Comments on Proposed NYISO Installed Capacity Demand Curves for the 2021-2022 Capability Year and Inputs for the 2022-2023, 2023-2024 and 2024-2025 Capability Years

Submitted by the New York Utility Intervention Unit (UIU)

October 9, 2020

The New York Utility Intervention Unit (NY UIU) hereby submits the following comments on Proposed NYISO Installed Capacity Demand Curves for the 2021-2022 Capability Year and Annual Update Methodology and Inputs for the 2022-2023, 2023-2024 and 2024-2025 Capability Years ("ISO Staff Final DCR Recommendations"), published by NYISO Staff on September 9, 2020. The NY UIU also respectfully request the opportunity to participate in oral arguments regarding the subject issue before the Board of Directors ("Board") on October 19, 2020.

1. The UIU does not support NYISO Staff recommendation of a 17-year amortization period.

   NYISO Staff is recommending a 17-year amortization period for cost of thermal peaking plant. This is a change from the 20-year assumption in previous Demand Curve Resets (DCRs). NYISO Staff's rationale for a 17-year amortization period is based on the Climate Leadership and Community Protection Act ("CLCPA") requirement that all electricity be produced by zero-emissions resources by 2040. The NYISO Staff recommendations assume that the default CONE unit, which is a fossil generator in this DCR, would be forced to retire by 2040.

   NYISO Staff DCR Final Recommendations state that "at this time, the NYISO believes that there is not sufficient clarity as to which alternative fuels or other operational modifications would qualify as 'zero-emission' under the CLCPA, the cost of procuring those fuels for use in generating electricity, and the potential capital costs associated with retrofitting an existing plant to permit continued operation beyond December 31, 2039."[1] The CLCPA requires the Climate Action Council to develop a plan to achieve zero emission generation by 2040. Until that plan is fully developed, there is nothing that precludes zero-emission thermal generators. The NYISO Staff DCR Final Recommendations fail to fully recognize that thermal peaking plants could switch to alternative fuels to comply with the zero-emissions standards.

   The UIU supports comments provided by the Independent Market Monitoring Unit (MMU) in response to the NYISO Consultant recommendations. The MMU assesses that, "although such fuels are not commercially widespread, such technologies exist and developers in New York are including the flexibility to adopt them in their plans." Assuming that no new thermal generator installed today will have the technological advancement to switch fuel in compliance with the CLCPA by 2040 is fundamentally flawed and unreasonable.

   Additionally, recent studies performed by Analysis Group and Brattle Group to evaluate a CLCPA-compliant topology concluded that large amounts of flexible generation (dispatchable) will be needed to maintain system reliability and provide necessary operating reserves in key constrained areas of the

[1] NYISO Staff Final DCR Recommendations, Page 28.

system. Assuming no fuel-switching or retrofit of existing dispatchable fleets to comply with CLCPA requirements may result in overbuild of more expensive resources that may not provide the same flexibility and system reliability benefits. This could result in excessively high demand curves. Therefore, the UIU urges the Board to direct NYISO Staff to use a 20-year amortization period instead of 17 years.

2. The UIU does not support the NYISO Staff recommendation for Cost of Debt assumption.

   The NYISO Staff final report recommends a 6.7% cost of debt for the proxy unit. The UIU echoes the MMU's assessment that the 6.7% cost of debt is too high and must be revised downward to reflect longer-term market trends in a manner that does not over-emphasize the impact of the recent COVID-19-related market volatility. It is reasonable for the NYISO Staff and the Consultant to consider the impact of COVID-19 from recent months, but it should not be given too much weight, as that skews the average metrics upward. Review of historical benchmark rates shows a median yield below 6% and is expected to return to pre-COVID-19 levels in the next four years, if not sooner. Using a cost of debt above 6% will improperly increase the demand curve to a level that is not reflective of expected long-term market conditions. Therefore, the UIU respectfully urges the Board to direct NYISO Staff to use a cost of debt that is below 6%.

3. The UIU urges the Board to direct NYISO Staff to use TGP Zone 4 200L Price Index for a generator in Zone C for all 12 months of the year.

   The UIU does not support NYISO Staff recommendations of using the Niagara gas price index to calculate net Energy and Ancillary Services (E&AS) revenues in the winter months for generators located in Zone C. Incorrect selection of a gas price index at a given location can lead to incorrect estimate of net E&AS revenues, and as a result, cause the net cost of developing capacity in that location to be misstated. This could cause ICAP demand curves to be under- or over-estimated. To mitigate these concerns the NYISO and Consultant established four criteria by which natural gas price index for each capacity zone will be selected: Geography, Liquidity, Market Dynamics, and Precedent/Continuity. These four criteria were used in the current DCR as well as previous DCRs. For the purpose of this discussion, the UIU has chosen to comment only on Geography and Liquidity, as those two criteria bear the most weight in the selection process.

   On the issue of Geography, TGP Zone 4 200L and Dominion North were the only gas price indices considered by the NYISO Consultant for Zone C that satisfied this criterion during stakeholder working group discussions. Niagara did not meet the Geography criterion and as such, was not included as a candidate gas price index. Additionally, analysis of flow data at Niagara shows that this gas hub provides uninterruptible supply services into Canada more often than it does to resources in Zone C, due to its proximity to the Canadian border. The UIU believes it is reasonable to select either TGP Zone 4 200L or Dominion North instead of Niagara.

   On the issue of Liquidity, the MMU stated in its comments that, "the Niagara gas index is limited for its lack of liquidity. Niagara lacks significant trade volume on many days used to estimate net [EAS] revenues." Additionally, Platts has reported 37 instances over the last three winters when it did not publish a price for the Niagara gas hub. On the other hand, Platts has published price indices for TGP Zone 4 200L and Dominion North for almost every trading session. To accurately estimate net E&AS

revenues to use as inputs in the DCR, it is important to use data that is both reliable and transparent. Given the lack of liquidity and the frequent unavailability of pricing data at Niagara, the UIU believes it is unreasonable for NYISO Staff to use price indices at that hub in the winter months.

Finally, stakeholders were not afforded the opportunity through the stakeholder process to review and provide feedback regarding the selection of Niagara. This proposal was not published until after the deadline for stakeholders to comment on the draft version of the ISO Staff Recommendations. Given the lack of transparency in the decision-making process regarding Niagara, the UIU cannot support NYISO Staff recommendation.

Due to the aforementioned reasons, the UIU urges the Board to reject selection of Niagara gas prices for the winter months and instead use TGP Zone 4 200L for all 12 months of the year.