Appendix B

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NYISO Note to Accompany Excel Workbook Enhancements on NYISO Study on ROS BSM and Uneconomic Retention/Repowering

July 15, 2015

Introduction

After discussions both internally and with the Market Monitoring Unit, the NYISO has made corrections and enhancements to the "Net Present Value" ("NPV") workbook sent to stakeholders on June 18, 2015 (the "June Workbook").

Description of Changes

Changes include the correction of errors, the use of alternative data sources, the use of the most recent data, and the enhancement of assumptions.

Using the same straightforward Peak/Off-Peak Model ("P/OP Model"), the NYISO re-calculated estimated net Energy and Ancillary Services revenues ("Net E&AS") using updated gas futures and power futures prices ("Updated Values"). The values used in the June Workbook were current as of 5/21/2015. The Updated Values were current as of 7/9/2015. The monthly average natural gas futures dropped on average by $0.26/mmbtu across both Load Zones and peak/off-peak. The monthly average forward power index dropped on average by approximately 6.90$/MWh across both Load Zones and peak/off-peak. On average across both Load Zones and all the generator types, the use of Updated Values resulted in a 38% reduction in Net E&AS revenue from the estimates shown in the June Workbook. With the exception of the frame gas turbine without an SCR in Load Zone F, the use of Updated Values decreased the Net E&AS revenue estimate produced using the P/OP model for every generator type in both Load Zones. Reductions in predicted Net E&AS revenue ultimately drove reductions in NPV. The use of Updated Values drove significant movement in estimated revenues in a relatively short time period. Therefore, the NYISO is providing this Excel workbook to illustrate its use of escalated Net E&AS revenues calculated in the 2014/17 Demand Curve Reset where available. Net E&AS revenues were available only for the combined cycle and frame gas turbine without an SCR in both zones C and F.

For the July 13 Workbook, the NYISO decreased the projected UCAP revenue by 0.25% per year in order to account for technological progress and other factors. The result of this change is a decrease in technology costs. The use of this factor was validated during the 2013 ICAP Demand Curve Reset. Its inclusion ultimately reduced the amount of estimated ICAP revenue each of the plants received, thereby reducing each unit's respective NPV.

The interest and return on equity ("ROE") rates used for the June Workbook calculation of annual payments to equity holders and on debt, respectively, were both switched from real to nominal rates. The use of real rates was inappropriate as inflation is accounted for elsewhere through the use of an escalation factor. This change resulted in increased annual debt service and cash flow to equity payments, which ultimately reduced each unit's NPV.

Opportunity cost in the form of Target Cash Flow to Equity ("Target CFTE") had been in the June Workbook was removed for the July 13 workbook. Based on further discussions with the MMU, the NYISO has determined that the inclusion of opportunity cost was inappropriate if the equity cost was included in the NPV calculation. The opportunity cost included in the June Workbook represented the revenue that a Load Serving Entity ("LSE") could be expected to earn with an alternate investment with the same capital cost and time period. The revenue of the alternative investment is defined by the LSE's nominal ROE, effectively the guaranteed rate of return to the LSE. Comparing the two IRRs of these projects is, in effect, performing an NPV on the Rest of State ("ROS") unit using the nominal ROE to discount future cash flows. As such, opportunity costs were removed from revenue streams in both the base case and the LSE cost savings case. In both cases, future revenue was discounted using the nominal ROE instead of the pre-tax WACC used in the June Workbook. The removal of the opportunity cost significantly increased each unit's NPV while the use of nominal ROE to discount future cash flows significantly decreased each unit's NPV.

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Posted: July 15, 2015