NEW YORK STATE OF OPPORTUNITY. | Public Service Commission

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January 10, 2017

**SENT VIA ELECTRONIC FILING**
Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Room 1-A209
Washington, D.C. 20426

Re: Docket No. ER17-446-000 – New York Independent System Operator, Inc.

Dear Secretary Bose:

Attached for filing in the above-referenced proceeding, please find the Motion and Answer of the New York State Public Service Commission. The parties have also been provided a copy of this filing, as indicated in the attached Certificate of Service. Should you have any questions regarding the attached, please feel free to contact me at (518) 402-1537.

Very truly yours,

/s/ S. Jay Goodman

S. Jay Goodman, Esq.
Assistant Counsel

Attachment
cc: Service List

**UNITED STATES OF AMERICA**
**BEFORE THE**
**FEDERAL ENERGY REGULATORY COMMISSION**

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| **New York Independent System Operator, Inc.** | ) ) | **Docket No. ER17-446-000** |

**MOTION FOR LEAVE TO ANSWER AND ANSWER OF THE NEW YORK STATE PUBLIC SERVICE COMMISSION**

## INTRODUCTION

On November 30, 2016, the New York Independent System Operator, Inc. (NYISO) filed tariff amendments that address a latent design flaw in the pricing of Installed Capacity (ICAP) in constrained New York ICAP Localities that occurs when units export capacity from those Localities (Tariff Filling) (e.g., to the ISO New England Inc. (ISO-NE).[1] The proposed tariff amendments describe a remedy that is based on a power flow analysis (the "Export Solution").[2] The Export Solution recognizes that exports may create a counterflow that increases the transfer capability from Rest of State (ROS) into the G-J Locality, and estimates the amount of ROS capacity that can replace the exported capacity.

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[1] Docket No. ER16-2451-000, ISO New England Inc. and New England Power Pool Participants Committee, Order Accepting Market Rule Changes and Requiring Informational Report (issued October 18, 2016) (ISO-NE FCM Order).

[2] Tariff Filing at 6.

On December 21, 2016, the NYISO's Market Monitoring Unit (MMU) filed Comments on the Tariff Filing. The MMU suggests that the counterflow created by an export constitutes a system benefit or service that warrants compensation. The MMU thus recommends that the NYISO develop a "local reliability product" that compensates exporting units for the "local reliability value" that they purportedly provide to import-constrained areas in the NYISO.

On December 22, 2016, the NRG Companies (NRG) filed a Protest to the Tariff Filing. NRG opposes the Export Solution and advances several arguments that seek to undermine the proposed market remedy.

The New York State Public Service Commission (NYPSC) hereby seeks leave to respond to the MMU's Comments and NRG's Protest. These filings present certain arguments that should be rejected because they either distort the record by mischaracterizing disputed issues, or present novel proposals that were not fully vetted during the stakeholder process.[3] As detailed below, the MMU's recommendation should be denied

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[3] The views expressed herein are not intended to represent those of any individual member of the NYPSC. Pursuant to Section 12 of the New York Public Service Law, the Chair of the NYPSC is authorized to direct this filing on behalf of the NYPSC. The NYPSC's decision to not address comments other than those addressed herein does not necessarily represent agreement with those comments.

because the MMU fails to articulate any system benefit or service that might warrant compensation. Further, units are fully compensated for their capacity by the market(s) in which they participate. In addition, NRG's arguments are inapposite to the market design flaw at issue and do not provide a compelling basis to reject a market rule change approved by a majority of stakeholders representing 4-of-5 sectors.

## MOTION FOR LEAVE TO ANSWER

The NYPSC requests, pursuant to Rules 212 and 213 of the Federal Energy Regulatory Commission's (Commission) Rules of Practice and Procedure (18 C.F.R. §385.212 and 385.213) that the Commission grant this Motion and include the information contained herein in the record because it will assist the Commission in its decision making by clarifying certain matters suggested by the MMU and NRG. The Commission should also accept this Answer so that the NYPSC can respond to arguments advanced for the first time in pleadings responsive to the Tariff Filing. It would be prejudicial to other parties for the Commission to consider such arguments without providing interested parties with the ability to present opposing viewpoints. Although answers to answers are generally discouraged, the Commission has accepted answers for similar reasons to those provided here by the NYPSC.[4]

