

149 FERC ¶ 61,164  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Cheryl A. LaFleur, Chairman;  
Philip D. Moeller, Tony Clark,  
and Norman C. Bay.

New York Independent System  
Operator, Inc.

Docket No. AD14-6-000

ORDER ON TECHNICAL CONFERENCE

(Issued November 25, 2014)

1. By order dated August 13, 2013,<sup>1</sup> the Commission addressed a proposal by the New York Independent System Operator, Inc. (NYISO) to establish and recognize a new capacity zone that would encompass NYISO Load Zones G, H, I, and J (the G-J Locality). In its order, the Commission directed its staff to hold a technical conference, in a separate proceeding, to discuss with interested parties whether or not to model Load Zone K as an export-constrained zone for future year ICAP Demand Curve reset proceedings.<sup>2</sup> The conference was held on February 26, 2014.

**I. Background**

2. On April 30, 2013, NYISO filed proposed revisions to its Market Administration and Control Area Services Tariff (Services Tariff) and its Open Access Transmission Tariff (OATT) to establish and recognize a new capacity zone that would encompass NYISO Load Zones G, H, I, and J (the G-J Locality). In the August 13, 2013 Order, the Commission accepted NYISO's proposal to establish the new G-J Locality capacity zone, finding that NYISO had properly followed its tariff in identifying a constrained Highway interface and in identifying the boundary of the new capacity zone.<sup>3</sup> NYISO argued that,

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<sup>1</sup> *New York Indep. Sys. Operator, Inc.*, 144 FERC ¶ 61,126 (2013) (August 13, 2013 Order).

<sup>2</sup> *Id.* P 56.

<sup>3</sup> August 13, 2013 Order, 144 FERC ¶ 61,126 at P 20.

based on its “fungibility” test,<sup>4</sup> insufficient transmission capability exists to allow capacity located in Zone K to reliably serve the needs of loads in Zones G, H, and I. NYISO acknowledged that approximately 300 MW of generation capacity added to Zone K would be “fungible” with capacity in Zones G, H, and I – that is, 300 MW added to Zone K could displace an equal amount of capacity in Zones G, H, and I while maintaining the LOLE. Many commenters disputed NYISO’s conclusion that Zone K should be excluded based on the idea that Zone K can provide some level of support to Zones G, H, and I. In particular, Multiple Intervenors and the Companies argued that additional amounts of capacity added to Zone K could provide lesser, but significant, reliability benefits to Zones G, H, and I, and thus, that Zone K should be included in the new capacity zone. Multiple Intervenors also suggested that, if the Commission concluded that Zone K warrants special consideration, NYISO should be directed to model Zone K as an export-constrained load zone for the new capacity zone. The Commission found NYISO’s proposal to exclude Zone K from the new capacity zone to be reasonable, but also directed staff to hold a technical conference, in a separate proceeding, to discuss with interested parties whether or not to model Load Zone K as an export-constrained zone for a future ICAP Demand Curve reset proceeding.

## **II. Technical Conference**

3. The staff-led technical conference on modeling Load Zone K as an export constrained zone for future ICAP Demand Curve reset proceedings was held on February 26, 2014. Parties were asked to be prepared to discuss the following topics and questions:

- (1) Whether Zone K (Long Island) can be modeled as export constrained Load Zone.
- (2) Whether Zone K should be included as a nested zone within the current G-J Locality so that the larger zone would become a G-K Locality. If not, what rationale supports allowing Zone K to be a

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<sup>4</sup> NYISO explained its fungibility test as, “running simulations in which capacity was removed from Load Zones GHI and added to Load Zones J and K while monitoring whether compliance with the NYSRC rule of a loss-of-load event of not more than once in ten years (or a loss-of-load expectation (LOLE) evaluated probabilistically of not more than 0.1 days per year) would be maintained. The degree to which capacity in Load Zones J and K could substitute for capacity on a reliability basis in GHI would measure how fungible GHI capacity was with capacity in Load Zones J and K and, thus provide guidance on which Load Zones should be included in the NCZ.” *See* Chao/Adams Affidavit ¶ 17.

nested zone within the New York Control Area (NYCA), but not a nested zone within the G-J Locality? Specifically, how can generation capacity located in Zone K be made available to serve the reliability needs of Zones A-F but not the reliability needs of Zones G-J?

