

**FERC/NYSPSC Joint Technical Conference**

**Docket Number AD14-18-000**

**New York Markets and Infrastructure**

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**Comments on Behalf of the NY Investor Owned Utilities<sup>1</sup>**

**Panel 1:**

**This session will discuss the role of NYISO’s capacity market in attracting investment in both resources and infrastructure in order to meet New York State’s reliability and/or resource adequacy needs. In particular, panelists should discuss the particular capacity market design features that encourage merchant investment in resources and infrastructure. Panelists will be asked to discuss how the capacity market is addressing local and state-wide resource adequacy and reliability issues at just and reasonable rates. Finally, panelists should discuss what changes, if any, should be considered going forward to improve the performance of NYISO’s capacity market.**

- a. How do particular market design features impact infrastructure investment decisions by merchant entities? How can these market design aspects best address the interests of both buyers and sellers? How do buyer-side mitigation measures affect investment? Should the NYISO capacity market provide a longer revenue certainty period (e.g., 3, 5, or 10 years)? Does the existing NYISO capacity market appropriately incent investment as compared with three-year forward market designs in other capacity markets (e.g., PJM, ISO-NE)? Are long-term bilateral contracts a feasible alternative procurement mechanism for New York (e.g., California model)?**

1.a. Short term capacity markets don’t necessarily lend themselves to facilitating long term investment. However, it’s not clear how much weight capacity revenues alone play in generator investment decisions. Market changes should consider the interaction of energy, capacity and ancillary services markets in reaching efficient outcomes.

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<sup>1</sup> Consolidated Edison Company of New York, Inc, Orange and Rockland Utilities, Inc., Central Hudson Gas & Electric Corp., Niagara Mohawk Power Company d/b/a National Grid, New York State Electric & Gas Corporation (NYSEG) and Rochester Gas & Electric Corporation (RGE).

Markets should have stable rules and transparent pricing. Subsidized entry of generation facilities can discourage investment in non-subsidized resources in competitive markets.

Over mitigation or improperly designed mitigation damages both sides of the market as it changes expectations by both buyers and sellers. Moreover, mitigation rules, such as buyer-side mitigation rules, while well intended, have been developed in an overly broad manner and currently impede or prevent market participants' from making their own economic decisions. In other words, buyer mitigation rules, in particular the absence of a competitive entry exemption, may discourage efficient merchant investment.

Under current market dynamics, shorter term markets may be less likely to incent merchant investment. However, the term of market revenue certainty needs to balance merchant and consumer interests. Forward market designs, with longer procurement commitment periods (i.e., longer than the current one-month procurement period) could provide enhanced investment and system planning signals.

The California model uses integrated resource planning and no residential retail access, and is not comparable to the New York market design. Although short-term bilateral contracts serve as a hedging tool currently in New York's markets, long-term bilateral contracts, aimed at supporting generator project financing, would appear inconsistent with the goal of providing customers more choice. We are also committed to promoting retail access in New York. Long term bilateral contracts generally shift risk to purchasers and ultimately end use customers. As such, we don't think the California model of bilateral contracts is desirable in New York, and frankly, we believe the centrally cleared market that exists in New York is superior to the California model of bilateral contracts.

**b. Are changes to NYISO's capacity market necessary to better ensure resource performance during peak demand conditions (summer or winter)?**

1.b. Yes, currently there are no enhanced requirements for fuel certainty. Further, we generally support a capacity incentive where installed capacity is converted to operating capacity and a performance failure is translated into an operating capacity buyout requirement. We are not necessarily wedded to a particular mechanism, but we support the NYISO's commitment to explore this in 2015 and it has already introduced a proposal for discussion.

**c. Why are Reliability Support Services (RSS) needed? What is the effect of**

**RSS agreements on the ability of the NYISO capacity market to efficiently meet the intended goal of incentivizing investment in resources and infrastructure? Are there other market and infrastructure impacts of the use of RSS agreements?**

1.c. Short term Reliability Support Services agreements are needed to address reliability needs that occur when a generator proposes retirement or mothballing and that retirement or mothballing causes a reliability problem on a local or bulk transmission system when there is insufficient time needed for an alternative solution, requiring a short term RSS agreement. The current 6-month notice period does not provide sufficient time to identify and construct either a market based or regulated reliability solution, and results in uncertainties and frankly, provides generators with unintended and inappropriate leverage. This is because the system, in some cases, was designed to rely on specific generators. A better alternative will be to consider longer term capacity markets and a corresponding planning protocol that assumes units that don't have a forward market commitment will be modeled out of service.

The need for RSS agreements can be reduced with an increased notice of retirement requirement. Further, an RSS agreement should be limited to a short term instrument to allow time to construct either a market or regulated solution. Given the need to maintain the existing generator under an RSS agreement for reliability, it is necessary to count that capacity in the capacity market, but only for the predetermined period needed to develop the market or regulated solution. Not counting the capacity associated with the RSS agreement could harm the market and penalize load by forcing them to pay for the RSS agreement and the full capacity requirement under the demand curve thus double paying for capacity.

The structure of the RSS agreement is important with regards to market and infrastructure impacts. If RSS agreements include anything other than to-go costs, there will be an incentive for the generator to move back and forth from the market to an RSS agreement.

**d. How does NYISO coordinate its planning processes and its capacity market? Are there possible improvements in the coordination efforts?**

1.d. The current planning process assumes that all capacity that hasn't put in a retirement notice will be available for planning purposes. However, there is a significant mismatch between the planning process, with its two year planning cycle and ten-year assessment, and the retirement notice process that provides at most a six-month notice period. We believe that a forward capacity market and a corresponding planning protocol that assumes that units that don't have a forward market commitment will be modeled out of service could help substantially in providing

more advance notice. Another possible improvement is increasing the retirement/mothball notice time period, although that would be more of an administrative rather than a market based solution. It would also be worth investigating planning protocols in other control areas. For example, ISO-NE performs transmission security planning (N-1-1) in addition to assuming a critical generator is out of service. Consideration also should be given to expanding the NYISO's reliability planning process to include contingency planning for potential generator retirements that could have a significant impact on reliability.

In its review of the 2014 RNA, the Market Monitor identified issues with respect to unsatisfied reliability needs on the 115kV system in Zones A through F due to lack of NYISO market signals on these facilities. We concur that these issues are of concern, and that substantial discussions are required to find the best solution to these issues. These discussions should encompass both the NYISO market participant process and the New York PSC's efforts in the REV proceeding, as well as examine the planning process, including local versus regional considerations.

**e. How is the planning of transmission, generation and other resources coordinated between retail and wholesale markets?**

1.e. NYISO's responsibilities relate to planning for the wholesale markets. Under the NYISO market structure, generation and other resources are not per se planned, but are intended to respond to market signals. Should a reliability, economic or public policy issue arise within the NYISO planning process, market based solutions have an opportunity to respond to those needs. The New York transmission owners have a responsibility to plan their system to ensure reliable service to end use customers. These planning responsibilities are coordinated through the consideration of local transmission owner plans in the NYISO comprehensive planning process.