

2/14/18 BIC Meeting:

Stakeholder submitted comments on On Ramps & Off Ramps Market Design Proposal

NYSEG/RG&E:

NYSEG welcomes the changes related to Capacity Zone creation and elimination, i.e., On Ramp/Off Ramp Market Design. We continue, however, to be concerned that the “off ramp” design represents a very high hurdle that will mean that zones are rarely, if ever, eliminated. We encourage the NYISO and Market Participants to continue efforts to improve this proposal.

LIPA:

For the record, our concern is that with the elimination of the G-J zone coupled with NYISO’s Alternative LCR initiative that we discussed this morning, LI would become the swing supplier of NYC reliability services associated with Installed Capacity. Since Zone G-I capacity has a larger impact on NYC reliability than Western New York capacity does, we are concerned with the incentive to locate upstate (where net costs are lower) rather than Zone G-J that could arise if Zone G is eliminated. We had asked NYISO to evaluate the differences in reliability impact for upstate versus G-I capacity, and NYISO has declined to do so, and we oppose this proposal. We would like NYISO to evaluate the impact of reliability based on where the capacity is added, and provide an incentive to locate capacity where it supports NYC reliability needs which otherwise LI would be required to supply as swing supplier.

IPPNY:

As IPPNY has previously stated in written comments and IPPNY members have further established during the NYISO stakeholder meetings addressing this issue, IPPNY has serious concerns with core aspects of the NYISO’s proposed On Ramp/Off Ramp concept for creating and eliminating capacity zones, concerns which are shared by a significant number of stakeholders, including the NYISO’s independent Market Monitoring Unit. These concerns stem from a serious flaw in the NYISO’s proposed market design which will cause resource adequacy needs for a locality to be severely understated. Specifically, the NYISO has erroneously sought to use a transmission security based test to determine a resource adequacy requirement. The consequences of moving forward with this flawed approach will be two-fold: (1) capacity zones will be prematurely eliminated when locality specific price signals are still needed to maintain resource adequacy; and (2) capacity zones will be created too late, resulting in the potential need for reliability-must-run contracts. The 2-G and 4-G components of the NYISO’s proposal are nothing more than ill-fitted band-aids that do not actually correct for the underlying flaws in the overall design itself. There can be no mistaking that this proposal will cause increased market uncertainty and investment curtailment. Therefore, a majority of IPPNY’s members will be voting in opposition to the NYISO’s proposed On Ramp/Off Ramp market design concept at today’s Business Issues Committee meeting.

Hudson Energy Economics:

The NYISO’s proposal for the On and Off Ramp Test is a flawed market design. It is attempting to use a Transmission Security test to estimate a Resource Adequacy requirement. The result of the NYISO’s test as proposed is that it will understate the Resource Adequacy need and would therefore result in creating Localities too late, eliminating them too early. This would result in not sending efficient price signals and increasing the potential to need RMR contracts because a Locality was not created when it was needed.

The NYISO assures the reliability of its system by performing both Transmission Security and Resource Adequacy evaluations and assuring that both requirements are met. Transmission security is the

ability of the power system to withstand disturbances, such as short circuits or unanticipated loss of system elements, and continue to supply and deliver electricity. The purpose of the capacity market is to assure that the NYISO can meet its Resource Adequacy requirements, provide a means for resources to recover a portion of fixed costs, and provide a market signal for investment. Resource adequacy is the ability of the electric systems to supply the aggregate electricity demand and energy requirements of the customers at all times, taking into account scheduled and unscheduled outages of system elements. Resource adequacy considers the transmission systems, generation resources, and other capacity resources, such as demand response. Resource adequacy assessments are performed on a probabilistic basis to capture the random natures of system element outages. Capacity Localities are used to assure that the market will provide the right price signals to develop and maintain resources in the right locations to be able to provide resource adequacy.

Whether the NYISO needs to create a new capacity Locality or whether it can eliminate a capacity Locality is an issue of Resource Adequacy. The NYISO has proposed to evaluate whether it needs to create a new Locality or to eliminate a Locality based upon a Transmission Security based test. Transmission Security and Resource Adequacy are not the same reliability issue. The NYISO has provided no analysis that their Transmission Security based test, as proposed for the On and Off Ramp process, adequately estimates the capacity needed to assure Resource Adequacy. If they have performed any analysis, they have not presented it to Market Participants. When stakeholders presented their own analysis showing that the Transmission Security based On and Off Ramp test significantly understates the locational need for capacity, the NYISO dismissed those analyses without providing any basis for the dismissal other than asserting that they believe their proposed transmission security based analysis is sufficient. Again, Transmission Security and Resource Adequacy are not the same reliability need. The NYISO cannot use the test for one type of reliability need, Transmission Security, to estimate the amount of capacity that is needed for an entirely different type of reliability need, Resource Adequacy, without first showing that the test based on the one type of need is a good proxy for the other need.

While the NYISO has dismissed the data that has been provided by stakeholders, improving the NYISO's proposal would be relatively easy. The tool that the NYISO has developed to perform the Alternative LCR Methodology could easily be applied to the On Ramp Off Ramp model to determine the Resource Adequacy based Locational Requirements. Specifically, if the model were run allowing the IRM to be optimized along with the LCRs, it could identify the Resource Adequacy based minimums that are needed in different segments. For example, the NYISO could estimate the minimum capacity requirement for New York City by modeling NYC with a Net CONE that is significantly above the Net CONE for the other zones in the NYISO. The analysis could be performed using a Net CONE for the Locality that is 2, 5, or even ten times as high as the remainder of the NYCA. The model would attempt to shift as much capacity as it could out of the higher priced area and provide the minimum that is required to assure that the marginal LOLE benefit of additional capacity in the region is 2, 5, or 10 times as capacity added elsewhere.

NYS UIU:

The UIU's decision to abstain on the on-ramp/off-ramp proposal reflects a couple of issues that we attempting to balance. On the one hand we continue to have concerns that (1) substantively, the proposed thresholds for creating or eliminating zones lack a clear economic or reliability rationale linked to the broader objectives of the capacity market and (2) there remain unanswered questions about the expected performance of the design. On the other hand, UIU remains concerned that without a commitment to a process to explore alternatives, there may be no process to address issues with existing zones, which is not in the interest of consumers.

2/28/18 MC Meeting:

Stakeholder submitted comments on On Ramps & Off Ramps Market Design Proposal

LIPA:

We oppose this approach. One big concern is that it removes the long-term incentive to add capacity in the LHV where it has a higher impact on NYC reliability. Combined with Alternative LCR approach, our concern is that the elimination of the LHV zone will increase the capacity LI will need to carry to support the consequent reductions in NYC reliability. This is something that has not been studied and we would like it to be.

NYS Utility Intervention Unit

The NY UIU has expressed concerns regarding the specification of the thresholds for establishing and eliminating zones that the ISO has proposed in the on-ramp off-ramp design. We have completed substantial analysis and have found that, while not the approach we would have taken, the threshold for creating zones is reasonable and superior to the status quo zone creation rule. The zone elimination rule remains problematic. However, the importance of the zone elimination rule to realizing efficient capacity market outcomes is secondary to addressing issues regarding the slope and zero-crossing parameters of the demand curves and reforming the tan-45 process to rationalize the setting of zonal requirements and NYCA-wide IRM. The ISO has committed to working with stakeholders to address the latter two design issues over the coming couple of years. Given the timing of the expected application of the zone elimination rule, the UIU is more concerned at this time that the ISO redirect its resources to properly addressing the demand curve and requirements issues between now and 2020, as that would largely render moot our concerns regarding the zone elimination threshold.