- (3) Whether sufficient transmission capability exists to allow at least some capacity located in Zone K to reliably serve the needs of loads in Zones G-J. If so, what limits, if any, should be placed on the amount of capacity in Zone K that could be relied upon to serve the needs of loads in Zones G-J? How should those limits be determined?

### **III. Notice and Responsive Pleadings**

4. Notice of the technical conference was published in the *Federal Register*, 79 Fed. Reg. 6,895 (2014), with post-technical conference comments due on or before March 26, 2014, and answers to post-technical conference comments are due on or before April 16, 2014.<sup>5</sup>

5. Exelon Corporation filed a motion to intervene. NYISO, Multiple Intervenors,<sup>6</sup> Central Hudson Gas & Electric Corporation (Central Hudson);<sup>7</sup> Indicated New York Transmission Owners (Indicated NYTOs);<sup>8</sup> Consolidated Edison Company of New York, Inc. and Orange and Rockland Utilities, Inc. (ConEd); Long Island Power Authority (LIPA); and Potomac Economics NYISO Market Monitoring Unit (MMU) filed post-technical conference comments.

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<sup>5</sup> An Errata Notice was issued on January 19, 2014. Supplemental Notice of the technical conference was published in the *Federal Register*, 79 Fed. Reg. 10,799 (2014).

<sup>6</sup> Multiple Intervenors state that they are an unincorporated association of over 55 large industrial, commercial, and institutional energy consumers with manufacturing and other facilities located throughout New York State.

<sup>7</sup> Central Hudson included the affidavit of John J. Borchert (Borchert Affidavit).

<sup>8</sup> Indicated NYTOs collectively consist of Central Hudson Gas & Electric Corporation, Consolidated Edison Company of New York, Inc., New York Power Authority, New York State Electric & Gas Corporation, Niagara Mohawk Power Corporation d/b/a National Grid, Orange and Rockland Utilities, Inc. and Rochester Gas & Electric Corporation.

6. NYISO, Multiple Intervenors, ConEd; and LIPA filed reply comments. Entergy Nuclear Power Marketing, LLC (Entergy Nuclear) filed a motion to intervene and answer in support of post-technical conference comments.

**A. Post-Technical Conference Comments**

7. NYISO recommends that the Commission provide an opportunity for NYISO to explore the issues and proposals discussed at the technical conference through its stakeholder process, and to file a report on those stakeholder discussions by June 1, 2015. NYISO contends that the technical conference addressed some of the issues relevant to the treatment of Zone K in the next ICAP Demand Curve Reset (i.e., for Capability Years 2017/2018 – 2019/2020) and beyond, but could not practically consider or even identify all such issues, nor could the technical conference explore the fundamental market design and software changes that would be needed to accommodate the possible introduction of export constraint modeling, in any of the possible formulations suggested. Further, the stakeholder process would give NYISO time to continue to consider the potential development of alternative rules to pre-define and eliminate capacity zones.<sup>9</sup> NYISO asserts that, however, some of the potentially more dramatic changes mentioned at the technical conference, e.g., implementing multiple export-constrained Load Zones, creating financial capacity deliverability rights, and making conforming energy market design changes, would be expected to require more than the two years until the next ICAP Demand Curve reset to effectuate.

8. NYISO contends that it is possible in principle to treat Zone K as export-constrained; however, because such modeling has not yet been justified and may not be practically implementable, it should first be evaluated through the stakeholder process.<sup>10</sup> NYISO does not believe that Zone K capacity can be materially counted upon to reliably serve the needs of Zones G-J. This does not mean that NYISO would be unwilling to consider this question in conjunction with working to model export constraints in its stakeholder process.<sup>11</sup>

9. The MMU states that it would be inaccurate to include Zone K in the new capacity zone for Southeast New York because capacity in Zone K is not fully fungible, but it is inaccurate to ignore the impact of Zone K's capacity on reliability as well. The MMU asserts that this inaccuracy is not limited to Zone K and can only be addressed through

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<sup>9</sup> NYISO March 26, 2014 Comments at 4.

