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VIA E-MAIL

March 21, 2018

Mr. Michael Bemis
Chairman, NYISO Board of Directors
c/o Mr. Bradley Jones
President and Chief Executive Officer
c/o Ms. Diane Egan
Corporate Secretary
New York Independent System Operator, Inc.
10 Krey Boulevard
Rensselaer, New York 12144

Re: Central Hudson Gas & Electric Corporation and New York Power Authority Appeal of Management Committee Decision To Reject the Zone Proposal – Motion in Opposition of Castleton Commodities Merchant Trading, L.P.

Dear Mr. Bemis:

In accordance with Article 5 of the ISO Agreement, Sections 1.03 and 4.01 of the NYISO's Procedural Rules for Appeals to the ISO Board and the NYISO's March 14, 2018 notice, enclosed is the Motion of Castleton Commodities Merchant Trading L.P. and Roseton Generating LLC In Opposition To Appeal addressing the appeal filed by Central Hudson Electric & Gas Corporation and New York Power Authority which challenged the Management Committee decision to reject Motion No. 5 (NYISO Zone Proposal).

Respectfully submitted,

Duane K. Duclaux
Deputy General Counsel
Castleton Commodities International LLC

Counsel for
Castleton Commodities Merchant Trading L.P.
and
Roseton Generating LLC

(incl. attachment)

MOTION OF
CASTLETON COMMODITIES MERCHANT TRADING L.P.
AND ROSETON GENERATING LLC
IN OPPOSITION TO APPEAL (MOTION NO. 5)

Castleton Commodities Merchant Trading, L.P. ("CCMT") actively participates in the NYISO markets and the NYISO stakeholder process as a voting member in the Other Supplier sector. Roseton Generating LLC ("Roseton") owns and operates the Roseton generating facility located in NYISO Zone G.[1] Roseton has closely tracked the NYISO's efforts in developing its proposal to establish new rules for eliminating an existing capacity zone and to revise the existing rules for creating a new capacity zone (hereinafter, "Zone Proposal"). In accordance with Article 5 of the ISO Agreement and Sections 1.03 and 4.01 of the NYISO's Procedural Rules for Appeals to the ISO Board, Roseton hereby submits this motion opposing the appeal filed by Central Hudson Gas & Electric Corporation and the New York Power Authority (hereinafter "Appellants") which challenged the Management Committee's decision rejecting the NYISO's Zone Proposal.[2]

Roseton has reviewed the Motion in Opposition of the Independent Power Producers of New York, Inc. ("IPPNY Motion")[3] and fully supports the bases for the NYISO Board to reject the Appeal set forth by IPPNY therein as well as its conclusion that the NYISO Board should neither file the Zone Proposal with FERC under Federal

[1] CCMT and Roseton are affiliated entities for purposes of the NYISO. For purposes of this pleading, Roseton is acting through CCMT in its capacity as a voting member of the Other Supplier sector.

[2] The NYISO presented its Zone Proposal under Agenda Item #5 at the February 28, 2018 Management Committee meeting, entitled "On Ramps and Off Ramps: Complete Market Design." The Zone Proposal was brought to a vote as Motion #5 and failed to garner the required 58% vote. The same result occurred two weeks earlier when the Business Issues Committee also rejected the same Zone Proposal.

[3] Roseton is a member of the Independent Power Producers of New York, Inc.

Power Act Section 206 nor direct its Staff to return the Zone Proposal back to the stakeholder process. In the name of administrative efficiency, Roseton will not repeat IPPNY's points herein but would like to provide the NYISO Board with an understanding of how parties with major investments in New York State view the flaws in the Zone Proposal and the harm that it potentially could cause were it ever to be allowed to go forward.

It has long been documented by the NYISO and its external Market Monitoring Unit, Potomac Economics, that the capacity market is required to provide suppliers needed for reliability with the "missing money" not earned in the energy and ancillary service markets. If the capacity market is not structured properly, it will fail to achieve this end and system reliability will be put at a higher risk as the experience in New York has revealed.