**ANSWER**

## I. THE COMMISSION SHOULD REJECT THE MMU'S PROPOSAL THAT THE NYISO DEVELOP A "LOCAL RELIABILITY PRODUCT"

Capacity exports may create counterflows that increase the transfer capability into the exporting generator's Locality. The proposed Export Solution captures this phenomenon. The MMU argues, however, that the NYISO should develop a "local-reliability product" that provides incremental compensation for an undefined "local reliability value" purportedly created by the counterflow.[5]

This recommendation should be rejected. As an initial matter, the recommendation would create an economic incentive for units to export capacity. This would be problematic for import-constrained Localities such as Zones G-J. The MMU's

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[4] See, e.g., Entergy Louisiana, LLC, 156 FERC ¶61,146 (issued August 31, 2016) at P5, 15 (accepting an Answer to a Motion for Leave to Answer because it provides information that assisted the Commission in its decision-making process); see also Michigan Electric Transmission Company, 156 FERC ¶61,025 (issued July 8, 2016) at P6, 14; Midcontinent Independent System Operator, Inc., 155 FERC ¶61,130 (issued May 3, 2016) at P7, 25.

[5] MMU Comments at 6.

proposal also should be rejected because the issues are complex and first should be discussed fully in the stakeholder process.

The MMU does not describe the product that should be developed, or articulate why an exporting generator should be compensated for counterflows associated with the export. These omissions are critical. The NYISO's current tariff inappropriately prices ICAP as though the full amount of an export must be replaced from within the Locality. In fact, actual power flows cause part, or potentially all, of the actual export to be derived from a neighboring capacity zone. The Export Solution accounts for these counterflows, which moderate the market impact of an export by reducing the amount of capacity that must be replaced within the Locality. The counterflow, however, does not constitute a distinct system benefit or service that warrants compensation, and the MMU fails to articulate why such compensation might be justified.

Regardless, a unit located in the G-J Locality is compensated for its locational benefits by receiving the Locality price rather than the ROS price. If that unit instead elects to export capacity to ISO-NE or elsewhere, it presumably does so because the export price is higher than the price it would receive from the Locality. The unit, therefore, is fully compensated for its locational capacity benefits whether it sells into the G-J Locality or exports to ISO-NE or elsewhere.

The undefined “local reliability product” proposed by the MMU would create new market issues. Resources are located in various locations throughout the State and on different transmission levels and, therefore, impact power flows in various ways. It would be difficult, if not impossible, to parse out those impacts and distinguish which should be compensated from those that should not be compensated. Further, if certain units were compensated for increases in transmission flows related to their operation, then other units presumably should be charged for transmission flow limitations related to their operation. Ultimately, each individual unit has a unique impact on local reliability, reflecting the unique characteristics of that particular unit at that particular location on the transmission system; and thus each unit could end up with a separate “capacity” payment rate, which, moreover, could be extremely sensitive to small changes in load, local transmission upgrades, or other system conditions. This is not the appropriate docket to address such complex issues. Any such proposals should first be fully vetted and developed through the stakeholder process. For the foregoing reasons, the MMU’s recommendation that the NYISO develop a “local reliability product” should be dismissed.

## II. **THE COMMISSION SHOULD REJECT NRG'S ARGUMENTS OPPOSING THE PROPOSED EXPORT SOLUTION**

NRG advances in its Protest an assortment of arguments opposing the Export Solution. Individually and collectively, those arguments are unpersuasive and fail to justify rejecting the proposed Export Solution.

NRG initially alleges that the Export Solution double-counts exported capacity. This claim is incorrect. In developing the Export Solution, the NYISO recognized that the determination of the Locational Capacity Requirement (LCR) for the G-J Locality would be affected by an export. When the NYISO and the New York State Reliability Council estimate the Installed Reserve Margin (IRM) and LCRs for New York, they must make certain assumptions about the level of imports and exports. The proposed Export Solution simply recognizes that, if a unit in the G-J Locality is modeled as exporting to ISO-NE, the export will create counterflow on certain transmission lines. This will increase the amount of capacity that may be transmitted from the ROS to the G-J Locality, thereby reducing the LCR for the G-J Locality. The Export Solution thus addresses the impact of an export on the NYISO's internal LCRs without restricting the unit's ability to export to ISO-NE.