<sup>10</sup> NYISO March 26, 2014 Comments at 5.

<sup>11</sup> NYISO March 26, 2014 Comments at 12-13.

the evolution of NYISO capacity market framework and software.<sup>12</sup> In the short-run, the MMU contends that it is not feasible under the current market design and software to model Zone K as an export constrained Load Zone. The MMU states that this could be done in the longer-term and it would enhance market efficiency. However, according to the MMU, it is important to do this in a way that accurately reflects the reliability benefits of Zone K capacity relative to the rest of Southeast New York.<sup>13</sup>

10. The MMU recommends that the Commission accept NYISO's proposal for a stakeholder process to consider locational capacity requirements. However, rather than merely requiring NYISO to file a report on the stakeholder discussions by June 1, 2015, as NYISO proposes, the MMU recommends that NYISO be required to file appropriate tariff changes by that date. At a minimum, the MMU would like NYISO to address an improved methodology for modeling deliverability constraints and calculating Locational Minimum Installed Capacity Requirements,<sup>14</sup> associated revisions to the current deliverability testing and facility upgrade requirements, a mechanism to identify deliverability constraints that warrant the pre-definition of additional capacity zones or interfaces that will bind as supply and demand conditions dictate, and the possibility of capacity deliverability rights.<sup>15</sup>

11. Multiple Intervenors argue that the configuration of the new capacity zone should be modified to include Zone K in time for the next ICAP Demand Curve reset process. Multiple Intervenors contend that NYISO's determination to exclude Zone K from the new capacity zone is not consistent with the Services Tariff or the relevant facts, and, therefore, should be remediated in time for the next ICAP Demand Curve reset process.<sup>16</sup> Multiple Intervenors argue that initially, NYISO's fungibility analysis is not mandated by, or even mentioned in, the Services Tariff, and that for most of the stakeholder process relating to the configuration of the new capacity zone, NYISO relied on a completely-different tariff interpretation and analysis, which led it to conclude that Zone K should be

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<sup>12</sup> MMU March 27, 2014 Comments at 2-3.

<sup>13</sup> MMU March 27, 2014 Comments at 9.

<sup>14</sup> The NYC and LI capacity zones are referred to as "locational" zones because they each have a separate requirement that a certain minimum percentage of the zone's required generating capacity must be physically located within that zone. NYISO Services Tariff, § 2.12.

<sup>15</sup> MMU March 27, 2014 Comments at 11.

<sup>16</sup> Multiple Intervenors March 26, 2014 Comments at 5.

included in the new capacity zone.<sup>17</sup> Multiple Interevenors add that 300MW of fungible support can hardly be considered immaterial or inadequate when such level of support is needed by NYISO to maintain reliability. Multiple Intervenors conclude that NYISO's ICAP Demand Curves currently are providing inaccurate price signals because they fail to recognize the reliability benefits that incremental capacity located in Zone K can provide to Zones G-I, and *vice versa*.<sup>18</sup>

12. Alternatively, Multiple Intervenors recommend that the Commission should, consistent with the recommendations of the MMU, direct the NYISO to model Zone K as an export-constrained zone for purposes of the new capacity zone, and address related issues with its stakeholders.

13. ConEd asserts that the MMU's proposal to treat Zone K as an export-constrained zone should be considered in a NYISO stakeholder process because more details are needed in order for this proposal to be considered by the Commission. ConEd recommends that NYISO's tariff should be amended to include a detailed description of a test or metrics that would be used to determine the boundaries of a new capacity zone. ConEd contends that the test or metrics to be used for that purpose are not specified in the tariff and the need to do so was discussed during the technical conference. However, ConEd states that no specific test or metrics was proposed or discussed at the technical conference. Accordingly, ConEd argues that the appropriate test or metrics to determine such boundaries should be discussed in the NYISO stakeholder process because development of such has not yet been considered by NYISO stakeholders.<sup>19</sup> ConEd also contends that in developing the appropriate test and metrics, that the stakeholder process should consider technical concerns that support the inclusion of Zone K in the new capacity zone as part of the next ICAP Demand Curve reset proceedings.

