Evolving Resource Adequacy Structures

(Proposed by Central Hudson, Con Edison, National Grid and the NRDC)

Problem / Opportunity

The objective of capacity markets is to send efficient and transparent price signals to the market to attract new resources and/or retain existing resources to meet resource adequacy criteria. In New York, the NYISO capacity market perform this role against a backdrop of public policy and state-led procurement that provides incentives and established technology requirements for resource entry and exit to meet state environmental objectives. Given the dominant role of the state in driving resource entry, it is prudent to consider the merits of, and efficiencies that may be gained by, focusing the NYISO capacity market price signals on the cost of retention rather than the cost of new entry or of repowering.

Project Objective(s) & Anticipated Deliverable(s)

This project will investigate methods by which reference prices and demand curves could be derived based on retention costs and whether alternative market structures (i.e., a retention only capacity market) should be considered under such a pricing regime. Evaluation will, among other things, consider locational implications of any proposed market structure changes. Implementation may require developing separate mechanisms for market entry, e.g. through a market-based backstop mechanism, designated state agencies etc. The project deliverable will be market design concept proposed.

Project Justification

Affordability for consumers follows closely behind the priority to maintain resource adequacy and reliability more generally. Retention of existing resources is as important as new entry to meet reliability and resource adequacy criteria. An accurate price signal is necessary to retain existing resources and prevent premature retirements which could create reliability risks in New York. The last Demand Curve Reset demonstrated the risk, under the existing capacity market structure, of consumers paying significantly more for capacity without a commensurate improvement in reliability. Other capacity market projects proposed by NYISO for 2026 do not address this primary concern. This proposal, with other necessary changes to align new entry with state policy objectives, may yield better consumer outcomes while also ensuring the highest levels of reliability/resource adequacy are maintained and therefore needs to be investigated.