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To: New York Independent System Operator, Inc. ("NYISO")

From: Matthew Schwall, Director of Market Policy & Regulatory Affairs

Date: May 25, 2018

Re: **NYISO draft Master Plan**

The Independent Power Producers of New York, Inc. ("IPPNY") submits these comments in response to the NYISO's draft Master Plan recommending market designs and structures to be pursued, subject to stakeholder prioritization, over a 5-year timeline to incent investment in, and maintenance of, the types of resources needed to sustain reliability as public policy and new technologies evolve the bulk power system.

It is clear that the wholesale electric markets operated by the NYISO are faced with two separate and distinct challenges. The first is that increased penetration of intermittent renewable and distributed energy resources ("DER"), both in front of and behind-the-meter, will make it increasingly difficult for grid operators to forecast load and dispatch the resources necessary to maintain reliability. The second and more urgent of the two challenges is the detrimental impact that out-of-market payments emanating from public policies developed to achieve state energy and environmental goals are having on efficient market prices, both in the energy and capacity markets. The consequence is that the NYISO faces a reality in which market revenues are and will continue to be insufficient to attract and maintain the types of resources necessary to reliably operate the system. It will also stress the NYISO's ability to timely and efficiently respond to increased retirements that can be expected to result from the increased penetration of the State's preferred resources given the absence of a forward capacity market.

IPPNY appreciates the NYISO's efforts to develop timelines for addressing these dual challenges and supports pursuit of the various Energy & Ancillary Services ("E&AS")

enhancements outlined in the Master Plan. Compensating resources that support reliability by clearly defining the specific attributes that are desired and then allowing any resource capable of providing those attributes to do so using a competitive market-based mechanism is not only good market design but is also a quintessential NYISO responsibility. Nonetheless, IPPNY impresses upon the NYISO the importance of expeditiously addressing the issue of price suppression in the marketplace that is the result of the numerous out-of-market compensation payments noted in more detail below.

I. Background

Although NYISO operators have been able to take its own out-of-merit dispatch actions with existing traditional resources to ensure the intermittency of renewables and DER do not threaten reliability, such actions reflect the inability of the NYISO's competitive market to properly price reliability needs. The result is artificially lower clearing prices which, eventually, will lead to existing traditional resources reaching a point at which retirement options need to be seriously considered.[1] At such point, intermittency may present a significant challenge to New York grid operators because the wrong resources are being retired. This in turn may require additional out-of-market activities, sending the market into the "death spiral".

The threat of public policy encroachment on the wholesale market is immediate. In March of this year, New York State entered into Renewable Energy Credit ("REC") contracts valued at $1.4 billion for 1,400 MW of Tier 1 large-scale renewables – nearly double the quantity of renewables built since 2005 and the single largest award for renewables by a state in U.S. history. One month later a second round of solicitations was issued for roughly 700 MW of additional large-scale renewables projects, with the potential for a third round by the end of 2018. Governor Andrew M. Cuomo has further committed New York to 2,400 MW of offshore wind by 2030, with the first 400 MW solicitation in 2018 and a second 400 MW solicitation in

[1] 2017 State of the Market Report for the New York ISO Markets at 60-63. http://www.nyiso.com/public/webdocs/markets_operations/documents/Studies_and_Reports/Reports/Market_Monitoring_Unit_Reports/2017/NYISO-2017-SOM-Report-5-07-2018_final.pdf

2019, an energy storage goal of 1,500 MW by 2025, and seeks to value the emissions attributes of distributed resources in the Value of DER proceeding.

All of this is outside of the NYISO competitive market, is not in response to competitive market signals, and requires the NYISO to react with out of merit dispatch actions to ensure reliability. Therefore, actions need to be taken immediately to ensure that proper price signals are provided by the NYISO competitive markets to ensure reliability. Actions related to the capacity market need to be pursued in parallel with carbon pricing (and regardless of whether carbon pricing is implemented or not) because price signals in the market already do not support investments while out-of-market investments continue unabated.

II. NYISO Must Continue to Work Towards Incorporating a Carbon Price into the Wholesale Energy Market but Cannot Wait to Reform Capacity Markets

The Master Plan contemplates a carbon pricing deployment date of 2022. It's safe to assume that by 2022 thousands of MW of "State sponsored" resources will already have entered into contracts for out-of-market payments. Though the resources receiving Tier 1 REC contracts will not immediately result in suppressed market prices, market-based investments (i.e., investments that do not receive these payments from outside the NYISO competitive market) are paralyzed and cannot move forward because of this competitive disadvantage. Assuming that New York State continues entering into contracts at its current pace without changes to the capacity markets and buy-side mitigation, and absent possible adjustments to account for a potential future cost of carbon in the market, which the state has indicated it does not intend to do at this time,[2] nothing of the market will be left for purely merchant suppliers to compete in. Moreover, few decisions will be left for consumers as well because all the resource decisions will have been made for them. Ultimately, the NYISO's competitive market will become irrelevant and unnecessary.

