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To: New York Independent System Operator, Inc. (NYISO)
From: Matthew Schwall, Director of Market Policy & Regulatory Affairs
Date: January 3, 2018
Re: IPPNY Comments on NYISO On Ramps and Off Ramps Concept for Creating and
Eliminating Capacity Zones

Background

Since the July 13, 2017 Installed Capacity Working Group (“ICAPWG”) meeting, after NYISO Staff correctly determined that potential enhancements to the capacity zone creation rules and the issue of whether zone elimination rules are required must be considered together, NYISO Staff has conducted laudable work to diligently advance the On Ramps/Off Ramps concept to enhance rules for the creation of capacity zones and possibly introduce rules for the elimination of capacity zones and should be commended for the progress they have made to date. In addition, the NYISO also correctly deferred the premature December 13 Business Issues Committee vote on its proposal given that the NYISO had not yet addressed significant questions and concerns that have been raised by market participants or completed the required analyses for these issues to be meaningfully addressed.

Specifically, Mark Younger of Hudson Energy Economics, LLC has repeatedly raised concerns with a significant design flaw in the NYISO’s proposal, namely, the NYISO’s proposed Locality Assessment Methodology for determining whether a capacity zone should be created or eliminated is inconsistent with its assessment methodology for the Transmission Security Limit (“TSL”) based Minimum Capacity Requirements for a zone which was approved by Market Participants as part of the Alternative Method for Determining Locational Capacity Requirements (“LCRs”). Once information became available for the first time for the November 30, 2017 ICAPWG meeting, the level of conflict resulting from using inconsistent methodologies could finally be determined.

This inconsistency was further advanced by Potomac Economics, the NYISO’s Independent Market Monitoring Unit, as recently as the November 30, 2017 meeting of the ICAPWG. Concerns of this nature and magnitude warrant adequate consideration by the NYISO

and stakeholders and additional discussion through the stakeholder process prior to a vote. To date, however, the NYISO has not adequately addressed this concern. Thus, IPPNY urges that, in response to outstanding stakeholder and MMU concerns, the NYISO conduct additional discussions with stakeholders and revise its proposal for creating and eliminating capacity zones in the manner provided in more detail below.

The magnitude of the potential impact to the capacity market of the NYISO's proposed concept for creating and eliminating capacity zones cannot be understated. Merchant generators rely heavily on capacity market price signals to make investments, and the potential that a Locality would be eliminated prematurely will significantly hinder future investment as well as create the risk that capacity within the Locality would retire after the Locality is eliminated because it would not get an adequate price signal to remain in the market. The NYISO has proposed to finalize its proposal and work through tariff revisions so that these rules are in place by the middle of 2018 to allow the NYISO to apply them in the next demand curve reset process and the 2020 Reliability Needs Assessment cycle. However, a premature and inadequately considered zone creation/elimination proposal will be materially harmful to generators and ultimately very detrimental to the NYISO's capacity market.

IPPNY reiterates its position that there has been no showing that zone elimination rules are necessary. Indeed, the work to date demonstrates the very real risks to system reliability if these rules do not operate as intended while the NYISO's own studies have shown there is very little risk to keeping the zones in place. Neither the NYISO nor its Consumer Liaison has produced any study refuting the cost/benefit analysis the Consumer Liaison performed when the zone elimination rules were being considered in isolation, which demonstrated that eliminating a zone prematurely would foist hundreds of millions of dollars in unnecessary costs on New York consumers, whereas maintaining an unneeded zone would have very limited cost impacts. Thus, the NYISO should forego further development of the zone elimination part of its proposal.

If, however, the NYISO elects to proceed with both the creation and elimination aspects of this project, it is critical that these rules are designed effectively and consistently with the NYISO's other capacity market provisions. As demonstrated herein, failure to align the market and the zone creation/elimination rules will exacerbate market uncertainty by increasing the possibility of toggling, i.e. premature zone creation and elimination, with the attendant price shocks that result from the lack of alignment. Investments in new infrastructure require transparent, understandable and predictable market designs and price signals and are therefore threatened by rapid and broad-sweeping market changes such as toggling of capacity zones. If the NYISO does not amend its current proposal, Locality minimum capacity requirements will be understated and the result will be that capacity zones will be created far too late and eliminated far too early, leading to significant market uncertainty and investment curtailment.

Issues with the NYISO's On Ramps/Off Ramps Proposal

As noted above, the NYISO's proposal to use a deterministic analysis based on generators' ICAP levels in its Locality Assessment Methodology is inconsistent with the analysis underlying the NYISO's Alternative LCR Methodology. Unlike the Alternative LCR Methodology, which uses transmission security based import limits into a capacity Locality as the basis for determining the optimal minimum level of UCAP within the Locality that is

necessary to ensure reliability (the “TSL Floor”), the NYISO’s proposed Locality Assessment Methodology does not account for unit outage risk. This design flaw will substantially understate the Locality reliability need. As a result, the NYISO’s method would likely fail to create a new Locality until conditions were reached where such Locality, once created, would be clearing at capacity levels quite close to the minimum requirements, thereby muting any market signal to address potential reliability needs. IPPNY has long been on record that developing the alternative LCR methodology would ameliorate – and may eliminate – concerns raised about the absence of zone elimination rules. Having developed these rules through an extensive and thorough process, it defies logic for the NYISO to ignore them and address this issue as if it existed in a vacuum.

The NYISO should rectify this inconsistency by revising its proposed Locality Assessment Methodology to run using the UCAP ratings of units (approximating forced outage risk), including representing intermittent generation at equivalent capacity levels and derating zonal loads consistent with the expected performance of the Special Case Resources in the load zone. The NYISO should model N-1-1 transmission conditions and create the new Locality if the retirement of the two largest generators resulted in the Locality failing to meet reliability requirements. Likewise, if the retirement of the four largest generators did not meet zone reliability requirements, the Locality could be eliminated. These changes would produce a Locality Assessment Methodology that more closely approximates the TSL based minimum capacity limit for the Alternative LCR Methodology and ensures market solutions will be available to address reliability requirements.

The TSL Floor based methodology has several benefits over the NYISO’s proposed Locality Assessment Methodology. First, the NYISO’s overall capacity market design would be consistent because the analysis used for both efforts would align. This would also make the NYISO’s zone creation and elimination process far more transparent while simultaneously improving market signals by reducing investment risk. Second, because the TSL Floor analysis incorporates UCAP, it accounts for forced outage risk. This approach more accurately tests the reliability impact of generator contingencies while recognizing that non-contingency generators still have a cumulative forced outage risk that would make some of these generators unavailable. Finally, the TSL Floor method would respond appropriately to changes in the transmission system while not being overly sensitive to a search for an optimal dispatch that allows maximizing transmission capability into the zone (a condition that may not be met if key generators that enable maximizing the interface capability are forced off line).

Conclusion

The NYISO operates what is widely considered to be one of the most reliable electric systems in the world. That reliable operation is contingent, in part, upon the development of market designs to set price signals to attract private investment in new and needed existing generation resources in locations where it is required most. Therefore, to support capacity price signals being set at levels adequate to attract investment when needed, the NYISO must fully consider the concerns raised herein. IPPNY urges the NYISO reconsider its zone elimination proposal by moving purposefully through its stakeholder meetings beginning at the start of this year to provide the required analyses addressing the identified concerns, review and resolve the issues raised, and develop a clear set of proposed tariff revisions.

Thank you for your consideration.