14. Central Hudson argues that the Commission should direct NYISO to modify the new capacity zone to include Zone K, because Zone K contributes to capacity flows across the Upstate New York/Southeastern New York (UPNY/SENY) Interface, which led to the creation of the new capacity zone. Central Hudson states that the Borchert Affidavit showed that 292 MW of energy flows directly attributable to Zone K cause the UPNY/SENY interface to overload, but by not including Zone K in the new capacity

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<sup>17</sup> See NYISO, *NCZ Preliminary Boundary Definition and Indicative LCR* (January 30, 2013), available at: [http://www.nyiso.com/public/webdocs/markets\\_operations/committees/bic\\_icapwg/meeting\\_materials/2013-01-30/NCZ%20Preliminary%20Boundary\\_Jan%2030%202013.pdf](http://www.nyiso.com/public/webdocs/markets_operations/committees/bic_icapwg/meeting_materials/2013-01-30/NCZ%20Preliminary%20Boundary_Jan%2030%202013.pdf)

<sup>18</sup> Multiple Intervenors March 26, 2014 Comments at 13-14.

<sup>19</sup> ConEd March 26, 2014 Comments at 4-5.

zone, Zone K customers avoid cost responsibility for “using up” 292 MW of scarce UPNY/SENY interface capacity, which must be paid for by customers in Zones G, H, and I in the form of higher capacity prices.<sup>20</sup>

15. LIPA argues that the technical conference provided little discussion concerning how Zone K could be modeled as an export-constrained zone. LIPA asserts that the uncontested substantive discussion was that modeling Zone K as an export-constrained Load Zone would be difficult and problematic for a number of reasons. LIPA argues that the technical conference discussion never truly addressed the question of how an ICAP Demand Curve reset proceeding would be affected by modeling Zone K as an export-constrained zone, how capacity prices might be affected or even whether such modeling might restrict the eligibility of capacity located in Zone K to participate in the broader capacity markets. LIPA concludes that without a clearly defined purpose and criteria for determining the costs and benefits of achieving that purpose, the Commission lacks any justification for pursuing the treatment of Zone K as an export-constrained zone any further.<sup>21</sup>

## **B. Answers**

16. NYISO disagrees with the MMU’s request that NYISO be directed to file compliance tariff revisions by June 1, 2015 in order to implement the MMU’s proposals. NYISO argues that setting a June 1, 2015 deadline would be premature without first carefully vetting all market design proposals, implementation issues, software changes, and the effects of possibly modifying the Locational Minimum Installed Capacity Requirement methodology when evaluating these proposals. NYISO contends that the Commission should reject requests made by Central Hudson and Multiple Intervenors to direct NYISO to add Zone K to the G-J Locality for the next triennial new capacity zone proposal.<sup>22</sup> NYISO argues that this request is premature given the market design changes proposed in this proceeding.

17. Multiple Intervenors strongly disagree with NYISO’s characterization of the level of support provided to Zones G-I as “very limited” and state that Zone K is capable of providing material reliability and security support to Zones G-I. Multiple Intervenors urges the Commission to require that NYISO submit a future compliance filing which would detail how Zone K either will be included within a reconfigured new capacity zone or, alternatively, modeled as an export-constrained zone. Multiple Intervenors state that

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<sup>20</sup> Central Hudson March 26, 2014 Comments at 2-3.

<sup>21</sup> LIPA March 26, 2014 Comments at 2-3.

<sup>22</sup> NYISO April 16, 2014 Comments at 4-7.

any changes beyond the appropriate treatment of the new capacity zone and Zone K are beyond the scope of this proceeding and should not delay implementation of the modifications to the new capacity zone deemed necessary by the Commission in this proceeding.<sup>23</sup>

18. In its reply comments, ConEd requests that the Commission reject, as premature, the MMU's request for a compliance filing with tariff changes addressing the treatment of Zone K in the new capacity zone. ConEd argues that the issues associated with the treatment of Zone K in the new capacity zone in future ICAP Demand Curve reset proceedings have not been fully vetted.<sup>24</sup> For this reason, ConEd also requests that the Commission reject LIPA's request that the Commission terminate this proceeding.

