

## Response to Questions on LIPA's UDR Phase II Proposal

1. Awarding UDRs for free flowing AC expansions differs little in construct from TCC expansions. We all know how difficult the TCC expansion award process has been - the only thing saving us is that there aren't any free flowing AC expansions on the list (yet). It seems we still have the onion peel problem; free ridership and all the other issues. For a single or a couple of expansions that a widely separated likely the ISO could determine a fair UDR allocation. But faced with competing schemes, it is not clear how UDRs would be allocated any different than TCCs. .

Free flowing AC expansions, as well as new controllable lines, can offer increased reliability through increasing import capability into the NYCA or to a NYCA locality. It is unnecessarily discriminatory to not reward a free flowing AC expansion its reliability benefit. The NYISO currently studies the impact of both free flowing AC and controllable lines and these values are incorporated into the reliability studies of the NYSRC and the NYISO. A study process currently exists for the NYSRC and the NYISO to run scenario analysis of the reliability impact of a transmission facility by running MARS with and without that facility. A process as currently used by the NYSRC and NYISO will isolate the benefit of the new transmission facility and allow for the assignment of a MW value for a UCC or UDR to a new facility as appropriate.

PJM currently awards Incremental Deliverability Rights ("IDRs") to both controllable and free flowing AC expansions for the life of the facility.

2. As to UCCs, we currently have a system - except for the two localities that presumes internal deliverability. If we were to have AC built across upstate, I don't believe the IRM would change any; but we should put that question to staff involved in the MARS runs. It is not clear if the same applies if a line were built entirely within either Zones J or K (question for staff?). If AC is built into the city or onto the Island (ignoring the UDR allocation issue for the moment), we would expect the locality requirement to drop or go away as the new facility(ies) would make captive supply less necessary.

Yes, this is consistent with LIPA's proposal. With a presumption of internal deliverability, transmission expansions that do not create additional import capability on one of the current constrained interfaces (into the NYCA or into a NYCA locality) would not result in the award of UCCs given the process described previously.

3. LIPA proposes that an LSE could directly use the UCCs as going to meet their UCAP requirement. However, lines themselves - while changing the location of where supply may be required - do NOT change the need for supply to be present and available. Maybe I'm missing something here but this sounds like "free" UCAP as one then doesn't have to actually hook up with a supplier and instead leans on the system. Perhaps what is missing in LIPA's proposal is that the ISO sets the Locality Requirement by moving supply out of the the locality until the statewide reliability criteria is not met, i.e. becomes more than 1 day in 10 years) and at that point sets the Locality Requirement. Nowhere is the amount of supply required lessened in aggregate.

MARS analysis is currently the tool used to develop the statewide installed reserve requirement. The NYSRC and the NYISO have historically used MARS to do scenario analysis to determine the impact of specific transmission facilities on the statewide installed reserve requirement. Historic studies have shown that the presence of transmission expansions across constrained interfaces would result in a quantifiable reduction to the statewide installed reserve requirement as compared to the system without the expansion. LIPA does propose that this quantifiable benefit be awarded in the form of an Unforced Capacity Credit ("UCC") to the transmission expander as is consistent with the principles underlying the NYISO market design.

Historically, NEPool has awarded the firm rights holders of the HQ Phase II tie with a similar capacity credit (HQICCs). ISO-NE attempted to end this practice and FERC has consistently supported the firm rights holders and ordered ISO-NE to provide the firm rights' holders the reliability benefit of the tie in the form of a capacity credit.

4. If the NYSRC studies were to show a drop in the IRM due solely to the addition of transmission within NY AND assuming the NYSRC votes to actually lower the IRM, we could consider a credit to the developer. First, I would suggest ISO staff alter the model to see if such a change would occur or not. Then we would need to convince the NYSRC to in fact lower the IRM by an amount suggested by the line addition(s). This is not entirely within the purview of NYISO and its committees to effectuate.

Yes and past scenario analysis by the NYSRC has already shown that the addition of transmission facilities can result in a reduction in the statewide installed reserve requirement while maintaining the minimum reliability criteria. Since the NYSRC and the NYISO currently have an analytic method to determine the reliability benefit of transmission expansions, what LIPA is proposing is that the ICAP Working Group develop the rules for allocating this quantifiable benefit to the transmission expander rather than have it be socialized to market participants that do not pay for this expansion.

5. Would a transmission facility with a UCC award be included in the final statewide IRM study or not?

The actual process for conducting the MARS analysis is determined by the NYSRC and NYISO for the statewide and locational studies respectively. Clearly the outcome must be that when UCC awards for a transmission expansion are utilized by LSEs to meet their individual requirements that in total there be sufficient UCAP (in the form of generation resources and SCRs) to allow the NYISO with the UCC affiliated facilities in place to meet the minimum reliability criteria.

Past practice with the Cross Sound Cable was to conduct the locational requirements study with the transmission facility accounted for but modeled in such a way as to not have it contribute to a reduction in the minimum requirement. This was achieved by fully loading up the cable with firm capacity so that no benefit of emergency assistance was included in the analysis.