



Innovation and Investment in Energy

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

March 14, 2018

Re: Appeal of Management Committee's February 28, 2018 Approval of
Motion #1 on Alternative Methods for Determining LCRs

Dear Chairman Bemis:

Pursuant to the *Procedural Rules for Appeals to the ISO Board*, please find enclosed three originals of Helix Ravenswood, LLC's (Ravenswood's) appeal of the Management Committee's February 28, 2018 approval of Motion #1. A copy of the enclosed Notice of Appeal has been e-mailed to Leigh Bullock today for circulation to all Management Committee members via e-mail.

If other market participants request oral argument with respect to this matter, Ravenswood respectfully requests the opportunity to participate in any oral argument.

Very truly yours,

/s/

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NOTICE OF APPEAL

Helix Ravenswood, LLC (Ravenswood), makes this appeal to the New York Independent System Operator (NYISO) Board of Directors (Board) of the Management Committee's (MC) approval of the Alternative LCR Methodology pursuant to Motion #1 at the February 28, 2018 MC meeting. Leading up to the MC meeting, the NYISO staff developed the Alternative LCR Methodology and tariff revisions to purportedly make capacity markets more predictable/intuitive, less volatile, and less costly to consumers while maintaining reliability. Specifically, during the stakeholder process, the NYISO staff, with the assistance of General Electric (GE) and Navigant Consulting (Navigant), performed analyses and developed a methodology that it claims will optimize the LCRs in a least cost manner while limiting volatility and maintaining reliability.

EXECUTIVE SUMMARY

Despite the NYISO staff's and consultant's analyses, as well as their statements supporting the Alternative LCR Methodology, i) there are still critical modeling issues that have not been addressed (e.g., those raised by the Long Island Power Authority (LIPA) representatives at working group meetings, the Business Issues Committee Meeting and MC Meeting),¹ ii) it will not achieve long term cost savings, and iii) it will result in immediate volatility with respect to price and resource requirements in a significant portion of the NYISO; i.e., Zones J and K.² These unanswered issues and immediate customer impacts are significant enough such that the Alternative LCR Methodology should not be moved forward by the NYISO Board at this time.

In the alternative, if the NYISO Board determines it should go forward with the Alternative LCR Methodology, it should instruct the NYISO staff to work with stakeholders to

¹ Ravenswood supports LIPA's appeal in this regard.

² Combined, Zones J and K represent approximately 50% of the NYISO capacity market.

mitigate the impacts by limiting the LCR quantity and price changes in Zones J and K with a transition mechanism. Changes to Zones J and K should be limited with a transition mechanism to prevent rate shock. Zone K resource requirement and cost increases should be limited by a reasonable percentage until it can be determined how this Alternative LCR Methodology will interact with all the other market and resource changes that are progressing in the NYISO markets and elsewhere. Likewise, Zone J resource requirement and cost reductions should be limited by a corresponding percentage.³

If implemented, the Alternative LCR Methodology will distort market signals, harm reliability and further constrain potential competitive investments. The NYISO's own studies indicate the long run cost savings are not significant such that the immediate volatility and uncertainty is not worth the risk of implementation. Investors are already dealing with numerous actual and potential changes in the wholesale markets in New York and adjacent markets. The added volatility caused by the implementation of the Alternative LCR Methodology presents yet another variable and potential obstacle to performing a reasoned economic investment analysis.

Thus, the Board should reject the implementation of the Alternative LCR Methodology until the outstanding issues are addressed and resolved such that the NYISO and market participants have a complete understanding of how the Alternative LCR Methodology will impact the competitive market. Ravenswood requests that the Board not file the Alternative LCR Methodology at the Federal Energy Regulatory Commission ("FERC") under Federal Power Act ("FPA") Section 205 and instead return it to the stakeholder process for further consideration and modification as part of the NYISO's integration of Public Policy. In the alternative, the Board should return it to the stakeholder process to develop a transition mechanism.

³ These percentages should be determined as part of the stakeholder process and negotiations.

APPEAL

The goal of the NYISO's Alternative LCR Methodology was to create a transparent, robust and repeatable process that would also lower overall New York Control Area (NYCA) capacity costs.⁴ GE was engaged to assist with the project and develop a revised mechanism for determining the LCRs. Navigant Consulting was also hired to take on some of the responsibility for the project and to coordinate with GE.

The current LCR methodology is based on finding the least amount of MW supply in a locality that will maintain the statewide Loss of Load Expectancy of 0.1 (1 day in 10 years). The current LCR methodology determines the LCRs for each locality individually. The proposed GE optimization tool seeks to find the least cost LCR levels that maintain the statewide Loss of Load Expectancy yet does this by determining the LCRs simultaneously. The GE optimizer also seeks to increase LCRs when capacity leaves a locality and decrease LCRs when capacity enters a locality.