When FERC approved the formation of the LHV Zone, FERC established capacity zones must reflect the costs of new entry in the area affected and pointed to the extensive evidence that the failure "to send efficient price signals to influence capacity investment decisions" had resulted in premature retirements in the Lower Hudson Valley thereby further demonstrating "the need for a new capacity zone in the Lower Hudson Valley ha[d] only become more pronounced."[4] As reflected by the NYISO's most recently submitted Demand Curve Reset Process filing, approved by FERC, the net cost

[4] *See New York Independent System Operator, Inc.*, 144 FERC ¶ 61,126 (2013) at P 31; *see also id*. at P 26 (finding, "In order to encourage new resources to be built in the new capacity zone when they are needed, capacity prices on average over time must approximate the net cost of new entry in the new capacity zone. …Because the net cost of new entry is higher than in the Rest-of-State, the new capacity zone needs its own ICAP Demand Curve, reflecting its higher net cost of new entry, in order to send the necessary price signals over the long run and provide the higher capacity revenue over the long run needed to encourage new investment.").

of new entry for the proxy unit in the Lower Hudson Valley continues to significantly exceed that of the proxy unit in the Rest of State region.[5]

In the Zone Proposal, the NYISO defined the market design guiding principles to be addressed by its initiative in two broad categories: (i) efficient market signals; and (ii) transparency and robustness.[6] The NYISO further clarified that, to be transparent and robust, the methodology must produce results that are stable and predictable and, specifically, it must prevent toggling between creating and eliminating a capacity zone in an area.[7] To effectuate that result, the NYISO established that it had structured the zone elimination test to require a "sufficiently larger" amount of headroom than the zone creation test "to establish an anti-toggling threshold for market stability."[8]

Once the data used by the NYISO to develop its methodology became available to Market Participants in the late fall, Mr. Younger made a presentation to the ICAP Working Group demonstrating that the NYISO's failure to account for forced outage levels in its methodology meant that the NYISO's proposed methodology would significantly understate the resource adequacy-based reliability need in different regions, a differential so wide that it would consume most of the headroom proposed by the NYISO for the zone creation test and correspondingly a very substantial amount of the

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[5] *See New York Independent System Operator, Inc.*, 158 FERC ¶ 61,028 (2017) at P2. After the final compliance filing was made and approved to account for a change in the cost of the ROS proxy unit as directed by FERC, the FERC-approved Net CONE for Capability Year 2017-2018 for the LHV Zone was set at $14.84/kW-month while the Net CONE for Capability Year 2017-2018 for the NYCA Curve (reflecting the proxy unit costs for the ROS unit) was set at $9.08/kW-month.

[6] *See* New York Independent System Operator, Inc., "On Ramps and Off Ramps: Complete Market Design" (dated February 14, 2018 and presented to February 28, 2018 Management Committee meeting) at 6.

[7] *Id*.

[8] *Id*. at 11.

headroom proposed by the NYISO for the zone elimination test.[9] Inexplicably, however, the NYISO returned to the ICAP Working Group following this presentation with the position that it did not need to either restructure its methodology to account for forced outage levels or modify the headroom levels in the zone creation and zone elimination tests to adequately prevent toggling.

As an asset owner with substantial investments in New York State, Roseton must decide on the timing, content and extent of further capital investments in its facilities. In markets that have already faced and are projected to continue to face historically low energy prices due to a confluence of factors, the capacity market "bridge" has only become more critical. As the NYISO's most recent Demand Curve Reset Process submission clearly demonstrates, there continues to be a wide divide between the costs to own and operate generating assets in the Lower Hudson Valley and Zones A-E. Today, continuing to accurately price the value of capacity in the LHV Zone is critical as Roseton contemplates future capital investment decisions for the facility. In the face of a "bearish" energy market for the foreseeable future and the continuing price differential for capacity between the LHV Zone and the ROS market, certainty and transparency are also critical.

The Zone Proposal must be considered in this context. While IPPNY has correctly established there is no need for zone elimination rules, such rules must produce just and reasonable results if they do go forward. Because the Zone Proposal has the real potential to eliminate capacity zones far too quickly by failing to take into account the forced outage factor, it is significantly flawed, it will undercut the certainty needed in

[9] Hudson Energy Economics, LLC, "NYISO Proposed On/Off Ramp Methodology" (presented to January 10, 2018 ICAP Working Group meeting) at 11-14.

these markets and it should not be permitted to go forward. Thus, for the reasons established in the IPPNY Motion and set forth herein, CCMT voted against the Zone Proposal motion at the Business Issues Committee and Management Committee meetings and respectfully urges the NYISO Board to reject the relief sought in the Appeal in its entirety.

Dated: March 21, 2018

Respectfully submitted,

Duane K. Duclaux
Deputy General Counsel
Castleton Commodities International LLC

Counsel for
Castleton Commodities Merchant Trading L.P.
and
Roseton Generating LLC