

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

New York Independent System Operator, Inc.) Docket Nos. ER18-1743-001

**ANSWER OF THE
NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.**

In accordance with Rule 213 of the Commission’s Rules of Practice and Procedure,¹ the New York Independent System Operator, Inc. (“NYISO”) respectfully submits² this answer to the *Comments of the Long Island Power Authority and Power Supply Long Island in Protest of the NYISO Deficiency Response and Continued Inadequacies of the Alternative LCR Method* (“LIPA Comments”). The Long Island Power Authority and its wholly owned subsidiary, Power Supply Long Island (collectively, “LIPA”) claim that the NYISO’s August 9 Response³ (as well as its June 5 Filing⁴) failed to demonstrate that the NYISO’s proposed enhancements to its

¹ 18 C.F.R. § 385.213 (2018).

² Under Rule 213, the NYISO is permitted to answer a pleading styled as “comments,” such as the LIPA Comments, as a matter of right. If the Commission decides to treat the LIPA Comments as tantamount to a protest then it should exercise its discretion to allow this answer. The Commission has routinely accepted answers to protests when they help to clarify complex issues, provide additional information, or are otherwise helpful to its decision-making process. *See, e.g., Southwest Power Pool, Inc.*, 153 FERC ¶ 61,370 at P 14 (2015); *PJM Interconnection, L.L.C.*, 145 FERC ¶ 61,035, at P 32 (2013); *New York Independent System Operator, Inc.*, 140 FERC ¶ 61,160 at P 13 (2012); *New York Independent System Operator, Inc.*, 134 FERC ¶ 61,058 at P 24 (2011).

³ *Response to Deficiency Letter with Supporting Affidavits and Exhibits, Request for a Revised Effective Date and Resubmission of Proposed Tariff Amendments*, Docket No. ER18-1743-001 (August 9, 2018) (“August 9 Response”).

⁴ *New York Independent System Operator, Inc., Proposed Tariff Revisions to Determine Locational Minimum Installed Capacity Requirements*, Docket No. ER18-1743-000, filed June 5, 2018.

method for calculating Locational Minimum Installed Capacity Requirements⁵ (“LCRs”) (the proposed “Alternative LCR Methodology”) are just, reasonable, and not unduly discriminatory.

For the reasons set forth below, there is no merit to LIPA’s arguments. The Commission should accept the Alternative LCR Methodology, effective October 9, 2018 (as requested in the August 9 Response) without requiring any modifications or taking any of the further procedural steps suggested by LIPA. In the alternative, if the Commission decides that the adoption of the Alternative LCR Methodology requires the NYISO to address cost allocation it should instruct the NYISO to address cost allocation in a future filing.

This answer is focused on addressing LIPA’s most significant mischaracterizations and errors. The fact that the NYISO is not responding to other points made by LIPA, or other parties⁶ in this proceeding, should not be construed as agreement with them.

I. ANSWER

A. The NYISO Has Made a More than Sufficient Showing that the Alternative LCR Methodology Is Just, Reasonable, and Not Unduly Discriminatory

The LIPA Comments assert that the Alternative LCR Methodology should be rejected on various grounds.⁷ All of LIPA’s claims are misplaced and based on fundamental mischaracterizations of both applicable legal standards and the NYISO’s proposal. Section 205 of the Federal Power Act (“FPA”) requires that proposed tariff revisions be shown to be just, reasonable, and not unduly discriminatory. The NYISO has made a more than sufficient demonstration that its proposal meets the FPA’s standard. The June 5 Filing provided a level of

⁵ Capitalized terms not defined herein have the meaning set forth in June 5 Filing including the attachments thereto or the NYISO’s Market Administration and Control Area Services Tariff (“Services Tariff”).

⁶ This includes claims made in the August 30, 2018 *Protest of Helix Ravenswood, LLC* as well as earlier comments and protests in this proceeding.

⁷ See LIPA Comments at 2, 5, 12, 16, 18.

explanation and support comparable to what the Commission has routinely accepted for filings that enhance and clarify existing market rules. That showing was substantially reinforced by the extensive additional explanation and supporting materials provided by the August 9 Response.

