

# Why We Need a Comprehensive Economic Planning Process A Perspective from National Grid

**FERC's Intent** - FERC expects a comprehensive planning process to be in place which can help drive the market to improved efficiency if the market does not respond to solve economic problems.

**What is an economic problem?** - a condition in which an improvement is not made even though its anticipated savings exceed anticipated costs by a significant margin.

**What is the question?** Are we anticipating an economic problem? ... or ... Will we be prepared to effectively address an economic problem?

## Objections to a Comprehensive Economic Planning Process

- ◆ No significant economic problems exist or are anticipated
- ◆ The market, with proper price signals, will prevent most economic problems
- ◆ If the market ultimately does not solve an economic problem, we can develop an economic planning process on an ad hoc basis then - but all that is needed now is an "Information Only" approach rather than a Comprehensive Economic Planning Process

## Concerns with the "Information Only" Approach

- ◆ Looks at cost of congestion - and because of this our collective understanding has improved - but does not define or identify economic problems per se
- ◆ Other potential economic problems (ICAP costs, Ancillary Services, etc.) also need to be studied
- ◆ May mask economic problems and give a false sense of security - by making it difficult to ascertain if an economic problem even exists
- ◆ Relies solely on the market to prevent economic problems
- ◆ Will not evaluate the impact or efficacy of potential solutions
- ◆ Problems may not become evident until only expedient solutions are available - longer lead-time solutions, even if "better", will be precluded
- ◆ Will not address FERC's intent - will not provide a mechanism to correct an economic problem if the market does not respond - even if a consensus agrees that the problem indeed exists

## Why the Market May Not Prevent an Economic Problem

- ◆ A “lumpy” solution becomes a victim of its own success - a market incentive (e.g., incremental TCCs) may exist without a solution, but its value is dissipated by the solution itself
- ◆ Difficult to define property rights (e.g., AC upgrades) thereby reducing incentives
- ◆ Entities that would economically benefit from a solution opt to be “free-riders” and depend on “someone else to pay for it”
- ◆ Difficult to develop robust market rules that consistently produce correct price signals to encourage efficient market decisions
- ◆ Protective price mechanisms (e.g., bid caps, price mitigation, etc.,) may counteract or negate efficient price signals, thereby perpetuating themselves

## Why Economic Problems May be Overlooked

- ◆ Assuming no economic problem exists or will exist will not prevent them, but may delay their discovery
- ◆ Sufficient market information may not be available in usable format to identify economic problems
- ◆ Confined portions of the market may experience unobserved economic problems even though the overall market may appear efficient
- ◆ Difficulty quantifying economic impact of intangible problems ...
  - Disadvantages of a restricted market compared to a wider market that provides improved competition, increased options and reduced opportunity for market power abuse
  - Increased barriers to market entry
  - Lack of fuel diversity
  - Disadvantages of administratively imposed price stability as opposed to “natural” price stability

## What might a Comprehensive Economic Planning Process look like?

To foster constructive discussion at the upcoming ESPWG meeting, National Grid offers a straw proposal for a Comprehensive Economic Planning Process. The proposal expands the “Information Only” approach, but also goes beyond it with responsibilities shared between the NYISO and NYPSC.