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June 17, 2002

Honorable Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Room 1-A209
Washington, D.C. 20426

Re: Docket No. RM02-1-000 - Standardizing Generator Interconnection Agreements and Procedures

Dear Secretary Salas:

For filing please find the Comments of the New York State Public Service Commission in the above-entitled proceedings. Should you have any questions, please feel free to contact me at (518) 486-2652.

Very truly yours,

Saul A. Rigberg
Assistant Counsel

Enclosures

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

STANDARDIZATION OF GENERATOR INTERCONNECTION AGREEMENTS AND PROCEDURES	) Docket No. RM02-1-000

COMMENTS OF THE PUBLIC SERVICE COMMISSION
OF THE STATE OF NEW YORK

Pursuant to Notice of Proposed Rulemaking (NOPR), dated April 24, 2002 and Rule 214(d)(1) of the Commission's Rules of Practice and Procedure (18 C.F.R. §385.214), the Public Service Commission of the State of New York (NYPSC) hereby submits its Comments on proposed standardized generator interconnection agreements and procedures. The issuance of the NOPR is an important step in realizing the Commission's goal, which the NYPSC supports, of encouraging the siting and construction of efficient transmission facilities.

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The Commission states that it intends to create a nationally consistent method for interconnecting competitive wholesale generation resources to electric transmission service providers' facilities that would: 1) encourage needed investment in infrastructure; 2) remove incentives for transmission providers to favor their own generation; 3) ease entry for competitors; and 4) encourage efficient siting decisions. We agree that in traditionally regulated environments in which transmission owners (TOs) also own generation, the proposed Standard Generator Interconnection Procedures and the Standard Generator Interconnection And Operating Agreement, which is a transmission credit cost allocation methodology, generally help achieve the Commission's objectives. The preferred approach from New York's perspective, however, is a market-driven environment with locational pricing and an Independent System Operator (ISO) or Regional Transmission Organization(RTO).

EXECUTIVE SUMMARY

Our comments address three issues. First, the NOPR invites discussion (at 25-26) of whether the generation interconnection pricing methodologies under consideration in this docket are consistent with the proposed locational pricing methodology in

the Standard Market Design (SMD) proceeding.[1] As discussed below, with the Commission's approval, the New York Independent System Operator (NYISO) uses the "but for" test, whereby it assesses the cost of any new network facilities based on which network facilities would not be in the transmission expansion plan but for the interconnecting generator. This approach provides proper price signals influencing a generator's siting considerations in an environment where an independent organization, such as the NYISO, makes cost causation determinations on an objective and non-discriminatory basis. Because the "but for" approach requires a developer to pay the costs of facilities required by the interconnection, it is also consistent with the SMD's locational pricing methodology by providing efficient price signals for a developer to compare locational costs when it considers when and where to propose a new plant.

Second, the NOPR's proposed queuing regime, which would allow a proposed generator to tie up transmission capacity and an interconnection location for up to 10 years,[2] may result in inefficient consideration of generation projects and gaming of the process to the benefit of market participants with market

[1] Docket No. RM01-12-000.

[2] Standard Generator Interconnection Procedures, at §§ 3.3.1. and 4.4.5.

power. We offer below reasons why a shorter time period would reduce opportunities for gaming and exercise of market power.

Finally, the NYPSC is concerned that the proposed interconnection system impact studies would only evaluate the impact of the proposed interconnection on the reliability of the transmission system.[3] Complimentay studies must also take into account impacts on the distribution system. New York and other states have procedures in place for evaluation of these impacts that should be incorporated into a thorough review of the impact of a project on a region's electric grid. We would encourage the Commission to establish a process to coordinate these studies.[4]

I. A MARKET-ORIENTED COST ALLOCATION APPROACH BEST SERVES THE PUBLIC INTEREST.

Vertically integrated TOs possess powerful incentives to use their transmission and distribution (T&D) monopoly to favor their own generation by making transmission expensive, thereby disadvantaging rival generators or potential rival generators. In parts of the country with vertically integrated TOs, a critical requirement of any interconnection policy is the need to counteract the incentives that a TO has to disadvantage rival

[3] NOPR at 38.

[4] New York uses streamlined procedures for distributed generation (DG) units 300 kW and smaller.

generators. Satisfying this objective may require denying TOs control over decisions regarding transmission reinforcements and cost allocation.