LIPA inaccurately depicts the NYISO's proposal as a "radical re-orientation" of existing rules.⁸ In reality, the proposed Alternative LCR Methodology is a relatively modest change that builds upon the long-established Tan 45 methodology used to calculate LCRs. The proposal would simply establish that the NYISO would use economic optimization to seek to reduce total LCR costs while still meeting the applicable 0.1 days/year Loss of Load Expectation ("LOLE") reliability criterion. As described in the NYISO's June 5 Filing and August 9 Response, adding economic optimization represents a substantial improvement over the current Tan 45 methodology for calculating LCRs that should bring significant benefits.⁹ But including an economic optimization for the calculations of LCR is only a small change to the overall year long process conducted jointly by the NYISO and the New York State Reliability Council ("NYSRC") to develop the minimum installed capacity requirements for the upcoming Capability Year. In this twelve month process, which remains unchanged, the NYSRC establishes a GE MARS¹⁰ database used for its determination of the New York Control Area ("NYCA") Installed Reserve Margin ("IRM"), which is then used by the NYISO when calculating the LCRs. The NYISO's economic optimization proposal for the calculation of LCRs addresses certain issues and stakeholder concerns with the current LCR calculation method that became apparent with the creation of the G-J Locality and generation exit and entry changes. Thus, notwithstanding LIPA's exaggerated claims, the NYISO's proposal is likely to

⁸ LIPA Comments at 29.

⁹ See August 9 Response at 2, 23-24.

¹⁰ General Electric Multi-Area Reliability Simulation software.

have a substantially beneficial, not radically disruptive, impact. In particular, as discussed below in Section I.B, the Alternative LCR Methodology will not result in drastic shifts in LCRs or LCR cost responsibility.

Because it represents a substantial improvement over the status quo, the Alternative LCR Methodology was endorsed by the independent Market Monitoring Unit. As the *Motion to Intervene and Comments of the New York ISO's Market Monitoring Unit* ("MMU Comments") stated, the NYISO's proposal responds to the MMU's recommendation that the NYISO address inefficiencies under the existing Tan 45 LCR-setting process. The MMU had "identified areas with inefficiently high requirements and areas with inefficiently low requirements, and [it] recommended the NYISO implement a method based on minimizing capacity costs to meet the reliability criteria."¹¹ The MMU also confirms that it supports the June 5 Filing's proposal "as a significant improvement over the Tan 45 method, which does not consider cost-minimization as a criterion for the setting of LCRs"¹² and that the proposal "would provide better signals to investors because it would signal where capacity would provide the most reliability value for a given investment cost. By inducing more efficient investment, the proposed revisions would lead to lower costs to consumers."¹³ Finally, the Alternative LCR Methodology received broad stakeholder support. LIPA has acknowledged that the Commission traditionally shows deference to filings that have been developed through lengthy stakeholder processes and that have broad support.¹⁴

¹¹ MMU Comments at 3 (citing the 2013 State of the Market Report for the New York ISO Market, by David B. Patton, *et al.*, May 2014).

¹² *Id.*

¹³ *Id.*

¹⁴ See *Protest of the Long Island Power Authority and Power Supply Long Island*, Docket No. ER18-1743-000, filed June 26, 2018, at 9.

B. The Alternative LCR Methodology Would Not Create an Unjust or Unreasonable “Misalignment” Between Reliability Benefits and Costs and Any Cost Allocation Concerns Can Be Addressed in the Future

LIPA argues that the proposed Alternative LCR Methodology would result in a “significant and arbitrary shift of locational capacity obligations and resulting capacity procurement costs to Zone K (Long Island).....”¹⁵ It also claims that the NYISO “barely acknowledges” and “provides no meaningful justification” on this point.¹⁶ LIPA selects certain statements from the extensive stakeholder materials submitted with August 9 Response in an attempt to suggest that the NYISO has ignored cost allocation concerns that were raised in the past. LIPA also suggests that the Alternative LCR Methodology violates the “beneficiaries pay” principle.

There is no merit to any of these claims. As an initial matter, the NYISO has not proposed any change to its long-standing approach to allocating LCR costs under the Services Tariff. LIPA’s concerns over shifting requirements as a result of the Alternative LCR Methodology are misplaced. LCRs can change, and have changed, for many reasons. This was discussed in the August 9 Filing and is demonstrated in the studies and analyses conducted by the NYISO and GE Energy Consulting in the market design work. These changes have happened in the past without altering the manner in which capacity market costs are allocated. The Alternative LCR Method is merely an enhancement to the current process that will mitigate some of the observed variability due to generation changes while also minimizing the long run cost of procuring capacity. The Commission has never ruled, and there is no support in

¹⁵ LIPA Comments at 2.

¹⁶ *Id.*

Commission precedent for the notion, that Long Island's LCR costs are not subject to change in response to changing circumstances.

