

**Comments on the Recommendations in the 2015 State of the Market Report  
for the New York ISO Markets**

**Submitted by the New York Transmission Owners**

**August 4, 2016**

The New York Transmission Owners (“TOs”)<sup>1</sup> hereby submit the following comments on the recommendations contained in the 2015 State of the Market Report for the New York ISO (“NYISO”) Markets (“Report”), prepared by Potomac Economics Ltd., the NYISO’s Market Monitoring Unit (“MMU”).

***Recommendation 2: Grant financial capability transfer rights between zones when investors upgrade the transmission system without a cost-of-service rate***

Currently, the NYISO does not award financial capacity transfer rights to investors who upgrade the transmission system, even though such upgrades may permit capacity requirements to be met at a lower cost. Defining financial rights that reflect the impact that such upgrades have on the amount of capacity that must be located in a given area to meet capacity requirements, and allocating those rights to the entities funding those upgrades, will help to ensure that investors in those upgrades reap the benefits of their investments. Consequently, implementing this recommendation will help to support economically efficient transmission upgrades that might not otherwise be undertaken if the impact of these upgrades on locational capacity requirements was socialized. However, these additional incentives would have little impact on an upgrade that is subject to offer floor mitigation (which the MMU proposes to apply in Recommendation #5), as any such upgrade would be unlikely to proceed. Therefore, implementing Recommendation #5 could make this recommendation significantly less effective.

***Recommendation 3: Establish a dynamic locational capacity framework that addresses future potential deliverability constraints***

In its discussion of Recommendation #1, the Report states that the capacity prices produced by the current ICAP market “do not provide efficient signals for investment.” Implementing Recommendation #3 would not change that. Consequently, the locational capacity price differences that would result if the NYISO were to implement Recommendation #3 by pre-defining additional capacity zones, without making any other changes to the ICAP market, also would not provide efficient signals for investment. The Report should have acknowledged that implementation of Recommendation #3 in the current ICAP market could produce inefficient signals for transmission investment, because the introduction of additional pre-defined zones could cause spurious price differences between those zones that are unrelated to any difference in the value of the capacity provided by resources in those zones. Thus, it could easily do more harm than good.

---

<sup>1</sup> The TOs consist of Central Hudson Gas & Electric Corporation, Consolidated Edison Company of New York, Inc. (“Con Edison”), New York Power Authority (“NYPA”), New York State Electric & Gas Corporation, Niagara Mohawk Power Corporation d/b/a National Grid, Orange and Rockland Utilities, Inc., Power Supply Long Island, and Rochester Gas and Electric Corporation.

Additionally, the Report does not address the consequences that adopting Recommendation #3 would have for mitigation. Under the current ICAP market structure, NYC, the G-J Locality, and any other capacity zones that may be created in the future are subject to mitigation, even if the constraints that led to the creation of those capacity zones no longer bind. Therefore, one benefit of the zone elimination procedures that the ISO is developing would be the elimination of mitigation in areas where it is no longer necessary. It would be necessary to ensure that adopting Recommendation #3 does not reverse these improvements and apply mitigation in areas where it is not necessary.

***Recommendation 4: Enhance buyer-side mitigation issues to deter uneconomic entry while ensuring that economic entrants are not mitigated, by (a) reforming the offer floor and (b) modifying the assumptions used when forecasting***

The TOs oppose part (a) of this recommendation, which would increase the default offer floor from 75 percent of Mitigation Net CONE to 100 percent of Mitigation Net CONE. Mitigation Net CONE is merely an estimate of the net amount of capacity revenue that would be required in order to support development of new capacity. While the NYISO invests significant effort in the ICAP demand curve reset process, which produces the ICAP demand curves upon which Mitigation Net CONE is based, Mitigation Net CONE may nevertheless overstate the amount of ICAP revenue that is needed to support entry, despite the NYISO's best efforts. In that case, entry will occur before the price of ICAP reaches Mitigation Net CONE, which will prevent resources that are subject to offer floor mitigation from selling their capacity. Since selling capacity is the only way for them to escape mitigation, implementing this recommendation could prevent them from ever being able to escape mitigation. That is not a reasonable outcome. In contrast, by permitting them to sell capacity if the price reaches 75 percent of Mitigation Net CONE, the current approach implicitly allows for the fact that the ICAP price that is actually required to support entry may be less than Mitigation Net CONE.