In contrast, in control areas with little vertical integration and with ISO-administered bid-based markets using location-based market prices (LBMP), the Commission has authorized a different approach that relies on market-driven price signals. In New York, this means that generators constructing plants have equal and competitive access to the transmission system.[5] Therefore, they pay for, without reimbursement, the full cost of all facilities, including network upgrade costs, that would not have been required "but for" the interconnection. This cost allocation methodology encourages generators to site in optimal locations.[6]

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[5] New York Independent System Operator, Inc., Docket No. ER01-2967-000, Order Accepting Tariff Revisions Subject to Modifications, 97 FERC ¶ 61,118 (2001); Consumers Energy Co., Docket No. ER01-1587-001, Order On Rehearing, 96 FERC ¶ 61,132 (2001); PJM Interconnection, L.L.C., Docket No. ER99-2340-000, Order Accepting For Filing Amendments to Open Access Tariff and Operating Agreement, As Modified, 87 FERC ¶ 61,299 (1999).

[6] This approach is consistent with a statement made by Commission staff stated in a recent concept paper, dated December 17, 2001 (at page 2), that as a component of its vision of future wholesale electric markets: "Good market-driven price signals will exist to support well-planned investment in new generation and new transmission when and where they are needed, and in a timely manner (before shortages occur)." We agree that one aspect of constructing well-planned transmission is that those who benefit from new transmission should pay an appropriate share.

Under the NYISO model, TOs are responsible for the cost of "System Upgrade Facilities" that are needed to maintain system reliability "anyway" (that is, without considering the impact of developers' projects). Generation developers are responsible for the cost of System Upgrade Facilities that would not be needed to maintain system reliability "but for" the impact of their projects on the system.[7] These "anyway" and "but for" costs are determined by the Annual Transmission Baseline Assessment (ATBA)[8] and the Annual Transmission Reliability Assessment (ATRA).[9] The results of the two assessments are netted, and each developer is assigned responsibility for the

[7] The NYISO's cost allocation rules appear in Section 19B of its Open Access Transmission Tariff.

[8] The specific purpose of the ATBA is to identify the System Upgrade Facilities that TOs are expected to need to reliably meet the load projected for the New York Control Area, with cost estimates for those System Upgrade Facilities. NYISO staff, with initial input from each TO, builds an integrated NYISO-wide ATBA that identifies each anticipated System Upgrade Facility project and its estimated costs, and includes other related information.

[9] The specific purpose of the ATRA is to identify the System Upgrade Facilities required for the projects in the Class Year group of projects, with cost estimates for those System Upgrade Facilities. NYISO staff, with input from Market Participants, including the Class Year Developers, updates the System Reliability Impact Studies that were previously performed for each project, to determine the pro rata contribution of each project in the Class Year to each of the System Upgrade Facilities in the updates, and to determine each developer's cost responsibility. NYISO staff then provides each Class Year Developer with a dollar figure for its cost responsibility, with specified supporting information.

cost of the net impact of its project on the reliability of the transmission system.

This approach is consistent with the SMD's locational pricing methodology because it encourages developers to site projects in a cost-effective manner, maximizing anticipated profits by selecting potential sites that consider reliability impact costs as well as market prices that reflect existing transmission constraints. This paradigm provides a market-based incentive for the developer to determine what level of upgrades it is willing to support. Given that the upgrade costs must be recovered in the market price for the generation output, the market ensures that retail consumers pay for only those upgrades for which they receive a direct benefit. It also would discourage, for instance, a developer from proposing to site new generation in western New York with intentions of delivering energy to New York City, unless development costs and market LBMP differentials supported such a decision.[10]

An additional attribute of the NYISO methodology is that new generation, existing generation, and merchant transmission developers are on an even standing, facing the same financing

[10] Were developers not ultimately and specifically responsible for the "but for" costs caused by their siting selection, then the benefit of locational pricing would be partially or fully counteracted. Attached are two examples of attributes of LBMP pricing in this context.

and economic viability challenges. In contrast, under the transmission credit methodology, new generation would receive this favorable treatment (i.e., reimbursement) while leaving pre-existing generation with no easy opportunity (i.e., no reimbursement) to improve its deliverability situation (even a situation exacerbated by new generation) and merchant transmission developers are discouraged from stepping forward.[11]

The NYISO's LBMP model, however, provides for a variety of solutions to congestion problems while ensuring that the system will not be overbuilt. The ISO model in New York has encouraged efficient siting of generation near loads where congestion exists. Four developers have already filed siting applications for merchant transmission that would be built into the constrained New York City/Long Island market.