LIPA ignores the fact that the costs of satisfying LCRs have varied in the past and that they are not expected to vary to a greater extent under the NYISO's proposal. It has greatly overstated the Alternative LCR Methodology's likely impact on Long Island's LCR costs. The NYISO has explained that future cost allocations to each Locality under the Alternative LCR Methodology may be somewhat lower or higher than with LCRs calculated using the Tan 45 methodology, but that simulations projected that they will be in the range of historic LCRs, and designed to result in a lower overall costs of meeting capacity requirements for the NYCA as a whole.¹⁷

The NYISO's expectations have been corroborated by the preliminary LCRs, calculated using the Alternative LCR Methodology, that the NYISO presented to the NYSRC's Installed Capacity Subcommittee on September 5.¹⁸ Slide 6 of this presentation discusses the LCRs calculated using the Alternative LCR Methodology and the 2019 GE MARS Preliminary IRM Base Case. The NYC and Long Island LCRs were calculated at 80.1 % and 103.6%, which reflect an increase of 0.9% and 2.9% from the LCRs calculated using the Tan 45 Method. The optimized G-J Locality LCR was 89.7%, which reflects a reduction of 5.2% from the LCRs

¹⁷ August 9 Response, Att. I at 25 ("The NYISO has explained that although the future cost allocations to each Locality under the Alternative LCR Methodology may be somewhat lower or higher than under the Tan 45 methodology, the NYISO's simulations projected that they will be in the range of historic LCRs, and designed to result in a lower overall costs of meeting capacity requirements for the New York Control Area ("NYCA") as a whole.")

¹⁸ Presentation of Nathaniel Gilbraith, NYISO Market Operations, to the NYSRC - Installed Capacity Subcommittee, September 5, 2018.
[http://www.nysrc.org/pdf/MeetingMaterial/ICSMaterial/ICS%20Agenda%20211/AI%205%20-%20Alternate-lcrs-on-pbc\[5883\].pdf](http://www.nysrc.org/pdf/MeetingMaterial/ICSMaterial/ICS%20Agenda%20211/AI%205%20-%20Alternate-lcrs-on-pbc[5883].pdf).

determined using the Tan 45 Method.¹⁹ The table below shows the current 2018 LCR values and the preliminary values calculated using the Alternative LCR Methodology and the preliminary GE MARS IRM base case.

Case	G-J LCR	NYC LCR	LI LCR
2018 Tan 45 LCRs (used in 2018 ICAP Market auctions) ²⁰	94.5%	80.5%	103.5%
2019 preliminary Alternate LCR calculation	89.7%	80.1%	103.6%

These shifts in requirements are well within the historic norms of shifting LCR calculations that have been observed in the past and are in line with the observed stability of results demonstrated by the numerous sensitivity analyses conducted by GE Energy Consulting throughout the 2017 project design work. By contrast, LIPA’s claims of severe cost allocation impacts are speculative and flawed.

The independent MMU agrees with the NYISO that cost shifts under the Alternative LCR Methodology are unlikely to be significant. The MMU has argued that, “the current cost allocation rules have resulted in substantial fluctuations in the share of the capacity costs allocated to various areas.”²¹ It observed that the historical changes in LCRs have “resulted in concomitant changes in the cost allocations” but that these changes are “similar to the projected results of the Alternative LCR Method” and thus that the NYISO’s proposal would “produce an

¹⁹ *Id.* at 6.

²⁰ http://www.nyiso.com/public/webdocs/markets_operations/services/planning/Documents_and_Resources/Resource_Adequacy/Resource_Adequacy_Documents/LCR2018_Report.pdf.

²¹ MMU Comments at 4.

allocation of capacity costs that is reasonably consistent with past years.”²² The *Comments of the City of New York, Multiple Intervenors, and Consumer Power Advocates* (“Supporting Comments”) also highlighted that the simulated results when optimizing LCRs under the proposed Alternative LCR methodology are within the historic range of outcomes.²³

The NYISO’s decision to submit the Alternative LCR Methodology without an accompanying cost allocation proposal is in no way inconsistent with past NYISO statements or positions. The NYISO has previously acknowledged that cost allocation concerns were raised in its stakeholder process. The LIPA Comments cite some statements by NYISO consultants that identified possible cost allocation inequities as a potential concern. But LIPA overlooks the fact that the NYISO ultimately concluded that potential cost allocation issue impacts were relatively small. Thus, as the NYISO has noted,²⁴ there was no reason to delay the benefits of including economic optimization in the LCR setting process until after cost allocation questions could be resolved. The NYISO continues to believe strongly that this is the case.

