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

Comments concerning:

Draft Report entitled "Capacity Resource Performance in NYISO Markets: An Assessment of Wholesale Market Options" by Analysis Group Inc. dated September 2017

Consolidated Edison Company of New York, Inc. ("Con Edison") and Orange and Rockland Utilities, Inc. ("O&R"; together, the "Companies") submit these comments in response to the September 2017 Draft Report entitled "*Capacity Resource Performance in NYISO Markets: An Assessment of Wholesale Market Options,*" prepared by Analysis Group Inc. ("AG") at the request of the New York Independent System Operator, Inc. ("NYISO") (the "Draft Performance Assurance Report" or "Draft Report"). The Draft Performance Assurance Report is the product resulting from AG's independent assessment of potential market design alternatives that could enhance resource performance during periods of scarcity or stressed system conditions. The Draft Report is intended to aid the NYISO as it continuously seeks to plan for and meet future system needs, evaluate and improve the efficient administration of wholesale power markets and ensure the reliable operation of New York's bulk power system.

This effort is timely in light of several significant industry changes that are heightening system reliability risk. In particular, the Draft Report highlights increased dependence throughout New York on natural gas-fired generating capacity at a time of substantial winter season gas delivery constraints resulting in enhanced winter period risk, impediments to natural gas infrastructure development, as well as rapid growth in variable renewable and less certain demand response resources.[1]

The Companies support the Draft Reports' finding of a need for fuel assurance, in particular, its recommendation for the imposition of a statewide dual-fuel capability requirement,[2] and urge the NYISO to develop a dual fuel requirement statewide (or, at a minimum, across downstate regions Zones G-J) as part of its 2018 performance assurance effort.

The Companies Support Statewide Imposition of a Dual-Fuel Requirement as Recommended by Draft Report

The Draft Report acknowledges the need for fuel assurance. It states: "[t]he increasing reliability risks associated with dependence on natural gas for electricity generation, against a backdrop of heightened sensitivity to the impacts of natural gas infrastructure development, suggest that

[1] Draft Report at pp. 2, 8-9.

[2] Draft Report at p. 39.

consideration of various options for "fuel assurance" may be appropriate, *such as expanded dual fuel requirements* …"[3] The Report cites to the high volume of generation de-rates and forced outages during the January 2014 Polar Vortex and other severe cold weather periods, as well as periods where oil prices exceeded natural gas prices leading, at times, to a run-down of oil inventories.[4] The report cites these events as reasons to shore up fuel supply, but also notes that fuel supply "could become a more pressing issue outside of winter months in future years, as the state's dependence on natural gas for generation increases while the development of supporting natural gas transportation infrastructure faces increasing financing and siting challenges."[5] The Report states that "[t]he potential for growing future reliance on gas-fired resources suggests that further attention to fuel-related performance may [sic] be important to preventatively addressing potential system reliability risks"[6] and concludes that requiring dual fuel capability for gas-fired generating resources "would be effective" in tightening the relationship between the value of capacity market resources and the compensation they receive.[7]

The Companies agree with AG's recommendation to impose a mandatory dual fuel requirement statewide. Indeed, we have long urged the NYISO to adopt dual-fuel requirements, at a minimum in New York City (Zone J) and the Lower Hudson Valley (Zones G-J). We have stated that while the dual fuel requirement is "critical for the downstate region, we also believe it may become an important consideration across the state."[8]

The Companies continue to believe that dual fuel capability enhances electric reliability because it (i) provides a critical safety net against a natural gas contingency in a state increasingly dependent on natural gas generators, and (ii) aids local distribution companies (LDCs) in meeting their coincident demand on electric, natural gas and steam systems (as applicable). In addition, dual fuel capability supports the state's clean energy goals by providing greater certainty that fossil-fuel generators will be available to back-up the variable electric output of

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[3] Draft Report at p. 4. (emphasis added).

[4] Draft Report at p. 17.

[5] Draft Report at p. 16.

[6] Draft Report at p. 18.

[7] Draft Report at p. 37.

[8] *See* 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 Recommendations*" (October 2016) at p.2 ("NYISO Demand Curve Reset Comments"). The Companies stated that it may make sense to include the cost of dual fuel capability in the NYCA capacity market demand curve if dual-fuel requirements are enacted, but was informed by NYISO staff that cost recovery must precede the imposition of requirements.

renewable resources such as wind and solar. Finally, dual fuel requirements may result in customer savings, as oil can mitigate (and has mitigated) energy prices at times when extreme natural gas price spikes occur.[9]

In light of the fact that (i) NYISO has committed to analyze dual fuel capability requirements as part of its capacity market performance assurance process[10] and (ii) the Draft Report delivered pursuant to that process supports such a dual fuel requirement, the Companies urge the NYISO to adopt dual-fuel capability requirements in the coming year. These requirements should be imposed, at a minimum, in the downstate regions where the cost of such capability has already been included in the capacity market demand curve.[11] Ideally, however, we agree with the Draft Report that a dual fuel requirement may be appropriate statewide, as many of the drivers of the need for the requirement to enhance reliability are experienced statewide (*i.e.*, natural gas generation concentration, combined with gas transportation infrastructure constraints) and will only increase over time. The NYISO can and should assess the implication of such a statewide requirement on the NYCA ICAP demand curve and make adjustments as and when appropriate in a filing with FERC.

The Companies respectfully submit these comments for the NYISO's consideration.

Dated: October 13, 2017

Respectfully submitted,

CONSOLIDATED EDISON COMPANY
OF NEW YORK, INC.

By: *<u>/s/ Susan J. LoFrumento</u>*

Susan J. LoFrumento
Associate Counsel
Consolidated Edison Company
of New York, Inc.
4 Irving Place, Room 1810-S
New York, N.Y. 10003
212-460-1137
lofrumentos@coned.com

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[9] *Id.* See also *Comments of Consolidated Edison Co. of New York, Inc. and Orange and Rockland Utilities, Inc.,* Docket No. ER17-386-000. (December 9, 2016) ("Con Edison Demand Curve Reset Comments").

[10] NYISO, *Request for Leave to Answer and Answer,* Docket No. ER17-386-000 (December 22, 2016) at p. 12, n.46.

[11] We have previously stated that the inclusion of the cost of dual fuel capability in the downstate demand curves without a corresponding mandatory requirement that downstate generators actually have that capability leaves customers paying for dual fuel capability "without any assurance that they will reap its benefits." We noted that relying on dual fuel requirements in LDC tariffs is insufficient, as new generators may avoid those requirements by taking service directly from interstate pipelines. *See* Con Edison Demand Curve Reset Comments at pp. 4-5.