Con Edison Company of New York, Inc. and Orange and Rockland Utilities, Inc.

## **Comments Concerning:**

# "Proposed NYISO Installed Capacity Demand Curves for Capability Year 2017/18 and Annual Update Methodology and Inputs for Capability Years 2018/2019, 2019/2020, and 2020/2021: NYISO Staff Final Recommendations"

Consolidated Edison Company of New York, Inc. and Orange and Rockland Utilities, Inc. (together, "Con Edison") are Transmission Owning members of the New York Independent System Operator ("NYISO"). Con Edison's customers are the largest buyers of capacity in New York, and purchase capacity from three markets: Rest of State,<sup>1</sup> New York City (Zone J), and the Lower Hudson Valley (Zones G-J).

For the reasons discussed below, the Board should approve NYISO Staff's ("Staff") recommendation to include the cost of dual fuel capability in New York City and the Lower Hudson Valley, subject to the condition that the Board directs Staff to establish a process to implement a dual fuel requirement in both regions. The process should move expeditiously to establish a requirement that all new generators entering the market in these regions be dual fuel capable as needed for reliability.

The Board should also reject Staff's recommendation to use the TETCO M3 natural gas index to estimate net Energy and Ancillary services revenues ("net EAS revenues") for the proxy unit in Zone C and the Iroquois Zone 2 index for Zone G and instead use the Dominion North index for Zone C and the Millennium East index, or a blend, as proposed herein, for Zone G.<sup>2</sup>

## **Dual Fuel Capability**

The Board should approve Staff's recommendation to include the cost of dual fuel capability in New York City and the Lower Hudson Valley, subject to the condition that NYISO establish a process to implement a dual fuel requirement in both regions. The process should move expeditiously to establish a requirement that all new generators entering the market in these Localities be dual fuel capable as needed for reliability.

As a general matter, Con Edison supports dual fuel requirements because such capability provides reliability benefits, especially at a time when new generation resources increasingly rely on natural gas. During this demand curve reset process, Con Edison argued that it may make

<sup>&</sup>lt;sup>1</sup> The Rest of State region is the part of NYCA that is not included in any of the Localities of New York City, Lower Hudson Valley, or Long Island.

 $<sup>^2</sup>$  In addition, Con Edison fully supports the comments of the Indicated Transmission Owners regarding property taxes.

sense to include the cost of dual fuel capability in the cost of proxy units in Zones C and F (as applicable to the NYCA capacity market demand curve) and Zone G (as applicable to the Lower Hudson Valley capacity market demand curve) if dual fuel requirements are enacted.<sup>3</sup> Con Edison was informed, however, that in order to pursue the development of dual fuel requirements, there must first be an opportunity to recover the costs associated with dual fuel capability—thus creating the proverbial "the chicken or the egg" problem of whether compensation or requirements come first.

Con Edison believes that it is in the best interests of customers to solve "the chicken or the egg" problem by including compensation for dual fuel capability in capacity market demand curves, provided that the Board directs Staff to commence work on establishing duel fuel requirements. While this is critical for the downstate region, we also believe it may become an important consideration across the state.

There are several reasons for considering dual fuel requirements. <u>First</u>, as noted above, as the state becomes more reliant on natural gas for electric production, the reliability benefit of dual fuel capability becomes increasingly important. New York City's experience is particularly informative, given its historic limited fuel diversity compared to other areas of the state.<sup>4</sup> To ensure electric system reliability, Con Edison relies heavily on dual fuel capability to meet the coincident high demands on the electric, natural gas, and steam systems. While other parts of the state may have more fuel diversity today, the Board should consider including dual fuel costs in the demand curve as part of a long-term strategy to enhance reliability. Dual fuel capability also provides a reliability benefit in the event of a natural gas system contingency.