According to Navigant, the GE optimizer is different from the current LCR methodology in several ways. The GE optimizer considers all three localities simultaneously in determining the LCRs rather than one at a time. The GE optimizer determines the LCRs based on the lowest overall cost of procuring statewide capacity in order to maintain the Loss of Load Expectancy rather than determining the least amount of MW required to do so. Accordingly, the required amount of MWs required in a locality could increase, thereby requiring the development and maintenance of more capacity than would otherwise be needed placing additional burdens on communities that host such facilities.

⁴ This project is intended to identify alternative methods for calculating the LCRs and would seek to develop automated tools that would determine the LCR combinations that minimize total NYCA capacity cost while maintaining minimum reliability criteria in NYCA and each of the Capacity Localities. This project would implement a robust methodology for assessing LCR requirements among all Localities when a new zone is created, and ensure that capacity costs are appropriately allocated across the benefitting LSEs.

It is important to note that no changes to the IRM methodology is being proposed as part of this Alternative LCR Methodology because the IRM is established by the NYS Reliability Council not the NYISO. It is also important to note that any significant changes in transmission capability will cause corresponding changes to the IRM and therefore LCRs. Such changes were not accounted for in the NYISO staff analysis; the IRM was held constant. Accordingly, we do not know how volatile LCRs will be under such conditions. Nevertheless, a fair amount of volatility is expected as noted in LIPA's appeal. In addition, the optimizer is sensitive to changes in Net CONE. The relative LCRs of Zones J and K are also sensitive to increases in the Dunwoodie South transmission limit. Although an increase in the Dunwoodie South limit lowers the optimal LCR for Zone J it increases the optimal LCR for Zone K. These as well as other issues raised by LIPA have not been adequately addressed and warrant further analysis in the stakeholder process prior to filing with FERC or implementation.

With respect to costs, NYISO and GE presented base case results comparing the 2017-2018 LCRs developed under the current process to 2017-2018 LCRs developed using the optimizer tool. The GE optimizer provides only ~1% in overall savings over the current process.

As such, there isn't a pressing need to revise the NYISO Capacity markets in this manner at this time. More pressing capacity market issues need to be addressed. For example, based on the NYISO's final Integrating Public Policy Capacity Market Study results associated with obtaining 50% of New York's energy from renewable resources, it was determined that from a directional perspective ICAP reference points on various Demand Curves will have to increase because it is expected that the proxy peaking unit will receive \$0/kW-year net Energy and

Ancillary Services revenues. As a result Demand Curves will get steeper. It is also expected that the capacity requirement for the NYCA will increase. This is how the Capacity Market is expected to react to a dramatic increase in renewables. The fact that the integration of various Public Policies into wholesale markets are forecasted to drastically change competitive markets and require new products and improved competitive forward market designs, would counsel towards applying resources to develop these forward markets and products as opposed to implementing a market design that will cause immediate volatility and limited long term cost savings without evaluating these and the remaining issues raised by LIPA in its appeal. The actual variables in the market (compared to the numerous assumptions made during the Alternative LCR Methodology analysis) are expected to change the LCRs in ways not yet completely understood and accordingly the Alternative LCR Methodology should undergo additional analysis and not be filed at FERC for approval.

As the Alternative LCR Methodology seeks to achieve the least cost reliable solution without any corresponding IRM changes, it is increasing the Zone K requirement and reducing the Zone J requirement. More insight and study is required to determine i) if this is a reasonable result, ii) if it will be transparent and predictable, or iii) if there are limits associated with the operating characteristics of the transmission system that also limit the magnitude of the changes that should be integrated into the Alternative LCR Methodology (e.g., if 12,000 MW of capacity was deemed required on LI to optimize costs, then the NYISO would not be able to operate the grid as that would represent too large a portion of the NYCA IRM in the transmission constrained locality).

CONCLUSION

In light of the foregoing, the Board should reject the Alternative LCR Methodology and not file it with FERC pursuant to FPA Section 205. The NYISO itself has recognized that the status quo remains an option and that it is just and reasonable. Real concerns related to shifting too much capacity into K or too much capacity out of J have not been adequately addressed. Instead NYISO staff should focus on evaluating the Alternative LCR Methodology as part of the ongoing forward looking market design changes required as part of its Public Policy implementation. In the alternative, a mitigation plan should be developed to transition the changes into the market to prevent rate shock to the very substantial and sensitive markets in Zones J and K.

Respectfully submitted,

/s/

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