NRG imagines a "simple thought experiment" under which NYISO generators (presumably located in the G-J Locality) export to ISO-NE, and ISO-NE generators export an equivalent amount of capacity to the NYISO.[6] The hypothetical scenario is a gross over-simplification that is far from a "simple thought experiment." In fact, NRG's "simple" scenario raises complex issues because ISO-NE generators are not currently allowed to count as supplying the G-J Locality unless they are imported over controllable lines via Unforced Capacity Deliverability Rights. The net result is that under the NYISO's current market rules, the G-J Locality would end up with an apparent shortage even if the exports and imports netted out. NRG fails to explain how such an outcome is consistent with reliability needs. Consequently, NRG's "simple thought experiment" lacks probative value.

NRG further argues that capacity market modeling should not be based on short-term power flows.[7] This argument is inapt. The NYISO's current capacity market design is based on an annual determination of IRM and LCRs that reflects power (energy) flows during peak conditions. The proposed Export Solution simply extends this analysis to incorporate the impact of exports from generators present in the Localities, which

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[6] NRG Protest at 8-9.

[7] Id. at 9-10.

impact was not previously contemplated or otherwise accounted for in the NYISO's market design.

According to NRG, short-term price fluctuations are an expected consequence of a short-term capacity market, which the NYISO chose to implement. NRG argues that the NYISO should not be allowed to moderate the impact of such fluctuations without also enacting broader market design changes.[8] This argument misses the point of the NYISO's proposal. The Export Solution was developed because a rule change in the ISO-NE capacity market design would allow exports from the NYISO to ISO-NE to begin with as little as a few months' notice, instead of the three years provided by ISO-NE's original market design. This curtailed period does not provide sufficient time for the NYISO to determine the appropriate IRM and LCRs under its current methodology. The Export Solution was developed primarily to remedy this market design flaw, and not for the purpose of moderating a short-term price fluctuation.

NRG attempts to bolster its arguments by comparing supplemental payments that California ISO (CAISO) makes to certain units serving a capacity backstop function.[9] The comparison, however, is inappropriate. CAISO does not have a

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[8] NRG Protest at 10-11.

[9] Id. at 12-13.

capacity market, whereas the NYISO does. In the NYISO market, units located in the G-J Locality receive a payment from the NYISO that reflects the price of capacity in the Locality. If the unit chooses instead to export capacity to ISO-NE, then it voluntarily would forego the NYISO's G-J Locality capacity payment in favor of a capacity payment from ISO-NE that presumably is higher than the Locality price. In either event, the unit would be compensated fully for the value of its capacity. It would be irrational to encourage exports by giving a unit an additional capacity payment, analogous to the backstop capacity payments made by CAISO, simply because that unit has made a business decision to export capacity.

NRG also argues that any counterflow "benefits" associated with an export should be considered in the process of setting the IRM and LCRs.[10] However, the recent changes to ISO-NE's market allows imports from the G-J Locality as early as June 2017 via a reconfiguration auction held after the NYISO's 2017/2018 IRM and LCRs are established. The 2017/2018 IRM has already been filed with the Commission and the NYPSC for review, and must undergo these regulatory reviews before the NYISO can hold its summer strip auction in March 2017. As a result, the NYISO will not know the amount of exports – if any – when it

[10] NRG Protest at 14-16.

determines the LCRs for 2017/2018. It is this change in timing that requires the NYISO to revise its procedures immediately.

Moreover, NRG's complaint that the NYISO is proposing a mid-cycle change to the demand curve parameters is invalid because the IRM and LCRs are determined annually under the existing demand curve process. The current demand curve reset for 2017 is still underway, and there is no rational basis to lock in the currently flawed process (failing to address locational exports) for another four years.

Finally, NRG incorrectly claims that the Export Solution creates a "capacity market discount," which it argues should be terminated when the exporting unit loses its Capacity Resource Interconnection Service rights three years after exiting the NYISO ICAP market.[11] However, no such "capacity market discount" exists. Units located in the G-J Locality will receive full capacity market payments either by selling into the NYISO capacity market at the G-J Locality price, or by exporting to ISO-NE at a capacity price that is presumably higher than the Locality price. For the foregoing reasons, the Commission should dismiss NRG's arguments and approve the Export Solution as proposed.

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[11] NRG Protest at 17.

## CONCLUSION

The NYPSC affirms its recommendation that the Commission approve the Export Solution as proposed in the Tariff Filing. For the reasons detailed herein, the NYPSC respectfully urges the Commission to reject the MMU's recommendations that the NYISO develop a local reliability product and NRG arguments opposing the Export Solution.

Respectfully submitted,

***/s/ Paul Agresta***

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Dated: January 10, 2017
Albany, New York

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated: Albany, New York
January 10, 2017

***/s/ S. Jay Goodman***

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