LIPA also has not shown that potential “misalignments” between reliability benefits and LCR cost allocations under the NYISO’s proposal are incompatible with precedent. The Commission and courts only require that costs and benefits be “roughly commensurate.” The “beneficiaries pay” principle does not demand scientific precision. The Commission’s cost allocation precedent examines the “unique circumstances of each case, ‘based in large part upon considerations of fairness and other policy matters, rather than on a precise calculation of exact costs and benefits to particular customers.’”²⁵ Practical implementation concerns and the need

²² MMU Comments at 4.

²³ See Supporting Comments at 4-5.

²⁴ See August 9 Response at 25.

²⁵ *Old Dominion Elec. Coop. v. Va. Elec. & Power Co.*, 161 FERC ¶ 61,055 at P 30 (2017) (citing *Northeast Utilities Service Company*, 117 FERC ¶ 61,337 at P 16 (2006)). See also, *Northeast Utilities*

for administrative feasibility are legitimate countervailing considerations.²⁶ The Courts have recognized that a rough matching of costs and benefits is sufficient, as long as there is “articulable and plausible” rationale for the allocation.²⁷

Commission rulings on earlier NYISO’s cost allocation proposals - particularly those regarding the allocation of upgrade costs in compliance with Order No. 1000 - are instructive. The NYISO proposed that the default cost allocation rule for public policy transmission upgrades should be the socialization of such costs across all NYISO loads on a load ratio share basis. The NYISO’s reasoning was that public policy upgrades, which result from government directives, generally are meant to benefit all ratepayers, and that all ratepayers therefore should bear a share of the associated costs. The Commission rejected protests arguing that this was likely to result in a lopsided allocation of costs, including potential allocations of costs to customers who do not benefit from particular upgrades. Instead, it agreed that the “proposed default statewide load ratio share cost allocation method [is] compliant with Regional Cost Allocation Principles 1 (all costs must be allocated roughly commensurate with benefits) and 2 (those that receive no benefit must not be involuntarily allocated costs).”²⁸ Although it was certainly possible that some areas would benefit more than other areas from public policy upgrades, the Commission did not insist on an exact matching of costs and benefits.²⁹

Service Company, 123 FERC ¶ 61,324 at P 29 (2008) (Cost allocation determinations need not be made using “a precise calculation of exact costs and benefits to particular customers.”)

²⁶ See *Northeast Utilities Service Company*, 123 FERC ¶ 61,324 at P 31 (stating that “it would be impractical to try to identify which customers ‘cause’ or ‘benefit’ from” certain facilities, “and to what degree, and the courts recognize the need for administrative feasibility.”).

²⁷ *Illinois Commerce Commission v. FERC*, 721 F.3d 764, 775 (7th Cir. 2013).

²⁸ *New York Independent System Operator, Inc.*, 148 FERC ¶ 61,044 at P 331 (2014).

²⁹ The *Northeast Utilities* case also provides an illustrative example of how the Commission does not insist on a precise matching of costs and benefits and instead takes a flexible view of what constitutes a “roughly commensurate” allocation. There, Northeast Utilities proposed to allocate the costs of certain transmission upgrades located in Southwest Connecticut to all Connecticut loads on the principle that all

The 2003 Thunderstorm Alert precedent that LIPA cites is also distinguishable because, as LIPA has acknowledged,³⁰ in that case the Commission found that 100% of the benefits of the thunderstorm alert procedure accrued to New York City. By contrast, even LIPA admits that a significant portion of the quantifiable reliability benefits of adding new capacity to Long Island under the Alternative LCR Methodology will go to Long Island. This is in addition to the less readily quantifiable but nonetheless important qualitative benefits associated with “mutual support” across regions under a combined IRM and LCR system.

In short, the record demonstrates that continuing the current cost allocation approach in tandem with the Alternative LCR Methodology would be just and reasonable. Nevertheless, the NYISO has consistently expressed its willingness to work with stakeholders to consider potential future tariff enhancements, if appropriate, to address cost allocation.³¹ But that is a separate question from whether the proposed Alternative LCR methodology is just and reasonable. Any questions and further evaluation should be left to the NYISO and its stakeholders to consider.³²

Connecticut loads benefitted from the upgrades, even though they were nominally “localized” upgrades. The Commission approved the proposed cost allocation over the objections of Connecticut loads outside of Southwest Connecticut; in particular, the Commission agreed that all Connecticut loads benefitted from the upgrades, and stated that “it would be impractical to try to identify exactly which customers ‘cause’ or ‘benefit’ from the Localized Costs of the Glenbrook facilities, and to what degree, and the courts recognize the need for administrative feasibility.” 123 FERC ¶ 61,324 at P 31.

