LIPA/PSEG Long Island Comments

NYISO Capacity Resource Interconnection Service (CRIS) Expiration (3-year clock) Rule for Controllable Lines with Unforced Deliverability Rights (UDRs)

As part of the 2019 Class Year/Interconnection Queue Redesign Initiative, NYISO stakeholders supported development of more stringent CRIS expiration rules. Some of those were implemented as part of that initiative, while others were ultimately deferred for later consideration. For example, the 2019 initiative did not address partial CRIS utilization or the retention of CRIS by certain retired facilities. As part of the 2021 NYISO budget, stakeholders approved funding to develop a market design concept around CRIS expiration rules. On January 21, 2021, NYISO presented an overview of 2021 market projects, including the CRIS Expiration Evaluation Project, followed by discussions in working groups.

NYISO's main goal for the CRIS Expiration Evaluation Project is to revise CRIS retention rules to free up unused deliverability headroom, lessening the need for deliverability upgrades and potentially lowering the cost of market entry for future facilities. At the March 11, 2021 ICAP meeting, NYISO requested stakeholder feedback on three potential sets of rule changes to be evaluated as part of this effort:

1. Modifications to the 3-year retention of CRIS rights by certain units upon retirement
2. Rules to provide for partial CRIS Expiration for unused CRIS rights
3. Modifications to allow more flexibility with respect to the transfer of CRIS rights between units at the same electrical location.

On April 22, 2021, LIPA and PSEG Long Island submitted comments to NYISO with respect to these proposed rule changes and associated impacts on the Long Island Transmission District and LIPA's ratepayers. Our comments supported the NYISO's consideration of adjusting CRIS rights if a generating unit fails to meet the performance criteria as required. On August 25, 2021, LIPA and PSEG Long Island submitted additional comments to NYISO describing why a partial CRIS expiration for unused CRIS rights for UDRs[1] could lead to less flexibility to address resource adequacy needs, particularly needs that arise quickly, or may be of shorter duration, and recommended excluding UDRs from the proposed partial CRIS expiration rule. NYISO has published these comments for the stakeholder review for a potential discussion in 2022.

The following additional comments of LIPA and PSEG Long Island focus on why the current 3-year CRIS expiration rule (*i.e.*, 3-year clock once the unit becomes CRIS in-active[2]) should not be applied to external controllable lines with UDRs. Instead, LIPA and PSEG Long Island propose a longer time-frame, *i.e.*, a 6-year clock, for controllable ties with UDRs.

[1] Unforced Deliverability Rights (UDRs) are the capacity rights associated with a specific controllable and schedulable transmission facility with a terminus in a locality either in an External Control Area or a non-constrained region in NYCA.

[2] Under current NYISO tariff provisions, a facility becomes CRIS-inactive on the last day of the month during which it ceases to offer capacity into the NYISO capacity auctions. Facility remains CRIS-inactive if no action taken during the next three years and CRIS rights expire at the end of the 3-year period.

NYISO has awarded UDRs to four external controllable lines that connect zones J and K to neighboring control areas, New England and PJM. In particular, Zone K is connected to the New England and PJM control areas via the Cross Sound Cable and Neptune Cable, respectively. While these UDR holders can offer UCAP in the NYISO markets on an annual basis, in practice, the process to procure external capacity and make a UDR election based on contracts with external resources requires significant lead-time. Moreover, as discussed below, available supply options are often constrained by capacity market rules in ISO-NE and PJM.

NYISO administers three types of auctions: the Capability Period Auction, the Monthly Auction, and the Spot Auction. Load Serving Entities (LSEs) can use capacity procured from all three sets of auctions to satisfy their capacity obligations. Generators that have offered their capacity resources into these NYISO markets are committed for a maximum of 6 months (Capability Period Auction[3]) after which time they are free to offer their supply bilaterally or in the next NYISO auction cycle (Capability Period Auction, Monthly Auction or Spot Auction). This type of capacity market construct provides flexibility for both LSEs and generators to assess market supply conditions on a short-term economic basis and as late as one month before the next capability season begins.

In contrast, PJM and ISO-NE capacity markets hold Forward Capacity Auctions (FCA) on an annual basis, three years in advance of when the capacity resources must provide service. Resources compete in these annual forward auctions to obtain a commitment to supply capacity (three-years forward) in exchange for a market-based capacity payment.

As per ISO-NE rules, an Existing Generating Capacity Resource seeking to export all or part of its capacity during a Capacity Commitment Period needs to submit a De-List bid or an Export De-List Bid (if in a constrained zone) in the associated Forward Capacity Auction qualification process. The notification process for delisting a unit in ISO-NE occurs three years in advance of any external supply commitment.

As for the PJM control area,[4] the Base Residual Auction (BRA) takes place every year for capacity with a delivery date three years in the future. PJM holds smaller subsequent balancing auctions, Incremental Auctions (IA), every year leading up to the delivery date, where bidders can buy or sell their commitments, allowing a resource unable to meet its commitment to procure replacement capacity from another resource. Once a capacity resource commits in the BRA, it would have to buy out of its obligation – either through an Incremental Auction (IA) purchase (*i.e.,* the resource would pay for offered capacity in that IA, which may cost more or less than what they will receive for their BRA commitment) or through a bilateral arrangement with a resource with additional capacity. While delivering power to Zone K will often provide higher revenues for committed PJM resources, economic uncertainties regarding the procurement of replacement resources under the current PJM market construct tend to mitigate the tendency for units to want to pursue a buyout option.