[2] At the May 21, 2018 Integrating Public Policy Task Force meeting, the New York State Energy Research and Development Authority ("NYSERDA") read a statement into the record indicating that it has considered but is not recommending any changes to the Tier 1 REC contract structure at this time. http://www.nyiso.com/public/webdocs/markets_operations/committees/bic_miwg_ipptf/meeting_materials/2018-05-21/052118%20ipptf%20nyserda%20statement.pdf

IPPNY recognizes that the NYISO is resource limited, and that garnering stakeholder consensus on carbon pricing and capacity market improvements, followed by proposing a market design, filing with the Federal Energy Regulatory Commission ("FERC") and developing the functional requirements for implementation, will take time. However, IPPNY members are quite concerned that the plan calls for implementation to be delayed until 2022, a five-year development effort, from the original implementation date of 2020 that was initially described by NYISO President & CEO Brad Jones. The NYISO has failed to explain why, if a proposal is submitted to FERC in 2019, as is contemplated in the Master Plan, it requires waiting until 2022 to implement the proposal. This is especially troubling given that the currently proposed design builds upon the NYISO's existing market structure. Moreover, continued state selection of specific resources for participation in the NYISO administered wholesale markets stifles competition by distorting market signals and driving away the very market driven investment the NYISO seeks to attract with the proposed enhancements to its markets. This must be dealt with by immediately implementing carbon pricing and correcting the flaws in the capacity market.

As we stated in a variety of settings, IPPNY is supportive of pricing carbon in the market because it would minimize out-of-market payments to specific resources by valuing carbon emissions in a manner that is efficient, cost-effective, non-discriminatory, and aligns well with the market construct employed at the retail level. It would reduce carbon emissions from the entire generation portfolio and provide market signals for existing facilities to make efficiency improvements that reduce their emissions of carbon per megawatt hour below their historical emissions levels.

The NYISO has stated that continued work on carbon pricing in 2019 will be contingent upon stakeholder prioritization in the 2019 Project Prioritization and Budgeting Process. If the carbon pricing project receives a sufficient level of stakeholder support in the Project Prioritization and Budgeting Process and is budgeted for in 2019, the joint team of NYISO, DPS and NYSERDA staff unilaterally decide in Q4 2018 that a carbon pricing proposal cannot be developed, the NYISO will not be alleviated of its responsibility to address the price suppressive impact of state public policies on the market, the specter of which will not abate. Rather, the NYISO will still be obliged to pursue enhancements to its capacity market design, as discussed below. Moreover, considering the above, the urgency of FERC action on IPPNY's long standing buyer-side market power mitigation protest (Docket No. EL13-62-002) becomes more acute with each passing day.

III. NYISO Must Adopt a Forward Capacity Market

IPPNY understands that the NYISO is proposing to solve existing and future "missing money" problems resulting from low and zero energy prices by better valuing highly flexible resources with improved E&AS payments. While bolstering E&AS revenues is necessary, these tweaks alone will not be sufficient to make up for the revenue shortfall new and existing suppliers will experience as state public policies increase intermittency and suppress prices. The riskier the market becomes due to regulatory uncertainty and state actions that can almost immediately undercut any merchant investment, the more investors will look for price certainty through out-of-market contracts with longer lock-in periods. Accordingly, regardless of whether carbon pricing is implemented, the NYISO must pursue a forward capacity market.

There is a direct relationship between the level of state interference in the market and the need for price protection that comes with a long commitment period. But unlike our neighbors who are able to address resource planning through forward capacity markets, and contrary to the findings in the Master Plan that the NYISO's existing monthly capacity market is "well suited to keep up with the challenges and opportunities facing the grid,"[3] monthly auctions are too uncertain not resource adequacy processes, they are merely balancing markets. Balancing markets are insufficient for investors to commit resources especially when there exists significant amounts of out-of-market activity. The inability of investors to make proper investment and planning decisions because of the uncertainty of the monthly market is rendering the NYISO market. irrelevant. Having a forward capacity market would provide

[3] NYISO Master Plan at 6.
http://www.nyiso.com/public/webdocs/markets_operations/committees/bic_miwg/meeting_materials/2018-05-15/Master%20Plan%20Draft.pdf

generators with longer-term price signals needed to make investments and to decide when to exit the market, a necessity that grows increasingly important as more than 8,300 MW of gas- and steam-turbine based capacity reaches an age beyond which 95% of these types of capacity have deactivated nationally.[4] Furthermore, a forward capacity market would allow for enhanced reliability planning, especially as the increased penetration of intermittent resources is likely to lead to increasing levels of retirements. A forward capacity market would provide much longer periods of time for planners at both the NYISO and the utilities to react to any reliability implications of such retirements.

Furthermore, while NYISO stakeholders are in the early stages of examining carbon pricing as an approach to "harmonize" public policies with the wholesale market, PJM and ISO-New England have already proposed to FERC market designs to protect price formation that are contingent upon their respective forward capacity market constructs. The NYISO's neighbors are so far ahead that FERC has already issued an order accepting ISO-New England's Competitive Auctions and Sponsored Policy Resources proposal as just and reasonable and is actively considering PJM's dual proposals. Without a forward capacity market as a starting point, it is entirely unclear how long it would take, or whether it would even be possible, for the NYISO to develop its own capacity market design for "harmonizing" state public policies with the wholesale markets. Essentially, the NYISO would be left with only the option of expanding buyer-side mitigation to protect against public policy driven uneconomic entry and retention. Considering the previously mentioned deadlines the state has established for meeting its energy goals, anything less than extreme expediency in developing a carbon pricing mechanism or a forward capacity market will come far too late.

IPPNY appreciates the opportunity to comment on the Master Plan and reiterates its strong support for incorporating the cost of carbon into the NYISO's wholesale energy market as soon as practicable.

[4] 2018 Power Trends: *New York's Dynamic Grid* at 16. https://home.nyiso.com/wp-content/uploads/2018/05/2018-Power-Trends_050318.pdf