We note, however, that there may be some circumstances that do not provide adequate market signals for the construction of new transmission lines. In those cases, the NYPSC may have to direct transmission owners to file for construction of those facilities. For example, a local load pocket may experience LBMPs that are significantly above those that occur outside the pocket. A new transmission line may relieve congestion to such

[11] Under the existing NYISO market design, both new generation and existing generation facilities have equal access to the transmission system due to the LBMP pricing system.

an extent that the LBMPs inside the pocket would fall to the level of those outside the pocket. Further, the aggregate benefit of these lower prices may greatly outweigh the cost of the new line. In such a situation, the proper decision, from society's perspective, is to build the line. However, because there would be no LBMP differential to compensate any new owner of congestion rights, an entrepreneur may be disinclined to invest in such a line. Under such circumstances, the regulated TO may be required to invest in such a beneficial project.

II. A QUEUING REGIME SHOULD ALLOW PROJECTS TO ADVANCE WITHOUT UNREASONABLE TIMING IMPEDIMENTS SO AS NOT TO ENCOURAGE THE EXERCISE OF MARKET POWER.

The proposed Interconnection Procedures (at section 4.1) provide for a queue position for study and resource priority based on when a transmission provider receives an interconnection request, which includes: 1) a $10,000 deposit; 2) a completed application, and 3) demonstration of site control or a posting of an additional $10,000 (section 3.3.1). While the NYPSC agrees that it is desirable to have a process to orderly move projects through the study regime and to determine assumptions as to which proposed generation projects should be modeled in the studies, there are two major drawbacks to the proposed approach if it is rigidly applied.

The first drawback is that projects that are likely to improve system reliability or to decrease pressure on energy

prices may be trapped in a low position in the queue that would prevent their timely consideration in favor of more speculative projects that submitted their paperwork ahead of the other projects.[12] If a project developer in the latter part of the queue wants to build generation sooner than parties that are earlier in the queue, then they should be allowed to have studies expeditiously performed, so that needed generation would not be held back from consideration.

The second drawback is that the queue approach contained in the proposed Interconnection Procedures allows a developer for only $20,000 and no site control to potentially tie up scarce transmission resources for up to seven years initially, with the possibility of another three years (section 4.4.5) in addition to that initial period (section 3.3.1). This provision could allow gaming of the planning process. For example, generation owners could exercise market power where the transmission system is constrained, especially in New York City and other urban areas of the Northeast where there are limited interconnection facilities. Consequently, for the relatively minimal cost of having studies performed, an existing generator could prevent

[12] While the NYPSC agrees that determining which projects may be most beneficial to a particular control area is arguably subjective, we urge the Commission to allow for careful consideration of input from those closest to the situation, namely, the ISOs and state regulators.

the allocation of interconnection resources (e.g., a breaker position) to a competitor.

At a minimum, if the proposed queue process is adopted, firm milestones should be in place that ensure that projects either move forward or the resources are reallocated. We prefer, however, reducing the initial seven-year period to three years, and the three-year extension to 18 months, so that scarce transmission resources are freed after a more reasonable period of time.[13]

III. STATES' EVALUATION OF THE IMPACT OF A PROPOSED INTERCONNECTION ON DISTRIBUTION SYSTEMS MUST BE ACCOMMODATED.

Section 7.3 of the proposed Interconnection Procedures explains that the Interconnection System Impact study "shall

[13] Should the Commission decide to retain the proposed queue provisions, section 4.3 is key to preventing the creation of a "market" for queue position. Without this provision, the queue could become jammed with "paper" projects whose sponsors have no intention of development and are betting that a lower-ranked project would be willing to purchase their queue position. This practice slows the process, encourages unearned profits, and increase costs to developers and, ultimately, to retail consumers. The process should have guidelines that promote the development of the most efficient projects, not just the projects that "hurried in the door" with minimally efficient designs. The problem of determining which proposed generation projects should be included in study assumptions is likewise resolved by the inclusion of section 4.2, which provides the option of "clustering" projects for study. This provision would allow the determination of system upgrade requirements communally, and therefore, should be retained. A similar process currently is in place at the PJM and New York ISOs.

evaluate the impact of the proposed interconnection on the reliability of the Transmission system." The study is to consider all network upgrades associated with current or pending interconnections and consists of a short circuit analysis, a stability analysis, and power flow analysis. The NYPSC supports the approach,[14] but it is not complete because an opportunity for evaluation of a project's impact on the distribution system is also required.