The TOs support part (b) of this recommendation. In particular, the NYTOs agree with the MMU that the current practice, which forecasts the capacity prices used for buyer-side mitigation exemption tests under the assumption that all mothballed units will return to service, must be revised. This is not a realistic assumption and will cause the forecasted capacity prices that are used in these tests to be understated. This, in turn, will lead the NYISO to apply offer floor mitigation to units that were actually economically justified, thereby discouraging economically efficient entry. We are encouraged that the NYISO has recently resumed work on this project. However, we have some concerns about details of the current NYISO's proposal, as detailed to stakeholders in July 2016 (specifically, its reliance on tests that will assess whether the NYISO expects capacity to be in service or not, based on projected market prices).

***Recommendation 5: Evaluate the need to expand BSM measures to address other actions that can suppress capacity prices (including mitigation of existing generators that may be retained uneconomically and mitigation of new transmission facilities)***

The TOs strongly oppose the recommendation for the NYISO to mitigate transmission projects that increase transfer capability on internal interfaces or increase the amount of emergency assistance available from external control areas. This proposal puts the NYISO in the role of second-guessing the determinations reached by its own FERC-approved transmission planning processes as to whether new transmission facilities are justified. These planning processes currently recognize that the need for new AC transmission facilities is typically not driven by the market or economics. Such mitigation procedures

may deem facilities “uneconomic” because they ignore other legitimate planning considerations, even if there is no demonstration that those facilities were developed with the purpose of suppressing capacity prices. Additionally, the improvement of AC transmission facilities can increase the amount of competition in the market and permit more efficient use of market-based resources; however, those gains could be frustrated by a mechanism that requires the NYISO to operate the market as though those facilities were never built.

The TOs also oppose the recommendation to apply offer floor mitigation to cases in which existing generators may have been uneconomically retained. We believe that this recommendation is based on an unrealistic and oversimplified view of how easily one can determine whether a contract is above-market. In comments it filed at FERC on Jan. 11, 2016, the MMU suggested that one could determine whether a contract was above-market by assessing “whether the contract terms exceed the futures prices at the time the contract terms were finalized,” but this approach implicitly assumes that the contract states a fixed price for a fixed quantity covering a fixed period of time. Contracts frequently are far more complex than this. The MMU’s approach fails to recognize this complexity; as a result, it fails to recognize that adopting this recommendation could easily lead to mitigation in cases where it is unwarranted. This, once more, would discourage economically efficient entry.

***Recommendation 6: Modify pivotal supplier test for NYC to prevent it from being circumvented through sales in forward auctions***

Certain suppliers of capacity in NYC may be pivotal, but the current procedure for determining which NYC ICAP suppliers are pivotal, and therefore subject to offer caps, disregards any capacity that such a supplier has sold before a spot market auction. As a result, it may incorrectly conclude that such a supplier is not pivotal and should not be mitigated. The TOs therefore support this recommendation, which would close a loophole in the supply-side mitigation procedures for NYC that has already been closed for the G-J Locality.<sup>2</sup>

There is, however, a broader issue here. While the NYISO only applies offer cap mitigation to pivotal suppliers, the questions of whether a supplier is pivotal and whether it has a financial incentive to withhold capacity are not the same. As a result, the current mechanism may fail to apply offer cap mitigation to suppliers that have a financial incentive to withhold capacity. (In some cases, it may also apply offer cap mitigation to suppliers that do not have a financial incentive to withhold capacity.) The NYISO has recently begun to re-evaluate the basis for its test for determining which suppliers are subject to offer cap mitigation, to ensure that it is applied to suppliers with a financial incentive to withhold capacity, and only those suppliers, and the TOs support that effort.