The current forward market structures implemented by neighboring ISOs essentially create a 3 year lag in the availability of external supply for both LSEs and holders of UDRs in New York State when evaluating decisions for importing capacity resources. In terms of controllable tie lines with UDR awards, it also places an additional requirement to evaluate the economics of external capacity supply contracts three years or more in advance in order to ensure the availability of such resources prior to any forward auction commitments they may make.

[3] May-October for the Summer Capability Period and November-April for the Winter Capability Period
[4] Delivery Year in PJM territory runs from June 1st through May 31st.

Unlike AC tie lines which allocate import rights to LSEs based on a priority basis, Controllable DC Ties are required to maintain CRIS rights along with their UDRs in order to import external capacity supply. Thus, when accounting for the three year forward commitment constraints in external supply markets, the application of a three-year CRIS countdown clock for expiration does not afford the same window of opportunity for a controllable tie line to make a real time (capability season) decision based on the economics of capacity supply as a generator in the NYCA.

The disposition of a generator and its CRIS rights can be evaluated on an annual basis; however, in the case of a controllable tie line, assessments need to be made at least 3-years in advance to account for availability of external supply which can create timing issues with the expiration of CRIS rights. As an example, a holder of New England-New York controllable tie UDRs with an external supply contract expiring in 2022 would have limited options for external supply until 2025 at the earliest due to the three-year forward auction commitment. Under the current NYISO rules, the CRIS expiration countdown clock would commence the month following the contract expiration and the CRIS rights could theoretically expire before the current three-year New England FCA commitment period expires. In addition, NYISO requires transmission owners to elect UDRs[5] 9-months in advance of the start of the next Capability Period which can present additional challenges in terms of timing and decision-making.

To summarize, controllable tie lines have a three-tier process that they must satisfy in order to participate as a capacity supplier in NYISO: 1) UDR selection; 2) CRIS Right allocation; and 3) Contract for external generation. Failure to satisfy all three of these criteria prevents participation in the NYISO capacity markets. Comparatively, generators need only CRIS rights in order to participate. Regarding item 3, the ISO-NE and PJM perform forward capacity auctions three years out, which means at the time of an existing contract expiration, resource options in those external pools are extremely limited. This means that controllable tie line UDR holders generally have to make a decision on renewing/soliciting contracts at least four years prior to the expiration of an existing contract in order to have an access to a large pool of external resources necessary to maintain CRIS rights and to continue to participate in the NYISO Capacity Markets. As mentioned, generators have no such limitations and fewer restrictions in the timing of their decision process.

As the New York State resource mix evolves to meet Climate Leadership and Community Partnership Act ("CLCPA") goals, we can anticipate some uncertainty in timing around Commercial Operation Dates for new generation and transmission resources. It is also worth noting that current NYISO market rules restrict the import of renewable capacity supply (Energy Storage Resources, Intermittent Power Resource, and Limited Control Run of River Hydro Resources), which will create additional constraints on holders of UDRs as RTOs transition to "greener" resource portfolios.[6] External controllable ties that connect Zone K to neighboring control areas have the potential to provide flexibility in ensuring resource adequacy and address reliability concerns as more intermittent resources come online in New York. Rules that ultimately result in reducing the ability to import external capacity supply into the NYCA do not seem consistent with reliability requirements.

Moreover, CRIS Rights associated with controllable transmission facilities with UDRs represent significant investments not just in the external resource but also in the cables themselves. New York State ratepayers have already funded the investments necessary to interconnect controllable lines with neighboring regions and applying a shorter time-frame (*i.e.*, a 3-year clock) may present an additional

[5] Transmission Owners are required to elect UDRs every July.

[6] NYISO Markets Administration & Control Area Services Tariff, Section 5.7 – Requirements for Entities Not Located Within the New York Control Area

cost burden on ratepayers should the CRIS Rights expire due to lack of resources available in the market and market conditions warrant reacquiring deliverability rights on external ties. Market rules should promote taking advantage of out of state supply opportunities to enhance reliability when available and economic and should not restrict flexibility to use external capacity deliverability rights by applying the same CRIS Expiration Rule to controllable lines with UDRs as traditional generators.

For these reasons, LIPA and PSEG Long Island propose that the NYISO modify the current CRIS Expiration rule (*i.e.*, 3-year clock) to a *6-year clock* for the controllable lines with UDRs once the unit becomes CRIS In-active. This will allow holders of UDRs in New York to examine resource adequacy and the economics of available external market supply, as well as provide adequate time to either enter into bilateral contracts or to transfer their rights to another project in the NYISO queue. New York State is rapidly pacing to achieve its mandated CLCPA goals, which requires replacing a large portion of the existing conventional resources in New York State with intermittent resources. This may pose resource adequacy needs, particularly needs that arise quickly, frequently, and may be of short duration. Extending to a 6-year clock will enhance reliability by expanding supply diversity and potentially result in lower costs of supply by expanding the pool of resources available with competitive pricing.