New York has a process for studying the impact of proposed interconnections on the distribution system. The process provides for a streamlined determination of interconnection impacts on the local system, determination of solutions and associated costs, and an inspection protocol before the unit is put in service. The application is written in language that can be understood by a small use customer, who may be less attuned to technical language, and requires information that would be easily attainable by them. There are provisions for small distributed generation (DG) units that have been pre-certified

[14] The process the NOPR has provided in Section 14 of the proposed Standard Generator Interconnection Procedures for consideration of generation under 20MW should be considered the maximum a utility can demand. Many utilities already have in place an expedited study and interconnection process that would result in a more timely, less costly interconnection that is less burdensome administratively. These processes should be allowed to continue.

to “plug and play” with a minimum of review.[15] We recommend that the Commission develop a process to accommodate the findings of state commissions on distribution impacts so a full evaluation of a project’s impact can be made in a coordinated fashion.

[15] Although New York’s process applies to units 300 kW and smaller, we are very active in the NARUC effort to draft a standardized procedure and interconnection agreement that would apply to large DGs.

CONCLUSION

For the reasons expressed above, the NYPSC respectfully urges the Commission to (1) retain the “but for” cost responsibility paradigm ISO environments; (2) modify the queuing approach model to allow projects to advance without unreasonable timing impediments and to not allow projects to tie up an interconnection site for more than four and one-half years prior to operation; and 3) permit the coordination of state commissions’ review of the impact of proposed interconnections on distribution systems with transmission impact studies.

Respectfully submitted,

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Dated: June 17, 2002
Albany, New York

Example 1

The first example assumes a broad definition of "upgrades" and compares the ANOPR's Attachment B pricing approach to the NYISO's current policy. Consider two LBMP regions, A and B with $LBMP_A$ = \$30/MWh and $LBMP_B$ = \$55/MWh.

Power tries to flow from low cost A to high cost B, but is constrained. Suppose new transmission would cost the equivalent of \$37 per MWh. Suppose also that it would cost \$31 to build and operate a new plant in Zone A and \$45 to build and operate a new plant in Zone B. The least-cost solution from society's point of view is for the \$45 plant to build in Zone B. Building a plant in Zone A plus a line to connect it to Zone B would cost \$68/MWh (\$31+\$37). If the policy were to make the Generator Developer pay for the cost of transmission reinforcement (or simply accept its zone's LBMP without the upgrade), the correct societal result will occur. However, if the policy were to force the TOs to pay the \$37, then the generator will build in Zone A since the developer's costs will be \$31, not \$45. Unfortunately, with this policy, total costs to society will be \$68/MWh rather than \$45/MWh.

Example 2

The second example assumes a more narrow definition of "upgrade" costs and compares the two approaches to assigning cost responsibility.

A Generator Developer is considering building a plant in a zone that generally provides an LBMP at $40/MWh. It would cost $34/MWh to build and operate at Site 1 and $35/MWh at Site 2. The upgrade costs that would not have been required "but for" the interconnection will be $10/MWh at Site 1 and $2/MWh at Site 2. Total costs will be lower at Site 2 ($37) than at Site 1 ($44). In fact, building no plant is more efficient than building at Site 1 (value of the extra power is the LBMP at $40 while the extra cost is $44). If the Generator must pay the upgrade costs caused by its interconnection, then it has the incentive to correctly choose Site 2. However, if TOs pay for the upgrade costs, then the Generator will only look at the costs to build and operate and, thus, has the incentive to choose Site 1 ($34) over Site 2 ($35). Not only did the developer not receive the incentive to site the plant efficiently, society would be better off if this plant (including the required upgrade) were not built at all.

CERTIFICATE OF SERVICE

I, Karen Houle, do hereby certify that I will serve on June 17, 2002, the foregoing Comments of the Public Service Commission of the State of New York by depositing a copy thereof, first class postage prepaid, in the United States mail, properly addressed to each of the parties of record, indicated on the official service list compiled by the Secretary in this proceeding.

Date: June 17, 2002
Albany, New York

Karen Houle