³⁰ See LIPA Protest at 39.

³¹ See June 5 Filing at 7 and Attachment III (*i.e.*, the NYISO Board of Directors decision) at 4 “the NYISO is open to further discussion on this topic and potential alternatives to cost allocation.” See also MMU Comments at 5 “we recommend that the NYISO evaluate with its stakeholders a future enhancement of the capacity cost allocation rules.”

³² Moreover, there is no basis for rejecting the Alternative LCR Methodology because the NYISO is not immediately addressing an issue that is not within the scope of its proposed tariff changes. The Commission has previously rejected protests that attempted to raise issues related to, but not expressly addressed by, tariff revisions submitted under Section 205. For example, in a late 2017 order involving a Section 205 filing by the Southwest Power Pool, Inc. (“SPP”) protesting parties raised concerns with a “few specific aspects” of proposed tariff revisions but focused on matters not addressed by SPP’s proposed tariff revisions. See *Southwest Power Pool, Inc.* 161 FERC ¶ 61,261 at 46-67 (2017). The Commission held that “these concerns are beyond the scope of this proceeding” because they pertained to tariff provisions that SPP did not propose to change. *Id.* at 47 (“Protestors’ aforementioned concerns

As the MMU stated, “[t]he changes proposed by the NYISO in this proceeding to improve the determination of LCRs is a clear improvement to the status quo and is independent of the cost allocation rules.”³³ There is no basis for delaying the benefits that the Alternative LCR Methodology would bring to all parts of New York until after any and all cost allocation questions are resolved. If the Commission believes that cost allocation should be addressed it could instruct the NYISO to do so and still accept the Alternative LCR Methodology.

C. The NYISO’s Proposed Tariff Revisions Are Fully Consistent with the Commission’s “Rule of Reason”

LIPA claims that the NYISO’s proposed tariff language is “vaguely worded and limited. . .” and that the NYISO has wrongly “excluded material terms and conditions that are reasonably capable of specification.”³⁴ The August 9 Response explained that LIPA is incorrect and that the NYISO’s proposed tariff revisions are entirely consistent with the Commission’s traditional “rule of reason” standard.³⁵ LIPA also argues that the NYISO should be required to “file the annual calculation of LCRs..... ” with the Commission for its review and approval.³⁶ It appears that LIPA’s request is aimed at both the existing LCR determination process and the Alternative LCR Methodology. LIPA claims that LCRs must be filed under Section 205 and the filed rate doctrine. LIPA’s request is beyond the scope of this proceeding. The NYISO did not propose any change to existing Services Tariff provisions regarding the filing of LCRs. If LIPA wishes

related to elements of the ITP [Integrated Transmission Planning] process that SPP does not propose to change, and thus are beyond the scope of this FPA section 205 proceeding. To the extent a party is concerned that a specific element of the ITP process outside of the revisions that SPP proposes here is unjust and unreasonable or unduly discriminatory or preferential, it may file a complaint under section 206 of the FPA.”)

³³ MMU Comments at 5.

³⁴ LIPA Comments at 2, 18.

³⁵ August 9 Response at 16-19.

³⁶ LIPA Comments at 2.

to change the Services Tariff it must file a complaint under Section 206 of the FPA (and meet that provision's burden of proof.) It is improper for LIPA to propose Services Tariff revisions in comments on a NYISO Section 205 filing.³⁷

Even if the Commission were to consider LIPA's request it should reject it on the merits. Under the Commission's traditional rule of reason public utilities are only required to file provisions that "significantly" affect the rates, terms, and conditions of jurisdictional service.³⁸ The NYISO has been calculating LCRs under the Services Tariff since 1999. In all that time the rule of reason has never been interpreted as requiring that NYISO LCRs be filed. This established understanding is appropriate because setting LCRs is fundamentally driven by the NYCA-wide LOLE reliability criterion. Although LCR changes can indirectly result in cost impacts the same is true of a host of other NYISO reliability determinations that likewise never trigger filings with the Commission.