19. LIPA posits that, if Zone K is modeled as an export-constrained zone, export-constraint determinations for other zones should be comparably considered. Further, LIPA contends that export constraint modeling should not be considered because the probabilistic reliability benefit of Zone K capacity is already reflected in NYISO's determination of the new capacity zone's Locational Minimum Installed Capacity Requirement.<sup>25</sup>

20. Entergy states that NYISO should be directed to explore the issues discussed in the technical conference in the stakeholder process, including the issue of predefining of capacity zones, and submit a compliance filing by June 1, 2015 proposing tariff provisions required to address these issues. Entergy notes that NYISO and the MMU have established that moving to predefined capacity zones may address the same underlying issues discussed in the technical conference, but in a much more efficient manner.<sup>26</sup>

#### **IV. Discussion**

21. The technical conference included a very informative discussion of important issues relevant to the treatment of Zone K in the next ICAP Demand Curve reset. NYISO contends that it is possible in principle to treat Zone K as export-constrained; however, because such modeling has not yet been justified and may not be practically implementable, it should first be evaluated through the stakeholder process. NYISO

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<sup>23</sup> Multiple Intervenors comments at 6-9.

<sup>24</sup> ConEd April 16, 2014 Comments at 5.

<sup>25</sup> LIPA April 16, 2014 Reply Comments at 4-5.

<sup>26</sup> Entergy April 16, 2014 Reply Comments at 2-4.

states that several fundamental market design changes as well as software changes may be needed to accommodate the inclusion of Zone K as an export-constrained zone, and moving to any form of export-constrained modeling would very likely be challenging to integrate. Therefore, NYISO recommends that the Commission provide an opportunity for it to explore the issues and proposals discussed at the technical conference through its stakeholder process, and to file a report on those stakeholder discussions by June 1, 2015. NYISO states that allowing it to work through these issues in detail in the stakeholder process would also give it time to continue to consider the potential development of alternative rules to pre-define and eliminate capacity zones.

22. NYISO's recommendation was supported by its MMU as well as others in this proceeding. The MMU states that at a minimum it will be important to address an improved methodology for modeling deliverability constraints and calculating LCRs to more accurately reflect the reliability value of capacity resources located in different areas, revisions to the current deliverability testing and facility upgrade requirements, and a mechanism to identify deliverability constraints that warrant the pre-definition of additional capacity zones or interfaces that will bind as supply and demand conditions dictate.<sup>27</sup> The MMU also contends that depending on the market framework developed, it may be beneficial for NYISO to develop capacity deliverability rights.<sup>28</sup>

23. We agree that it would be worthwhile for NYISO and its stakeholders to explore whether a proposal can be developed that could reduce the cost of procuring capacity while meeting the NYISO LOLE objective. Therefore, we accept NYISO's recommendation to conduct a stakeholder process and to file a report on this process by June 1, 2015. While we agree with NYISO that it is premature to require it to file tariff language by June 1, 2015, we believe that valuable market rule changes that could reduce costs should not be unduly delayed. Accordingly, the Commission orders NYISO to explore the issues and evaluate the proposals discussed at the conference, including the MMU's recommendations, through its stakeholder process and file an informational report with the Commission by June 1, 2015.

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<sup>27</sup> According to the MMU, this will eliminate the current cumbersome and inefficient process of creating new capacity zones.

<sup>28</sup> These are financial rights analogous to the Transmission Congestion Contracts (TCCs) defined in NYISO's energy market. The existence of these rights together with the existing TCCs would provide incentives to build transmission to address NYISO's locational planning needs.

The Commission orders:

NYISO is hereby directed to submit an informational report with the Commission by June 1, 2015.

By the Commission.

( S E A L )

Nathaniel J. Davis, Sr.,  
Deputy Secretary.