



Comments of the New York Power Authority Regarding the Comprehensive Mitigation Review Project

The New York Power Authority (NYPA) provides the following proposals to consider within the Comprehensive Mitigation Review project (the Project) of the New York Independent System Operator, Inc. (NYISO). The NYISO hosted a presentation of the Project at the MIWG/ICAP/PRLWG meeting held on December 13, 2019. At the meeting, the NYISO noted that it found it necessary to expand the objective of the project to “[m]odify NYISO market structures in a balanced manner that preserves competitive price signals and economically efficient market outcomes required to maintain system reliability and supports the Climate Leadership and Community Protection Act (CLCPA) goals.”¹ The NYISO requested that if any stakeholders have proposals to consider within this expanded objective of the Project, to submit them as comments by January 3, 2020. NYPA submits the proposals below as additional material for the discussion within the Project.

¹ Quote from NYISO presentation, DeSocio, Michael, Comprehensive Mitigation Review, ICAPWG/MIWG slide 3 (December 13, 2019), available at the NYISO’s website [here](#). In addition, the CLCPA citation: 2019 NY Senate-Assembly Bill S6599, A8429, available [here](#).

1. Multiple Characteristic Pricing (MCP)

One MCP approach² could be fashioned that would use the existing demand curve spot market auction mechanism, but instead of the current structure that co-optimizes only among the IRM and LCRs would co-optimize over additional parameters. Under this approach, the Commission would establish portfolio requirements that each LSE must secure through the auction, if not achieved through bilateral and self-supply arrangements. These would presumably reflect, for example, a certain percentage of hydro, wind, solar and other zero carbon resources. It could also set requirements for the flexible resources that will be needed to maintain a reliable system with the intermittent resource additions.

To address the Double Payment Problem, MCP would have to be paired with an exemption from BSM for all Public Policy Attribute Resources. This is entirely appropriate, because the State has no choice in adding PPARs to meet the legislatively mandated PPGs. Thus, the PPARs are added not to suppress clearing prices but to meet the State's statutory obligations, and therefore BSM should not apply to these resources. In the short run, clearing prices would likely fall as significant PPAR capacity is added, but this circumstance would be transitory and would provide the incentive for the environmentally obsolete, high carbon emitting resources to retire, thereby addressing the Retirement Incentive Problem.

² The MCP model is described in greater detail in comments submitted by the Joint Utilities in the Resource Adequacy proceeding before the New York Public Service Commission, Case 19-E-0530, Proceeding on Motion of the Commission to Consider Resource Adequacy Matters, Initial Comments of the Joint Utilities on the Order Instituting Proceeding and Soliciting Comments (Nov. 8, 2019).

2. CRIS+

Another approach that warrants consideration (CRIS+) would establish tradable CRIS rights paired with BSM exemption. This CRIS+ mechanism would be similar in concept to ISO-NE's CASPR mechanism but modified to fit the NYISO markets. Through bilateral negotiations (instead of the FCA substitution auction applicable to CASPR), new PPARs would procure from existing thermal resources a commitment for an existing resource to retire and transfer to the new PPAR its CRIS rights. Unlike our current market rules, however, which contemplate the transfer of CRIS rights but do not include an associated exemption from BSM for the new resource, this mechanism would carry with it a BSM exemption, just as CASPR does.

This mechanism should be coupled with a revision to the existing BSM rules to provide that BSM would apply only for a limited time, such as 2 or 3 years. The limitation on BSM should apply to existing resources as well as new PPAR, because maintaining the existing disconnect between the quantity of supply on the system and the quantity that qualifies to serve the capacity obligation perpetuates an inefficient market design and inefficient price signals.

Limiting the period in which BSM applies would go a long way to address the Retirement Incentive Problem, as existing resources would recognize that the current artificially high, BSM-driven clearing prices will not continue permanently and therefore they would have an incentive to strike a reasonable negotiated outcome promptly. If the incumbent strikes too hard a bargain, the PPAR knows that its disqualification from capacity payments will be of limited duration and therefore can plan around this temporary issue. Further, the limited application of BSM should continue to

act as a barrier to entry for a resource whose purpose is to suppress prices. Such an approach strikes a balance between the regulatory certainty required to support cost-effective investment and the need to transition the system resources to meet PPGs.

Conclusion

NYPA appreciates the NYISO's efforts to review, through the stakeholder process, market structures in a manner that aims at preserving price signals and economically efficient outcomes that maintain system reliability and supports the goals of the CLCPA. NYPA views the incorporation of public policy in the electricity markets as imperative. With CLCPA's codification of statutory benchmarks, the NYISO should determine how to assist New York in achieving its goals. Any constructs that have been viewed as barriers must be re-evaluated. In addition, resource attributes required to reach the State's goals should be recognized. NYPA looks forward to continuing a collaborative discussion on this topic in hopes of reaching a solution.

Respectfully submitted,

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