***Recommendation 8: Modify the capacity market and planning process to better account for capacity that is exported to neighboring control areas from import-constrained capacity zones***

The TOs support this recommendation. It would ensure that prices in the NYISO’s ICAP market are consistent with the amount of capacity that is actually present in each capacity zone, while also properly accounting for the NYISO’s obligations that result when a resource in a Locality sells its capacity outside

---

<sup>2</sup> NYPA does not join in this position.

the NYISO's markets. Additionally, the TOs think it is important to reassess whether the NYISO's market power mitigation rules fully account for the incentives for economic withholding of capacity that may apply to suppliers in Localities, due to the impact that the amount of capacity supplied in one Locality may have on ICAP requirements in other Localities. If withholding in one Locality increases ICAP requirements, and hence ICAP prices, in another Locality, that may provide financial benefits to withholding that the NYISO's current market mitigation procedures do not consider.

***Recommendation 9: Eliminate transaction fees for CTS transactions at the NY-PJM border***

The TOs support this recommendation, to the extent that it calls for the reciprocal elimination by the NYISO and PJM of transaction fees for CTS transactions at the NY-PJM border. If, on the other hand, the MMU is recommending the unilateral elimination of such fees by the NYISO, then the TOs believe that the MMU should clearly say so and provide analysis to support such a recommendation. Pending review of such analysis, the TOs do not take a position on this issue.

***Recommendation 10: Work with PJM to coordinate scheduling of the A, B, C, J and K lines after the Con Ed-PSEG wheeling agreement expires***

The TOs support this recommendation. However, the TOs note that the need to implement procedures that can go into effect on May 1, 2017, when the current wheeling agreement between Con Edison and PSE&G expires, places significant limitations on the scope of the options that the NYISO and PJM can consider. The best solution over the long run may or may not be a solution that can be implemented by May 1, 2017. Once they have developed the short-term solution, the NYISO and PJM should turn their attention to assessing whether the best long-term solution might differ from the best short-term solution.

***Recommendation 11: Operate certain PAR-controlled lines to minimize production costs and create financial rights that compensate affected TOs***

This recommendation calls for the NYISO to modify the Y50/901/903 contracts or find other ways to operate the 901/903 lines more efficiently. The TOs do not support this recommendation because we do not believe that it fully recognizes the difficulty the NYISO would encounter in implementing this recommendation, the challenge of anticipating when the operation of the PARs can ameliorate congestion and price volatility on Long Island, the sunk and continuing costs for Y50 for Con Edison, or the costs of transmission upgrades to replace the capability currently provided through the Y50/901/903 contract.

There are feasible and practical alternatives to this recommendation, including accurately simulating the actual system flexibility and accurately reflecting the relative flows over the 901 and 903 PARs while respecting contractual flows. Implementing these alternatives could eliminate the Long Island price spikes and unnecessary unit starts which can make these flows appear inefficient, without relying on local system operators or changing PAR settings.<sup>3</sup>

---

<sup>3</sup> NYPA does not join in this position.

***Recommendation 12: Adjust RTD and RTC look-ahead evaluations to be consistent with timing of external transaction ramp and GT commitment***

The TOs support this recommendation, which could improve the frequency with which market participants elect to use the CTS method of scheduling transactions over the NY-PJM border.

***Recommendation 13: Consider enhanced modeling of loop flows and PAR-controlled lines***

The TOs support this recommendation, which could help to address some of the concerns that Recommendation #11 is intended to address.

***Recommendation 14: Modify criteria for GTs to set prices in the RT market***

This recommendation calls for the NYISO to modify its hybrid GT pricing methodology to permit prices to be set using the first ideal pass, in which all GTs are considered dispatchable and eligible to set the LBMP. While implementing this recommendation would reduce the frequency with which economically committed GTs require uplift payments, which is an improvement, the Report recognizes that implementing this recommendation would also increase the frequency with which GTs (or other resources) that were not committed incur lost opportunity costs, which offsets the improvement to some extent. Consequently, the NYTOs support the NYISO's analysis of this potential change, but we believe it is premature to reach any conclusion as to whether the recommendation should be pursued; such conclusions should await the conclusion of the NYISO's analysis.

