NEW YORK INDEPENDENT SYSTEM OPERATOR

Report on
CURRENT MARKET INITIATIVES RELEVANT TO RELIABILITY
March 9, 2018

1) Capacity Exports from Localities

The NYISO MMU has raised concerns with the capacity market pricing outcomes if resources located in import constrained localities sell their capacity to external control areas.

Implications to Reliability: An accurate locality exchange factor is necessary to ensure sufficient capacity resources are maintained within the locality to meet resource adequacy needs.

Update: Stakeholders approved an approach for reflecting Capacity Exports from Localities in the 2017/2018 Capacity Markets, encouraging ongoing analysis and development of markets rules for enhancing the modeling treatment for future years. NYISO has implemented the approved methodology to recognize that an exporting generator continues to operate within its Locality. NYISO has determined that there are no viable probabilistic based alternatives that could supplant the deterministic locality exchange factor calculations. Consideration is being given to a simplified model proposed by the NYTOs.

2) Capacity Zone Elimination

The NYISO has engaged stakeholders in discussions to consider whether a mechanism was necessary to eliminate a capacity locality and, if necessary, to develop market rules to facilitate the transition. The NYISO's efforts are guided by an objective to provide market certainty to participants that would seek to invest in the resources necessary to maintain reliability while minimizing potential inefficient market outcomes.

Implications to Reliability: Capacity locality price signals are necessary to ensure resources are built and maintained where needed to sustain resource adequacy and transmission security.

Update: NYISO has observed that the development of capacity zone elimination rules based solely upon deliverability criteria will not present a robust solution that accurately captures reliability needs. The NYISO has expanded discussions to consider sound reliability criteria, such as resource adequacy and transmission security, as applicable to both the creation and elimination of zones. The NYISO has completed the market design. Stakeholders did not approve the recommended design.

3) PJM Pseudo-Tie Tariff Revisions

On March 9, 2017, and August 11, 2017, PJM filed proposed pseudo-tie tariff revisions with FERC to define rules governing generation resources physically located outside the PJM Region that serve as capacity for loads in the PJM Region. The filing specifies that new PJM Capacity Market Sellers must meet three key requirements: (1) that the resource will be pseudo tied to (i.e.; scheduled and dispatched by) PJM; (2) the Capacity Market Seller has made acceptable transmission service arrangements to deliver the output of its generation to PJM; and (3) the Capacity Market Seller has made a written commitment that the resource is subject to the same obligations imposed on Generation Capacity Resources located within the PJM Region.

Implications to Reliability: Transition of the resource to outside dispatch control may create market efficiency, reliability and seams concerns.

Update: The NYISO has filed protests to PJM's filings identifying impacts of the proposal to NYISO market efficiency and NYCA reliability. NYISO and PJM are reviewing the proposed constructs to determine if a reconcilable solution is available. On November 16, 2017 FERC issued an order accepting PJM's pseudo-tie rules.

4) Market Assessment for Accommodating Public Policy

The NYISO will assess the impacts of decarbonization goals on the current NYISO energy and capacity markets from the high penetration of low carbon or carbon-free resources and consider whether new market products or changes to the existing market structure will be necessary to meet the anticipated reliability needs.

Implications to Reliability: Improved incentives to provide necessary services and products to enhance reliability.

Update: The NYISO is considering a broad spectrum of market product and structural enhancements that may be necessary to incent market participants to meet the reliability needs anticipated with 50% renewable generation. The NYISO has completed its simulation of potential market conditions and initiated discussions on possible reforms with stakeholders. Further discussion of select concepts are ongoing.

5) Performance Assurance

From an operational perspective, system reliability is maintained through the production of energy and reserves on a real-time basis throughout the year in sufficient quantities and with the right characteristics to meet the needs of the system. The capacity and energy markets together provide the revenue adequacy and performance incentives to ensure that resources will be available to address system challenges when the operational needs may arise. Given the shift is resource mix and potential changes in operational challenges, it is important to continually reassess whether the existing market products are delivering the services necessary to meet reliability.

Implications to Reliability: Improved incentives to provide necessary reliability services.

Update: Analysis Group has completed an assessment of resource performance standards in light of recent experiences, market design changes in NYISO and surrounding market areas and the changing landscape of wholesale electricity markets. Analysis Group identified a number of areas for further consideration to address potential performance-related concerns. NYISO evaluated the Analysis Group report and feedback from stakeholders and the MMU, and has recommended that market enhancements to the performance and eligibility of external resources, operating reserve market improvements, and a tailored availability mechanism show the greatest potential to enhance resource performance. Efforts have begun with stakeholders to develop these opportunities in greater detail to assess their potential value.