



Recommendation Regarding Proposal to Eliminate the G-J Locality

Randy Wyatt
Senior Market Design Specialist
New York Independent System Operator

ICAP WG
April 4, 2017
NYISO, Rensselaer, NY

G-J Locality Elimination

- ◆ **Background**
- ◆ **Market Design Guiding Principles and G-J Locality Elimination Rules**
- ◆ **NYISO Recommendation**
- ◆ **Next Steps**

Locality Elimination – Background

- ◆ In the August 2013 FERC Order accepting the tariff changes to create the NCZ, FERC stated:
 - *“...that NYISO is free to discuss with its stakeholders a mechanism to eliminate an unneeded capacity zone. We reiterate here that NYISO should work with its stakeholders, and if a mechanism for zone elimination is deemed necessary, NYISO should file appropriate tariff revisions with the Commission.”*
- ◆ Some stakeholders indicated a desire to eliminate the G-J Locality, and supported continuing development of Locality elimination rules
- ◆ **2017 NYISO Locality Elimination Project**
 - *Evaluate whether a mechanism for Locality elimination is necessary*
 - *If deemed necessary, develop market rules to allow for the elimination of Localities or achieve price convergence*

Market Design Guiding Principles and G-J Locality Elimination Rules

- ◆ **Provide market certainty**
 - *Minimizes likelihood of eliminating a Locality that will likely be recreated in the near term*
 - *Elimination rule results should be readily predictable based on a transparent process and replicable test*
- ◆ **Minimizes inefficient market outcomes and barriers to entry**
 - *Locality elimination should avoid creating barriers to investment*
- ◆ **Attract and retain investment in resources where they are needed to meet resource adequacy and transmission security needs**
 - *Locational price signals*
- ◆ **Design should strive for simplicity, while recognizing reality**

NYISO Recommendation

- ◆ **A rule to eliminate a Locality is not warranted at this time**
 - *G-J Demand Curve recognizes the higher value of G-J capacity vs. ROS capacity in maintaining system reliability*
 - *The G-J Locality Demand Curve recognizes the higher Gross CONE in G-J as compared to ROS, and allows prices to separate or converge when necessary to send price signal*
 - *G-J price convergence with NYCA price may occur with the addition of public policy AC Transmission Projects*
 - *G-J elimination rules would increase developer risks, likely resulting in large increases to the G-J CONE in the 2020 DCR*
 - *Market uncertainty has increased given the anticipated loss of G-J facilities*
- ◆ **Further details on each of the above reasons are provided in the slides that follow**

Value To Maintaining System Reliability

- ◆ Value associated with G-J capacity towards maintaining system reliability is greater than that associated with ROS
 - *The G-J Locality Demand Curve reflects the incremental value of carrying capacity in the region*
 - G-J slope of \$0.79/100MW vs. NYCA slope of \$0.28/100MW
 - *Need to sustain the price signal to attract and retain G-J Capacity to address reliability and transmission security needs given proposed changes to existing G-J facilities*
 - *Rule providing for elimination would fail to recognize this difference*

Cost of New Entry

- ◆ **The Gross Cost of New Entry (CONE) in Load Zones G, H, and I is materially higher than the Gross Cone in zones A thru F.**
 - *38% higher for the peaking plant used to formulate the 2017/2018 – 2020/2021 Demand Curves, and at least 13% higher if like technologies had been selected*
 - *NYISO expects a cost differential between the regions to be sustained over the long term*
 - *Eliminating the G-J Locality would incorrectly reflect long term expected needs, e.g., given proposed changes to existing G-J facilities*
 - **Need to be able to send a price signal to attract investment in resources to meet resource adequacy and transmission security needs**
 - *The G-J Locality Demand Curve recognizes this cost difference and allows prices to separate when necessary, and converge when necessary*

Price Convergence

- ◆ **AC Transmission upgrades (expanding the capability of the UPNY-SENY Interface), would create downward pressure on Locational Minimum Installed Capacity Requirements (LCRs)**
- ◆ **Assuming a constant capacity supply and NYCA minimum ICAP requirements, a large decrease in the G-J LCR is not required for the G-J Locality price to converge with the NYCA price**
 - *~3 to 4% for G-J*
- ◆ **Price convergence may occur with transmission upgrades from the public policy process**

Developer Risks

- ◆ An eliminate rule is not predictable, creating significant developer risk
- ◆ Risk will translate to a large G-J peaking plant CONE increase in the 2020 DCR
 - *Risk would likely be reflected in the financial parameters (e.g., amortization period) used to determine the unit CONE*

Market Uncertainty

- ◆ **An eliminate rule increases market uncertainty and creates a barrier to entry for new investment in the G-J Locality**
 - *Market certainty contributes to long term market efficiency*
 - *Significant uncertainty already exists due to the proposed changes to existing G-J facilities*
 - *The prior proposal for Locality elimination presented at an earlier ICAPWG meeting -- using deliverability headroom -- would add additional and unnecessary uncertainty, raising the barrier to investment*

Next Steps?

- ◆ The NYISO plans to present at an upcoming BIC its recommendation that at present a mechanism for Locality elimination is not necessary
- ◆ The NYISO will also consider any additional Stakeholders comments provided in writing by April 14 to deckels@nyiso.com
- ◆ The NYISO plans to invite stakeholder input for a holistic approach to evaluating Locality creation and elimination Rules as part of the “On Ramps and Off Ramps for Zones” market concept project to be undertaken later this year

The mission of the New York Independent System Operator, in collaboration with its stakeholders, is to serve the public interest and provide benefit to consumers by:

- *Maintaining and enhancing regional reliability*
- *Operating open, fair and competitive wholesale electricity markets*
- *Planning the power system for the future*
- *Providing factual information to policy makers, stakeholders and investors in the power system*

www.nyiso.com