Competitive
Power Ventures, Inc.

To: NYISO Staff

From: Competitive Power Ventures, Inc.

Date: September 1, 2016

Competitive Power Ventures (CPV) has reviewed NYISO Staff's Draft Report in the Demand Curve Reset and appreciates the opportunity to provide written comments. Throughout this lengthy process, the NYISO, Consultants and stakeholders have made great strides in working to develop the next set of demand curves that will help send the right market signals to investors and provide appropriate compensation to existing generators in order to maintain system reliability. Many positive changes have been adopted thus far, including the shift to a 4-year demand curve and the use of a historical Energy and Ancillary Services revenue offset for the Net CONE calculation. The Consultants' Final Report made a series a sound recommendations, including a state-wide dual fuel proxy unit with SCR. NYISO's Draft Report appropriately supported most of the Consultants recommendations. While CPV is also supportive of the vast majority of the recommendations, there is still room for improvement.

CPV continues to believe there are issues with the Net Energy and Ancillary Services Revenue Model that have yet to be resolved. As required by the Section 5.14.1.2 of the NYISO Services Tariff, the EAS Revenue Estimate used in the Net CONE calculation should reflect "the likely projected annual Energy and Ancillary Services revenue of the peaking plant over the period covered by the adjusted ICAP Demand Curves." However, as noted in comments on the Consultants' Draft Report, the optimal dispatch logic used by the model will necessarily overstate the revenues that the proxy unit is likely to earn. In order to achieve optimal dispatch, perfect foresight is required[1]. That is, the model used to generate EAS uses actual published power and gas prices and effectively assumes that generators know

[1] *Proposed NYISO Installed Capacity Demand Curves For Capability Year 2017/2018 and Annual Update Methodology and Inputs For Capability Years 2018/2019, 2019/2020, and 2020/2021* – Page 25

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these clearing prices even before they put in their daily bids to NYISO. Because the timing of gas and energy pricing and dispatch volumes are hours apart and unknowable, it is impossible to dispatch a plant to capture all positive margin days (or conversely to avoid dispatch on negative margin days) and thus to achieve 100% dispatch optimization as the Analysis Group dispatch model and Net Energy and Ancillary Service (EAS) calculation implies. Volatility and illiquidity lead to under-dispatch by generators in real-life situations, while the resulting published clearing prices create the appearance of high margin levels for the full output of a plant that are unattainable by incremental units – especially in the winter. Clearing additional generation would entail lower energy prices and higher gas prices and lower margins and lower EAS revenues.

CPV has managed plants in eastern NY for more than 10 years and has routinely experienced annual margins below perfect hindsight backcast dispatch using published prices. While the sub-optimal margin % varies greatly from year to year, mainly driven by the severity of the winter volatility, CPV feels that adjusting EAS to recognize the losses in revenues due to lack of perfect knowledge in real world operations is not only warranted, but required by the tariff in order to produce an estimate of the likely projected revenues of the proxy unit. It cannot be reasonably argued that the unit will achieve 100% dispatch optimization and earn the "maximum possible revenues"[2] contemplated by the current model.

In addition to the issues with the EAS revenue estimate, CPV is also concerned with the NYISO's disagreement with the Consultants in regards to a dual fuel recommendation for the NYCA proxy unit. The increasing reliance on natural gas in New York State is well known and does not appear to have any resolution in sight. The fourth largest gas consumer in the nation[3], New York continues to add additional natural gas customers across all sectors without equivalent introduction of new supply. Developers must take a long-term view of their investments and it is highly unlikely that a gas-only unit would be the logical choice when siting a new unit in New York regardless of geographic location. CPV urges the NYISO to re-evaluate its position and adopt the Consultant's recommendation for a state-wide dual fuel unit with SCR.

[2] *Study to Establish New York Electricity Market ICAP Demand Curve Parameters* – Page 68
[3] U.S. Energy Information Administration – Natural Gas FAQS https://www.eia.gov/tools/faqs/faq.cfm?id=46&t=8

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