***Recommendation 15: Model transmission constraints of 100 kV or higher in the DAM and RTM and develop associated mitigation measures***

This recommendation calls for the NYISO to model in its day-ahead and real-time markets those 115 kV transmission constraints that lead to the need for out-of-market actions. As the Report recognizes, implementing the processes to manage these constraints in the NYISO's markets "would be a significant effort," so we commend the MMU for focusing its recommendation on managing those constraints that are most likely to affect the NYISO's markets. With that said, the TOs believe that it is important to have a full understanding of the scope of the efforts that would be required to manage those constraints in the markets, and the potential benefits that would result from implementing such changes, before committing to undertake those changes.

The TOs also note that due to certain constraints that cannot be managed by the NYISO's day-ahead and real-time markets as those markets are currently designed, including obligations established by international treaty, NYPA dispatches its Niagara generation facilities to ensure that those obligations are met. Any attempt to model 115 kV constraints in the NYISO's markets would need to preserve NYPA's ability to dispatch those generators.

***Recommendation 16: Dynamically adjust operating reserve requirements to increase or decrease the amount of reserve that must be held on internal resources***

The TOs could support an effort by the NYISO to analyze the potential benefits of determining operating reserves requirements dynamically, as proposed in this recommendation. However, before proceeding with implementation, it would be necessary to ensure that any reductions in operating reserve requirements would not adversely impact reliability. It would also be necessary to assess the costs that

implementing the recommendation would entail, to ensure that the benefits exceed the costs. With the appropriate analysis a decision can be made on whether or not to move forward with any recommendation.

***Recommendation 17: Utilize graduated transmission demand curves (GTDCs) to set constraint shadow prices when transmission constraints cannot be satisfied***

In its recommendation, the MMU calls upon the NYISO to “document the current process” used to set prices when constraints are resolved through constraint relaxation, as opposed to the use of GTDCs. The TOs believe that that is the most important part of the recommendation. Until we understand when constraint relaxation is applied and how it determines prices when it is applied, it is difficult to say much else about this issue.

***Recommendation 18: Work with generators in NOx bubbles to ensure RACT compliance plans use most economic compliance option available***

The NYTOs support the concept of more efficient RACT compliance, but would need to have additional details for an adequate review of this recommendation.

***Recommendation 19: Consider allowing generators to submit offers in the DAM that reflect energy storage and fuel supply constraints***

The TOs support this recommendation. Currently, because generators cannot reflect fuel constraints directly in their offers, they must guess which fuel constraints will bind. If they guess incorrectly, this may lead to an inefficient dispatch; suppliers may also be able to use such guesses to disguise attempts to withhold energy. Permitting generators to include the costs of these fuel constraints would improve efficiency and reduce opportunities for withholding.

***Recommendation 20: Enhance recognition of gas system limitations when scheduling resources to provide Operating Reserve***

The TOs support this recommendation, which would identify capacity that may not be able to respond to a reserve pick-up due to fuel limitations. It will improve reliability, because it would reduce the likelihood that the NYISO is relying on operating reserve providers that are unable to respond when activated. It will also improve efficiency, because it will reward operating reserve suppliers that can demonstrate they have access to fuel during stressed system conditions.

***Recommendation 21: Improve assumptions in the DAM’s commitment logic to avoid scheduling uneconomic gas turbines***

While the Report states that the MMU “has identified several key assumptions and processes in the day-ahead market optimization that cause some uneconomic gas turbines to be scheduled when they are not economic,” it provides little additional detail as to what those assumptions and processes are, other than noting that it is associated with a module that operates after the initial determination of schedules by the NYISO’s mixed integer program software. Without additional explanation, the TOs cannot comment on this recommendation, so we ask the MMU to describe its concerns in more detail.