UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

New York Independent System Operator, Inc.) Docket Nos. ER18-1743-000

MOTION TO INTERVENE AND COMMENTS
OF THE
NEW YORK ISO'S MARKET MONITORING UNIT

Pursuant to Rules 212 and 214 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (Commission), 18 C.F.R. §§ 385.212 and 214 (2007), Potomac Economics respectfully moves to file comments concerning the NYISO's June 5, 2018 filing of proposed revisions to its rules for setting Locational Minimum Installed Capacity Requirements ("LCR") in the above-captioned proceedings. The proposed revisions will lead to more efficient investment signals for installed capacity that should ultimately reduce the overall cost to consumers of satisfying the planning reliability criteria.

Potomac Economics is the Market Monitoring Unit ("MMU") for the NYISO and is responsible for monitoring the market and evaluating potential changes that impact the market. Potomac Economics' interests, therefore, cannot be adequately represented by any other party. Accordingly, Potomac Economics respectfully requests that it be permitted to intervene in this proceeding with full rights as a party.[1]

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[1] In addition, Potomac Economics respectfully requests that the Commission accept this filing one day out of time.

I. NOTICE AND COMMUNICATIONS

All correspondence and communications in this matter should be addressed to:

Dr. David B. Patton
Potomac Economics, Ltd.
9990 Fairfax, Boulevard, Suite 560
Fairfax, VA 22030
(703) 383-0720
dpatton@potomaceconomics.com

Dr. Pallas LeeVanSchaick
Potomac Economics, Ltd.
9990 Fairfax, Boulevard, Suite 560
Fairfax, VA 22030
(703) 383-0719
pallas@potomaceconomics.com

II. COMMENTS

Capacity markets should be designed to facilitate investment in new and existing capacity by providing efficient price signals that reflect the value of additional capacity in each locality. The improved reliability from additional capacity depends on where it is located, so the capacity prices in each location should be proportional to such reliability improvements. This will facilitate investment in the most valuable locations and reduce the overall cost of maintaining reliability. To achieve these efficient locational capacity prices, LCRs must be set to minimize the cost of satisfying the resource adequacy criteria.

The one-day-in-ten-year planning standard for the NYCA can be met with various combinations of capacity in different areas of New York. The current annual process for determining the IRM and LCRs is known as the "Tan 45." The Tan 45 method was applied to identify the LCRs for the localities in a manner that provides some balance in the distribution of capacity between upstate and downstate regions. However, the Tan 45 method does not consider economic or efficiency criteria, so the LCRs are not based on where capacity would provide the greatest reliability benefit for the lowest cost. Setting LCRs such that the capacity demand curves reflect the marginal reliability value of additional capacity in each locality would provide incentives for more efficient investment and lower overall capacity costs.

For several years, we have documented inefficiencies that result from the existing LCR-setting methodology, and recommended the NYISO improve its LCR-setting methodology.[2] For example, in our 2016 State of the Market Report, we identified areas with inefficiently high requirements and areas with inefficiently low requirements, and we recommended the NYISO implement a method based on minimizing capacity costs to meet the reliability criterion.[3]

We participated in the stakeholder meetings where the NYISO presented its evaluation of the proposed changes. Although we recommended certain design elements that were not ultimately adopted by the NYISO, we generally found the NYISO's assessment to be informative and supported the final proposal as a significant improvement over the Tan 45 method, which does not consider cost-minimization as a criterion for the setting of LCRs.

The proposed revisions would be a significant improvement because they would lead to capacity prices that would be more consistent with the incremental value of capacity at each location. This would provide better signals to investors because it would signal where capacity would provide the most reliability value for a given investment cost. By inducing more efficient investment, the proposed revisions would lead to lower costs to consumers. Accordingly, we recommend the Commission adopt the NYISO's proposed tariff revisions.

Notwithstanding these improvements in the investment signals for supply resources, we agree with certain concerns expressed by Power Supply Long Island ("PSLI") in the stakeholder process. PSLI indicated that Zone K would bear an excessive share of the overall capacity costs for maintaining reliability in SENY (i.e., Southeast New York, which comprises Zones G, H, I, J, and K). This stems from the fact that the NYISO tariff allocates capacity costs to the locality where the capacity is procured rather than based on the consumers that benefit from the capacity.

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[2] Recommendation #2013-1c was originally made in the 2013 State of the Market Report.

[3] See Section VII.B., discussion of Table 13.

In the stakeholder process, the NYISO's simulation results revealed that the Zone K LCR was driven partly because Zone K provides a low-cost means to relieve transmission constraints from Upstate NY to SENY (i.e., from Zones E & F to Zone G), rather than because of the specific reliability needs of consumers in Zone K. However, we do not believe this is cause for the Commission to reject the NYISO's filing for the reasons stated below.

The fundamental concern with the cost allocation is that it automatically assigns costs to the region where the capacity is procured. The NYISO is not proposing in this filing to change cost allocation methodology in the tariff. The proposed tariff changes in this proceeding is designed to provide more efficient signals for supply investment decisions, which will benefit consumers. Any effect on the cost allocation is an indirect consequence of the rule that allocates based on where the capacity is procured rather than to the areas that benefit from the capacity.

It is important to recognize that the current cost allocation rules have resulted in substantial fluctuations in the share of the capacity costs allocated to various areas. Over the five years from May 2014 to April 2019, the current Tan 45 methodology has produced LCRs for Zone K of ranging from 102.5 percent to 107 percent of the peak load, while the LCRs for the G-J Locality has ranged from of 88 to 94.5 percent. These historical changes in the LCRs have resulted in concomitant changes in the cost allocations that are similar to the projected results of the Alternative LCR method. In a recent stakeholder meeting, the NYISO estimated LCRs using the Alternative LCR method for informational purposes that were 107.5 percent for Zone K and 90.8 percent for the G-J Locality for the period from May 2018 to April 2019.[4] Thus, the Alternative LCR method would produce an allocation of capacity costs that is reasonably consistent with past years.

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4 See *Consumer Impact Analysis Using the 2018 Base case: Alternative Methods for Determining LCRs.*, presented by Tariq N. Niazi to the Installed Capacity Working Group on February 22, 2018.

In sum, we do believe that current linkage of the cost allocation to the LCRs raises equity concerns, but these concerns exist currently under the Tan 45 process. In the long-run, the NYISO should consider improvements in the cost allocation that would address these concerns. Therefore, we recommend that the NYISO evaluate with its stakeholder a future enhancement of the capacity cost allocation rules.

However, the changes proposed by the NYISO in this proceeding to improve the determination of its LCRs is a clear improvement to the status quo and is independent of the cost allocation rules. These changes will lead to more efficient prices and lower consumer costs. We recommend that the Commission improve the changes proposed by NYISO and encourage the NYISO to work with its stakeholders to consider future enhancements to the capacity cost allocation rules.

III. CONCLUSIONS

For the reasons stated herein, we find the NYISO's proposed tariff revisions to be a significant enhancement over the current rules and respectfully recommend the Commission accept them.

Respectfully submitted,

/s/ David B. Patton

David Patton
President
Potomac Economics, Ltd.

June 27, 2018

CERTIFICATE OF SERVICE

I hereby certify that I have this day e-served a copy of this document upon all parties listed on the official service list compiled by the Secretary in the above-captioned proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated this 27th day of June 2018 in Fairfax, VA.

/s/ David B. Patton