

Stephen G. Whitley
President & CEO

April 23, 2014

Cheryl A. LaFleur
Acting Chair
Federal Energy Regulatory Commission
800 First Street, NE
Washington, DC 20426

Re: *New York Independent System Operator, Inc.*, Docket No. ER13-1380-000
New York Independent System Operator, Inc. Docket No. ER14-500-000

Dear Acting Chair LaFleur:

I am writing to request that the Commission rule on two related petitions pending before the Commission that are of significant importance to the New York Independent System Operator, Inc.'s ("NYISO's") capacity markets. The first petition is the NYISO's *Request for Partial Reconsideration*¹ of the Commission's Order² rejecting a proposed phase-in of the price impacts for the new G-J Locality.³ The second is the NYISO's *Request for Limited Rehearing*⁴ of the Commission's Order⁵ rejecting the NYISO's proposed phase-in of the price impacts of the ICAP Demand Curve for the G-J Locality.

A prompt Commission ruling on the phase-in requests is important to provide the NYISO and its stakeholders' confidence that New York's ICAP markets will function equitably and free from uncertainty over the next three years to ensure that adequate resources are available to protect reliability.

While the NYISO continues to believe that implementing the G-J Locality will send efficient price signals, enhance reliability, and serve the best interests of New Yorkers, we remain concerned about the short-term retail price impacts on consumers. A number of affected parties, notably the New York State Public Service Commission (PSC) and Central Hudson Gas & Electric Corp. ("Central Hudson"), have previously described and quantified their concerns

¹ *Request for Partial Reconsideration of the New York Independent System Operator, Inc.*, Docket No. ER13-1380-000 (filed October 28, 2013) ("Reconsideration Request").

² *New York Independent System Operator, Inc.*, 144 FERC ¶ 61,126 (2013) ("August 13 Order").

³ Capitalized terms that are not defined herein shall have the meaning set forth in the NYISO's Market Administration and Control Area Services Tariff.

⁴ *Request for Limited Rehearing of the New York Independent System Operator, Inc.*, Docket No. ER14-500-000 (filed February 27, 2014) ("Demand Curve Phase-In Rehearing Request").

⁵ *New York Independent System Operator, Inc.*, 146 FERC ¶ 61,043 (2014).

about the retail rate impacts of implementing the G-J Locality.⁶ Both the PSC and Central Hudson have cautioned against causing “rate shock” for retail customers who will ultimately bear the cost of capacity price increases. Numerous public officials have also registered their concerns that the price impacts of implementing New York’s new capacity zone will adversely affect retail customers over the short term.

As recently as April 21st, Central Hudson, which serves a majority of the retail customers in New York’s Lower Hudson Valley, estimated that residential retail bills would increase by about 6 percent this summer as a result of the immediate implementation of the new G-J Locality. For industrial customers, Central Hudson estimates the increase would be about 10 percent.⁷ These increases come on the heels of unusually high energy prices caused this past winter due to extreme weather and natural gas shortages in the northeast United States, which the Commission is actively investigating. While the NYISO is committed to administering efficient wholesale electricity markets, it cannot simply ignore retail rate impacts that flow from the wholesale markets.

As noted in prior pleadings, the NYISO believes that phasing in the G-J Locality price increases over three years can be accomplished in a balanced and equitable manner that will not interfere with long term price signals needed to attract new investment in capacity and retain existing resources required to maintain reliability. A properly structured phase-in would not discourage the investment in and entry of new resources, because, as the NYISO has previously explained, there is a relatively long lead time for construction of new generation.⁸ Notwithstanding a phase-in, the proper market signal would be in place when new units are expected to come on line.⁹ Moreover, the NYISO does not believe that the phase-in would prompt existing resources needed for reliability to exit the market.¹⁰ Even with a phase-in, generator capacity revenues would still increase beginning in the summer of 2014 and rise further in the summer of 2015.

The NYISO’s request for a phase-in is not novel -- the Commission accepted a similar phase-in of the original ICAP Demand Curves in 2003 to ameliorate ratepayer impacts.¹¹ Further, the Commission has traditionally accepted rate treatments designed to preserve rate stability and avoid abrupt rate increases.

⁶ *Request for Clarification and Rehearing of the New York Public Service Commission*, Docket No. ER13-1380-000 (filed September 12, 2013); *Request for Rehearing of Central Hudson Gas & Electric Corporation*, Docket No. ER13-1380-000 (filed September 12, 2013).

⁷ Craig Wolf, *Increased Electricity Prices Begin in 10 Days*, *POUGHKEEPSIE JOURNAL*, Apr. 20, 2014, available at <http://www.poughkeepsiejournal.com/story/money/2014/04/21/increased-electricity-prices-begin-in-10-days/7949307/>.

⁸ *Reconsideration Request* at 2, 11.

⁹ There are several projects in Lower Hudson Valley, noted in the NYISO’s Interconnection Queue (http://www.nyiso.com/public/markets_operations/services/planning/documents/index.jsp), that are expected to enter the market as early as 2017-18.

¹⁰ Public information indicates that at least two facilities in the Lower Hudson Valley, the Danskammer plant and Bowline, are planning to re-enter the market over the next several years.

¹¹ *New York Independent System Operator, Inc.*, 103 FERC ¶ 61,201 (2003) at P 6.

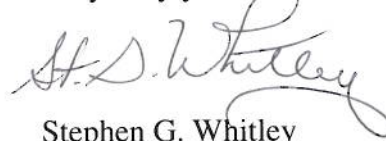
As the Commission recently acknowledged:

The Commission's statutory mandate under the FPA entails protecting consumer interests, which includes protecting consumers and the market from excessive capacity prices, sudden, significant capacity price increases, and the impacts of rate shock. Thus, the Commission must consider these somewhat competing principles in its approach here. Indeed, it has long been established that "the fixing of 'just and reasonable' rates, involves a balancing of the investor and consumer interests."¹²

It is difficult to reconcile the above principles with the Commission's previous rejection of NYISO's proposed phase-in to protect consumer interests. After the unprecedented energy prices New Yorkers experienced this winter, the need to ameliorate abrupt capacity rate increases seems even more imperative.

Finally, I note that the NYISO markets require regulatory certainty to function optimally. Market certainty cannot be achieved while the NYISO's pending requests for a phase-in remain unresolved. Therefore, I respectfully request that the Commission act promptly to achieve an equitable result for consumers and to resolve any uncertainty that may adversely affect reliability.

Very truly yours,



Stephen G. Whitley
President & CEO

cc: Commissioner Philip D. Moeller
Commissioner John R. Norris
Commissioner Tony Clark
Michael Bardee
Gregory Berson
Anna Cochrane
Jignasa Gadani
Morris Margolis
Michael McLaughlin
David Morenoff
Daniel Nowak

¹² *New England Power Generators Association, Inc. v. ISO-New England, Inc.*, 146 FERC ¶ 61,039 (2014) at P 52, quoting *FPC v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944).

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding in accordance with the requirements of Rule 2010 of the Rules of Practice and Procedure, 18 C.F.R. §385.2010.

Dated at Rensselaer, NY this 23rd day of April, 2014.

/s/ Joy A. Zimmerlin

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