirement) may prevent economic projects as well. Development of a comprehensive economic planning process would provide an opportunity for these issues to be resolved beforehand.

Some have recommended that the New York Public Service Commission (and not the NYISO) should intervene to sanction regulated solutions for problems (that can be solved economically) that the market does not solve. This **PSC Intervention Approach** deserves additional discussion, but clearly it will require two important components:

- 1) Sufficient information (which presumably can be accessed only by the NYISO) to allow economic problems to be identified, and to allow potential solutions to be evaluated on their efficacy.
- 2) A formal planning process (presumably developed by the NYISO and stakeholders) that defines how this method will work.

In summary, the Information Approach – as stated – is not a comprehensive economic planning process; rather it could become an integral part of an overall economic planning process.

### **Discussion of “PJM-Type” Approach**

Of the four potential approaches, the “PJM-Type” Approach appears to be the only comprehensive economic planning process. This approach obviously includes the Information Approach as an integral part; but in contrast to the stand-alone Information Approach, the “PJM-Type” Approach would:

- 1) Define thresholds above which a problem is deemed to exist
- 2) Identify economic problems
- 3) Evaluate the impact or efficacy of potential solutions

- 4) After offering an opportunity to the market to correct economic problems, it would identify a point at which a regulated solution is indeed needed
- 5) Provide for regulated solutions in the event the market does not provide a solution.

Admittedly, this approach would require a definition of problem thresholds (i.e., “When is a perceived problem a real problem?”), but clearly – at some level – the existence of an economic problem becomes self-evident. Additionally, it would likely need to be modified to accommodate the New York market.

The “PJM-Type” Approach is a comprehensive economic planning process as envisioned by FERC, and deserves additional discussion and development (including the potential for incorporating the other approaches into it).

#### **Discussion of Market-Based Initiatives Approach**

Presumably this is an extension of the Information Approach rather than a substitute for it. As with the Information Approach, this approach is also a necessary but insufficient ingredient of an economic planning process.

Work needs to continue to insure that market rules concerning expansion TCCs, UDRs, etc., produce as correct price signals as possible to efficiently encourage market-based solutions. But again, although attempting to improve the ability for the market to respond, this approach also relies solely on the market to identify and correct economic problems.

As an aside, the existence of bid caps, price mitigation, market monitoring, etc., indicate uneasiness with the competitive strength of the market thereby requiring protective mechanisms. Alternately, scarcity pricing, demand curves, etc., indicate the need to offset the dampening effect of the protective mechanisms to sustain existing investment and encourage new investment. These beg the questions:

- 1) Will additional market interventions be needed?
- 2) Will existing and/or new administratively imposed market interventions be detrimental or benign to the market in the long term?
- 3) Will these interventions interfere with and/or negate any impact of improving price signals?
- 4) Should the market ultimately be able to (if required) eliminate the need for these market interventions by itself?
- 5) If so, should a mechanism be set up that moves the market in that direction if the market can not do it by itself?

While the Market-Based Initiative Approach appears to be an attempt to give more comfort that the market will more likely respond to solving economic problems, it also will not provide a mechanism to correct the problem if the market does not respond. As

with the Information Approach, this approach is not a comprehensive economic planning process.

### **Discussion of Hogan Approach**

The Bill Hogan Approach is not a comprehensive economic planning process, but rather a recommendation on what to do with one aspect of the process.

### **Conclusion**

Of the approaches presented, the “PJM-Type” Approach is the only one that includes the core ingredients needed for a comprehensive economic planning process. It needs further discussion and development for application to the NYISO. The other approaches discussed (including the PSC Intervention Approach) could and/or should be integrated into a “PJM-Type” Approach.