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***Via E-Mail to** deckels@nyiso.com, mdesocio@nyiso.com, sjohnson@nyiso.com*

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

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

Date: March 13, 2020

Re: **Recommendations for Consideration in Developing Renewables Exemption Cap & Part A Exemption Test Revisions**

In response to the NYISO's request for comments on its renewable exemption cap proposal presented at the March 10 ICAPWG meeting and its proposed revisions to the Part A exemption test, following below are IPPNY's concerns and recommended improvements.

Renewable Exemption Cap

FERC's February 20 renewable exemption cap order rejected the NYISO's proposed 1,000 MW per Class Year cap to be applied to eligible renewable resources in Mitigated Capacity Zones on an ICAP basis and directed the NYISO to develop a new exemption cap that: (1) is narrowly tailored to the mitigated capacity zones, and not based on the entire NYCA; (2) is based on UCAP rather than ICAP; and (3) will not significantly impact market prices.

Specific to this last criterion, critical to the development of a new cap is FERC's explicit recognition that "a MW cap limits the risk that the renewable resources exemption will significantly impact market prices and *it is such limitation that makes this tariff revision just and reasonable*." The Commission, therefore, directed the NYISO "to be mindful of the relationship between: (1) the size of the MW cap; and (2) *the limit the MW cap imposes on the renewable resource exemption's impact to market prices*."[1]

Based on the high-level formulaic concept that the NYISO presented to stakeholders at the March 10 ICAPWG meeting, it is not yet clear whether the NYISO's proposal for calculating the exemption cap will meet the express requirements of FERC's February 20 order, and thus, whether it will be just and reasonable. There remain a number of areas the NYISO must address for its proposal to comply with FERC's order and meet FERC requirements. Initially, IPPNY would urge the NYISO to refrain from adopting the stakeholder proposal to calculate the exemption cap by adding the MW resulting from its proposed formula together with the MW resulting from its 50-cent floor mechanism on the grounds that the combined impact of these two mechanisms on market prices would not be just and reasonable.

The NYISO proposes that a subset of incremental resource retirements be accounted for in the formula, but it has not yet been defined how the subset would be determined. As a

[1] See 2/20 Order at P 48, citing MMU, Entergy and IPPNY/EPSA submissions addressing NYISO's initial compliance filing [emphasis added].

threshold matter, it is critical for the formula to allow level of excess market conditions to return to long run equilibrium over time, *i.e.*, replacement of retiring resources with exempt renewable resources should not be at a 1:1 ratio until the market is very close to expected long run equilibrium levels of excess. To that end, at market excess conditions that exceed the equilibrium level of excess, the NYISO should require the ratio to be some multiple MW of retirement for each new MW of entry. The ratio of MW that must retire to allow 1 MW of exempt new entry should rise as the level of excess in the market increases. Likewise, IPPNY strongly recommends that the NYISO calculate retirements net new entry in order to accurately reflect the level of excess on the system. In addition, the NYISO's retirement estimate should also take into account that resources may not retire and may be retained in the market through reliability support services agreements to maintain reliability. Similarly, in instances where a unit that is in a mothball or IIFO state either elects to retire or is deemed retired, its retirement should be excluded from the calculation because its associated MWs have already been removed from the market, and thus, its retirement is not incremental. Lastly, the NYISO referenced that it would consider retirements in accordance with the base case inclusion rules that it uses to implement the BSM provisions. The NYISO should issue a copy of these rules.

During Tuesday's meeting, the NYISO confirmed its proposed "bank" component would only be triggered if the cap is set by the formula, not if invoked by the $0.50/kW-month market price impact floor mechanism. The NYISO should incorporate that specific detail into its next presentation. The NYISO should also limit the number of Class Years that retirements can be banked, such as to two Class Years total.

The NYISO's proposal to calculate the exemption level based on its forecast of conditions several years out should be modified to appropriately reflect any changes from the forecast that was assumed in the previous Class Year. For example, the NYISO has proposed that the load growth factor be based on six years of projected load growth. In effect, the NYISO proposal is based on the forecast of load six years out. During Tuesday's meeting, the NYISO confirmed that, once it moves on to the next Class Year, it would no longer base the load growth portion on a new six years of load growth because most of that load growth had been captured in the exemption for the previous Class Year. Instead, the NYISO would calculate the Load Growth factor based on the change in the year six forecast from the previous Class Year study and the year six forecast from the current Class Year forecast. This detail should also be included in Wednesday's presentation. Likewise, if a resource modeled as retired in one Class Year subsequently withdraws its retirement notice, an adjustment for the change must be accounted for in the next Class Year by reducing the retirement component commensurately.

IPPNY is also concerned about the proposal to use a URM factor. The purpose of the URM is to reflect that the NYISO's UCAP rating methodology for renewable resources exceeds the reliability value of those resources. The issue is more complicated than what the NYISO is currently considering because the level of the URM would vary by resource type (solar and wind are expected to have different misalignment between the NYISO rating methodology and their reliability value). Rather than embedding a URM into the renewable exemption cap, the renewable rating methodology should be fixed to be consistent with the reliability value. The NYISO proposed to conduct this updating process every four years. While IPPNY acknowledges that updating the renewable rating methodology cannot occur in the timeframe to file a new renewables exemption cap proposal at FERC, transient flaws in the NYISO's current renewable rating methodology should not be built into the exemption methodology as a default approach.

Part A Exemption Test Revisions

While the NYISO is not proposing revisions to the Part A exemption test in its compliance filing on FERC's February 20 Order, any revisions to the Part A exemption that are intended to provide a preference to State public policy resources must first take into account the renewables exemption. The total amount of MWs exempted under both rules is based on the level of retirements. In order to ensure that the exemptions comply with FERC's directive that market price impact be taken into consideration, the NYISO must conduct the Part A exemption test *after* applying any renewables exemption in a given Class Year. Any other approach would violate FERC's directive in the February 20 Order that the NYISO must ensure the cap did not significantly impact market clearing prices, and therefore, would not be just and reasonable.

Given that the NYISO has not addressed – and will not be able to address before the filing must be made – a series of issues involving the multi-year impacts of applying these rules, the NYISO should limit the application of the Part A rule changes to Class Year 2019. Taking this approach will also allow the NYISO and its stakeholders to effectively consider other, potentially preferable concepts for accommodating the new entry of some State public policy resources as part of the Comprehensive Mitigation Review initiative.

Respectfully submitted,

/s/ Matthew Schwall

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