



NRG Energy, Inc.
804 Carnegie Center
Princeton, NJ 08540

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:

Attached please find NRG's Motion to Appeal the Locational Capacity Requirement ("LCR") Alternative Methodology approved at the February 28, 2018 MC Meeting. 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 Alternative LCR Methodology proposal.

The goal of establishing an LCR is to establish “proper capacity requirements that maintain reliability while producing a lower cost solution.” While NRG supports these goals, the NYISO’s Alternative LCR proposal unnecessarily *increases* costs to ratepayers, while diminishing reliability and harming investor confidence in New York’s capacity market.

Specifically, NRG is concerned that the NYISO’s Alternative Methodology proposal does not adequately address the following issues:

- (1) The reliability and market impacts of significant new emissions laws and the public policy efforts being driven by New York State, which will be a major driver of both price and reliability over the next decade;
- (2) The NYISO only studied various aspects of its proposal in isolation and did not examine the cumulative impacts of multiple system condition changes, which is insufficient to assure the twin goals of reliability and low cost; and
- (3) The NYISO proposal gives no explanation as to why *both* the Installed Reserve Margin (“IRM”) and the LCRs are not allowed to vary under the new methodology, and does not explain whether the adoption of a Transmission Security Limit (TSL) offers the same level of reliability.

NRG recommends that the proposal be sent back to the Working Groups to perform additional analysis and assess the short-term and long-term impact to the market should the proposed changes to the LCR methodology calculation be adopted.

Significant public policy efforts in New York State will impact NYC Reliability:

The State of New York is engaged in a major effort to reshape the distribution marketplace, the wholesale marketplace and its environmental emissions regime. However, the NYISO’s Alternative Methodology inexplicably ignores the reliability and financial consequences of these market-shaping initiatives, rendering its outcomes unsupportable. Specifically:

1. *New Emissions Restrictions could Drive Retirements in New York City:*

- The New York Department of Environmental Control (“NY DEC”) is developing Peaker Turbine Air Quality rules, which will likely include new restrictions on the emission of NO_x and the requirement that existing peaker resources install Reasonably Achievable Control Technologies (“RACT”) to limit nitrous oxide emissions. *See* 6 NYCRR Part 227-2, “Reasonably Available Control Technology for Major Facilities of Oxides of Nitrogen”).
- Existing peaking units in NYC will need to repower, or be shut down, in order to comply with these rules.
- Despite the major impacts associated with this new proposed rule, the NYISO Alternative Methodology does not meaningfully grapple with the implications.

2. The State’s Goal of Achieving 50% Renewables by 2030 & Reforming the Energy Vision Program will Fundamentally Affect Markets:

- The REV program will likely inject significant new amounts of generation into the distribution grid, which will impact the economics of existing and new conventional generation units.
- The NY Clean Energy Standard is expected to be a significant driver of new generation to enter the market, irrespective of capacity market price signals. This price-insensitive new entry will have a significant depressive impact on wholesale capacity (and energy) prices.
- New York State has also recently announced an ambitious offshore wind program, which will bring several gigawatts of new, price-insensitive, generation into the market.
- While the NYISO is working on various energy market design initiatives to ensure a price signal still works to incent the development of new and existing resources, given these significant market changes, most of the market design changes the NYISO is considering are at least three to four years away. Indeed, many of the needed energy market design rules cannot be implemented sooner, due to the NYISO’s EMS/BMS software upgrade.
- The capacity market should provide the necessary incentives for peaking units to invest in needed upgrades, to meet emissions limitations, and to provide fast-start, quick ramping, flexible units that will be needed to integrate renewables.

- However, the NYISO's proposed LCR methodology does not consider these major changes in the New York market. Without taking these factors into account, the NYISO cannot assure that its proposed market structure will ensure reliability at the least cost price.

NYISO Analysis on the Alternative Methodology is Deficient:

- The NYISO conducted significant analysis related to the new LCR methodology to understand how various scenarios might impact the LCR calculation. The point of the various scenarios was to ensure that the LCR calculation did not vary significantly as various system changes were introduced.
- The NYISO assessed the addition/subtraction of generation units, the addition of new transmission lines, changes in the load forecast, and changes in the net CONE. None of these individual scenarios introduced significant variation in the LCRs, as compared to the existing methodology.
- However, despite numerous requests from NRG, the NYISO never analyzed a scenario combining any or all of these scenarios. That is, we still do not know what might happen to the LCRs, using the new methodology, if we see a new transmission line, a different load forecast, a different net CONE, and a change in the amount of generation on the system.
- This is a serious flaw in the NYISO analysis. The NYISO should perform this analysis before adopting the alternative LCR methodology.

Initial Discussion Allowed BOTH the IRM and the LCRs to Vary:

- The LCRs are derived after the IRM is set, and the NYISO's Alternative Methodology would maintain this sequence.
- However, initial discussions and the initial Market Monitor ("MMU") design proposed allowing BOTH the IRM and the LCRs to vary in order to reach the optimal (least cost) solution needed to meet reliability.
- Under this original design, the IRM was set much lower and the LCRs were set much higher.
- The NYISO gave no explanation for why this initial design was not an appropriate solution.

- The NYISO proposes a Transmission Security Limit (“TSL”) to ensure that the LCR in Southeast NY does not go below the level needed to ensure these TSLs are met.
- The NYISO did not explain whether these TSLs offer the same level of reliability as the initial methodology (i.e. the one allowing both the IRM and the LCRs to vary), as the one ultimately adopted (i.e. the one taking the IRM as a given and allowing only the LCRs to vary).
- Again, this is a flaw in the NYISO analysis. The NYISO should explain why it accepted this proposal over the initial proposal.

Conclusion

The NYISO has neither analyzed nor considered the multiple changes to the NYS power system in developing its Alternative LCR methodology. Given the significant public policy and environmental changes in the short-term and the changing system needs in the long-term, it is too risky to make these methodology changes to the calculation of the LCRs without ensuring that price signal sent by the LCRs is sufficient to ensure reliability.

NRG requests that this discussion be sent back to the Working Groups to discuss the above concerns and conduct more analysis.