

Mr. Michael Bemis
Chairman of the Board
c/o Mr. Bradley Jones
President and CEO
New York Independent System Operator, Inc.
10 Krey Boulevard
Rensselaer, NY 12144

Dear Chairman Bemis:

Please see NRG's Motion in Opposition to the TOs and IPPNY on Motion #2 approved at the October 26, 2016 MC Meeting. NRG is filing its response in this manner, and is not filing a Motion to Appeal, in order not to disrupt the procedural schedule that was agreed to by other parties. A copy of this appeal has been e-mailed to Leigh Bullock today for circulation to all Management Committee members via e-mail.

NRG respectfully requests the opportunity to participate in any oral argument.

Sincerely,

Kelli Joseph
Director, Market and Regulatory Affairs, NY

NRG opposes the MC approval of the amended motion to the NYISO Locality Export proposal.

The NYISO developed a methodology that would allow capacity from a unit selling into another Control Area to be reflected in the NYISO capacity market. NYISO believes that continued operation of this unit in the NYISO markets is something altogether separate from traditional resource adequacy determinations, and ought to be recognized in its capacity market.

The NYISO's proposed methodology would reflect a portion of exported capacity that must be replaced within the Locality and a portion that can be replaced outside of the Locality. NYISO's analysis determines that 47.8% can be replaced by capacity outside of the Locality (i.e. from ROS). This is what NYISO refers to as the "Locality Exchange Factor" (LE Factor). The remaining 52.2% must be replaced within the Locality. NYISO conducted a power flow analysis to determine the ratio of the shift factor on the SENY interface for capacity exported from G-I to ISO-NE to the shift factor on the SENY interface for capacity transferred from ROS into G-I.

The amended proposal that received 63.62% of the vote at the MC conducts no such analysis, and should be dismissed out of hand.

However, NRG has serious concerns with the NYISO proposal. The NYISO BOD should not permit NYISO Staff to submit a FERC filing, since the proposal raises significant concerns about what constitutes capacity and how the capacity market is designed.

Essentially, NYISO is claiming that an after-the-fact energy market impact ought to be addressed in NYISO's capacity market design, without an adequate explanation as to why it is appropriate to address energy market impacts in the capacity market. Because of counterflow benefits that will be present when a unit providing capacity is on in the energy market, NYISO believes that a Locational Capacity Requirement (LCR) – set through a rigorous analysis when determining both the IRM and the LCRs *before* the capacity market is actually run – ought to be

“redetermined” after-the-fact to include an energy market outcome. This is a fundamental change to the assumptions that underlie the capacity market design.

Capacity markets provide for the physical resource adequacy of the markets they serve.¹ The idea that the same unit can serve both NYISO and ISO-NE resource adequacy needs raises serious questions. A capacity unit needs to serve one market or the other. Indeed, NYISO and ISO-NE have previously agreed (together with PJM) that capacity imports must demonstrate that they are “not committed to or sold to more than one Operating Jurisdiction.”² So there should not be a going-in assumption that there can be some overlapping or shared resource adequacy benefit from a single unit to two markets.

In the NYISO, the capacity market IRM and LCR setting process relies on probabilistic MARS analysis to determine the appropriate reserve margin and locational capacity requirements to ensure resource adequacy in the NYCA. The IRM and LCRs do not change as the result of market impacts. Under NYISO’s proposal, market impacts determine the appropriate amount of resource adequacy defined by the reserve margin and the locational capacity requirements. This is a fundamental departure from the way the IRM and LCR are set.

Rather than continue to apply what appear to be “band-aid” fixes, but are really efforts to introduce assumptions that depart from the fundamental design of the capacity market itself, NYISO ought to address these concerns within the modeling assumptions used in the IRM/LCR setting process. In particular, if a Locality Exchange factor exists, then all possible LE Factors should be modeled in MARS. This would ensure that the probabilistic analysis used to set the IRM captures any potential resource adequacy benefits. More importantly, the LCRs would be set with these LE Factors already in place. Including all potential LE Factor within the MARS

¹ See, e.g., *ISO New England Inc.*, 130 FERC ¶ 61,089 at P 29 (2010) (characterizing ISO-NE’s Forward Capacity Market as “a physical rather than financial market.”).

² This was established in the “General ICAP Principles” provisions of the Northeast Memorandum of Understanding between PJM, New York and New England, found in the ISO New England Manual for the Forward Capacity Market, Manual M-20, at Attachment I (noting that “[t]hese general principles establish a common understanding for ICAP products transacted (purchase/sale) across Control Area boundaries for the ICAP markets established by the ISO, NYISO, and PJM.”).

model, would ensure that resource adequacy is met, and would do away with the after-the-fact change to the LCR that NYISO is proposing.

In fact, the New York State Reliability Council (NYSRC) is conducting an analysis of the possible export of capacity from a Locality. Currently, the NYSRC is considering the same LE Factor that NYISO has proposed. Until that analysis is completed, and until there is a full discussion of how to model the exports within the MARS model, NYISO should not make any after-the-fact changes to the capacity market design.

The NYISO BOD should direct NYISO Staff to continue its discussions in the stakeholder process, and with the NYSRC, to determine whether – or how – to address the significant changes NYISO is proposing to how resource adequacy is met through the NYISO capacity market design.