<u>Second</u>, with the adoption of the Clean Energy Standard, it is likely that the increase in intermittent wind and solar resources will increase the need for non-intermittent resources that can back them up and respond quickly during load-following events. While natural gas resources are often preferable for meeting load-following events because of their flexibility and ramping capabilities, they must rely on supporting natural gas infrastructure. Dual fuel capability can help support the transition to cleaner resources and provide more certainty for operations in the case of an unexpected natural gas system event, or lack of sufficient natural gas

<sup>3</sup> See, e.g., Comments on the June 23 Draft "Study to Establish New York Electric Market ICAP Demand Curve Parameters" Submitted by the New York Transmission Owners (July 2016) available at: http://www.nyiso.com/public/webdocs/markets\_operations/committees/bic\_icapwg/meeting\_materials/2016-06-27/2016-07-

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<sup>&</sup>lt;sup>4</sup> Virtually all of New York City electric generation uses natural gas as its primary fuel. As of 2015, approximately 80 percent of capacity electrically located in New York City is dual fuel capable, approximately 15 percent is natural gas-only, with the remaining relying exclusively on oil. *See, 2015 Load & Capacity Data, "Gold Book"* available at:

http://www.nyiso.com/public/webdocs/markets\_operations/services/planning/Documents\_and\_Resources/Planning\_ Data and Reference Docs/Data and Reference Docs/2015%20Load%20%20Capacity%20Data%20Report Revis ed.pdf.

system capability. Moreover, while the state's total electric generation capacity is comparatively diverse, and will continue to be so with implementation of the Clean Energy Standard, experience in other regions demonstrates that natural-gas fired units will be necessary to meet load-following events, including the more pronounced up-ramp and down-ramp patterns that are expected.<sup>5</sup> Having new natural-gas fired units equipped with duel fuel capability can provide the NYISO with an increased assurance that it can more effectively manage load-following events.

<u>Third</u>, by including compensation now, existing or new generators seeking to enter the market have an incentive to add dual fuel capability, bringing reliability benefits to customers even before the adoption of dual fuel requirements. However, such benefits are not guaranteed without ultimately adopting dual fuel requirements.

#### Natural Gas Index for Zone G

In comments submitted to the NYISO Board, the Indicated Transmission Owners argue that the Board should reject Staff's recommendation to use the TETCO M3 index for the purpose of estimating net EAS revenues for the proxy unit in Zone C and the Iroquois Zone 2 index for Zone G.<sup>6</sup> Con Edison fully supports the Indicated Transmission Owners' position.

With respect to the Lower Hudson Valley, Con Edison offers an additional reason as to why Staff's recommendation to use Iroquois Zone 2 is not just and reasonable. Staff's recommendation to continue to include selective catalytic reduction ("SCR") for the Zone G proxy unit enables that proxy unit to be sited in Rockland County – a non-attainment area for the eight-hour ozone National Ambient Air Quality Standard. A proxy unit generator sited in Rockland County has access to the Millennium pipeline, as it is west of the Hudson River, and would have no ability to obtain gas from Iroquois. Consequently, the Board should require use of the Millennium East index.

In the alternative, if the Board determines that the history of available prices for the Millennium East index is too limited, it could use a blended approach of using TETCO M3 for the first of the three-year historic period, and then Millennium East for the more recent two years. Millennium East should be the sole index used thereafter.

<sup>&</sup>lt;sup>5</sup> See, e.g., What the Duck Curve Tells Us About Managing a Green Grid, California ISO, available at: <u>https://www.caiso.com/Documents/FlexibleResourcesHelpRenewables\_FastFacts.pdf</u>.

<sup>&</sup>lt;sup>6</sup> Among other things, in order to estimate net EAS revenue for the proxy unit, it is necessary to determine the price that such a unit would pay to purchase natural gas (as the proxy unit is gas-fired). Net EAS revenue is the revenue from the sale of energy and ancillary services less the variable costs associated with providing those services that the proxy unit would earn. Net EAS is deduced from the estimated fixed cost of the proxy unit (Gross Cost of New Entry) to determine the net Cost of New Entry, which is used to establish the reference price for the NYCA demand curve and each respective Locality.

#### **Oral Argument**

Con Edison respectfully requests that the Board allow Con Edison the opportunity to present oral argument in order to address its position on dual fuel issues. Because Con Edison's position on the dual fuel issue is not aligned with the sectors that are typically thought of as representing load and generation, Con Edison requests that the Board allot a specific amount of time to Con Edison as opposed to assigning Con Edison to either the load or generation "side."