



INDEPENDENT POWER PRODUCERS OF NEW YORK, INC

Independent Power Producers of New York, Inc.

19 Dove Street, Suite 302, Albany, NY 12210

P: 518-436-3749 F:518-436-0369

www.ippny.org

Christopher@ippny.org

To: Randy Wyatt

From: Chris LaRoe

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Re: IPPNY Comments on NYISO Reliability Resource Compensation Proposal

As requested during the joint ESPWG, MIWG, and ICAPWG meeting held on April 16, 2012, IPPNY submits the following comments on the NYISO's latest "Reliability Resource Compensation" proposal. IPPNY would begin by referring the NYISO to the countless requests made by its members during meetings on this subject as well as IPPNY's past submissions, including e.g., the comments IPPNY provided on the previous NYISO proposal (submitted on 1/4). Throughout this process, IPPNY and its individual members repeatedly have raised concerns with the NYISO's numerous proposals failing to reflect a generator's right to file for, and receive, cost-of-service rates in proceedings before the Federal Energy Regulatory Commission (FERC). That same concern continues to apply to the NYISO's latest proposal. While the latest proposal provides for a reliability study prior to the potential submission of a retirement notice – an element of the proposal that IPPNY supports albeit a right that generators already have today – the proposal only references negotiation of a "compensation mechanism" with the Department of Public Service (DPS) and/or the relevant Transmission Owner (TO). It wholly fails to recognize that a generator needed for reliability retains its right under FPA Section 205 to seek cost-based rates at FERC.

While generators currently have this right, other market participants have indicated that they disagree and would oppose a generator that attempts to utilize this right. IPPNY made this point clear to the NYISO during stakeholder discussions and at the annual sector meetings. At those sector meetings, senior NYISO staff confirmed that it is the NYISO's opinion that generators do have such a right and that it would be reflected in future NYISO proposals. Notwithstanding that assurance, however, the NYISO's latest proposal still did not include this core principle. Unless and until that right is clearly reflected, IPPNY cannot and will not support this or any other NYISO proposal.

With the expectation that the NYISO will follow through on its commitment to reflect a generator's right to file FPA Section 205 cost of service rate filings in future proposals (which could be incorporated into Slide 6 of the latest proposal, e.g.), IPPNY offers the

following comments on other aspects of the current proposal in the interest of reaching a resolution on this issue within the stakeholder process.

- Slide 4:
 - DPS staff should only be involved in the study at the request of the generator. A transmission owner should only be involved in the study to the degree that a potential local reliability issue may be involved. In that event, the NYISO should confirm that the TO representatives that are involved do not have any market function.
 - The NYISO should define deadlines to complete these studies. The lack of a defined deadline is a shortcoming in the current process which should be rectified through this initiative.
 - At no point during the study process should a generator be compelled to provide cost information to either DPS staff or the TO. In the event that a generator submits a retirement notice and enters into negotiation with DPS staff for compensation, the generator may elect to provide cost information at that time.

- Slide 6:
 - IPPNY supports the commitment made at the April 16 meeting for NYISO and DPS staff to provide more information concerning the process that the PSC would follow to negotiate compensation with a generator that is determined is needed for reliability.
 - IPPNY supports the premise identified by the NYISO during the meeting that, at a minimum, no component of the NYISO's proposal modifies the Attachment H capacity market bidding requirements of either Pivotal Suppliers or new entrants -
 - i.e. the Pivotal Supplier would continue to be permitted to bid at the higher of the UCAP Offer Reference Level or its Going Forward Costs and the new entrant would continue to be required to bid at the Offer Floor unless exempt -- and requests that the NYISO clarify its proposal to that effect consistent with the NYISO's statements during the April 16th joint meeting. In addition, to ensure that any other otherwise uneconomic unit that is needed for reliability and is given a contract sends the correct market signal, the NYISO should specify that the capacity of such unit must be removed from the capacity market auctions to prevent the unit from artificially suppressing the market clearing prices.

- Slide 7:
 - Nothing within the NYISO's proposal (or IPPNY's proposal) would alter the PSC's ability to select either a gap solution or a reliability solution (either a regulated backstop solution or an alternative regulated solution) as defined in the NYISO's tariffs. However, IPPNY maintains its position that it is FERC that will define the appropriate rate for that solution if it a generation resource.
 - If a compensation arrangement is reached under this newly proposed process, IPPNY does not have an opinion on the cost allocation methodology that must be applied for the reliability services being provided by the generator.

- Again, during the period of negotiations and/or if an agreement is not reached, the generator has the right to file under FPA Section 205 to obtain cost-based rates from FERC.