In addition, as the August 9 Response indicated, the NYISO establishes LCRs in conjunction with the NYSRC's year-long process for setting the Installed Reserve Margin.³⁹ Requiring the NYISO to file, and await Commission action on LCR determinations could seriously disrupt and delay this effort as well as the start of the capacity market auctions for the Summer Capability Period. It would not be practicable for the NYISO to develop LCRs and administer the capacity market if it were required to file, and then await Commission action on,

³⁷ A Commission order conditioning the acceptance of the Alternative LCR Methodology on the NYISO "voluntarily" accepting an LCR filing requirement would constitute an impermissible "material" modification of a Section 205 filing. See *NRG Power Marketing, LLC v. FERC*, 862 F.3d 108 (D.C. Cir. 2017).

³⁸ *City of Cleveland v. FERC*, 773 F.2d 1368, 1371 at 1377 (D.C. Cir. 1985).

³⁹ August 9 Response at 1-2.

LCR changes without making fundamental changes to current procedures.⁴⁰ As noted in the August 9 Response, the Commission has previously held that the rule of reason should not be interpreted in a way that would unnecessarily impede similarly complex ISO/RTO planning processes.⁴¹ The Commission should follow that precedent here and reject LIPA's request.

D. The Proposed Alternative LCR Methodology Is An Enhancement to the LCR Calculation That Will Continue to Ensure the NYCA Meets the LOLE Reliability Criterion for a Given NYSRC-established IRM

LIPA continues to incorrectly assert that the Alternative LCR Method fails to provide an adequate level of generation capacity to meet the 0.1 days/year LOLE Reliability Criterion.⁴² It claims that the economic optimization ignores the basic principle of having adequate generation within a Locality to ensure reliable operation.⁴³ It questions the analysis conducted by the NYISO and GE Energy Consulting and claims that the rounding conventions used in reporting LCRs and IRM values to the tenth of a percentage does achieve a 0.1 days/year LOLE.⁴⁴

The NYISO's August 9 Response clearly describes that the Alternative LCR Method will calculate LCRs that will meet the 0.1 days/year LOLE Criterion for the NYCA when starting with an IRM established by the NYSRC and the corresponding GE MARS database. Despite this LIPA asserts that the optimization "ignores" the basic principles of meeting the generation adequacy criterion for the Localities. This claim is wrong and mischaracterizes the purpose of the LCR calculation. The Alternative LCR Method, just like the current Tan 45 Method of

⁴⁰ In addition to disrupting the existing processes for establishing the IRM and LCRs, requiring the NYISO to file LCRs would constitute a significant change to the NYISO's stakeholder governance process. Under Section 8.01 of the ISO Agreement, the NYISO's stakeholder Operating Committee plays an important role in developing LCRs.

⁴¹ See August 9 Response at n. 36.

⁴² LIPA Comments at 4.

⁴³ *Id.*

⁴⁴ *Id.* at 17-18.

calculating LCRs, establishes the minimum generation required to be located within each Locality when combined with the NYSRC-determined IRM results in a NYCA-wide loss of load expectation that meets or is better than the 0.1 days/year LOLE resource adequacy criterion.

Further, as provided in the August 9 Response, and discussed in paragraph 21 of the Hall Affidavit, in its August 1, 2018 presentation to the NYSRC's Installed Capacity Subcommittee, GE Energy Consulting discussed several potential reasons LIPA may be experiencing difficulty replicating the 0.1 days/year LOLE.⁴⁵ The LIPA Comments suggest that LIPA has replicated the factors listed in the Hall presentation to the Installed Capacity Subcommittee as possible reasons why their analysis was not producing results that met or exceeded the 0.1 days/year LOLE. LIPA's inability to replicate the 0.1 days/year LOLE result should not cause the Commission to reject the NYISO's proposal when the NYISO has repeatedly confirmed that the standard will be met.

One notable defect in LIPA's description of its efforts to validate the LCR calculations done for the 2018 IRM database is LIPA's failure to discuss the aggregation of LOLE results from the MARS model that excludes loss of load events that are identified in the GE MARS model within locations where there is no actual load. Such areas that do not contain load are used in the GE MARS model to appropriately model power flows on the system. Even though these areas do not actually contain load, GE MARS will sometimes report loss of load events within them that can impact the overall system LOLE if these results are aggregated into the final result. Therefore, GE Energy Consulting and the NYISO have recommended, and the NYSRC-Installed Capacity Subcommittee has agreed that LOLE should be measured without aggregating loss of load events in these areas that do not contain actual load. Further, while the analysis

⁴⁵ August 9 Response, Attachment II, para. 21.

conducted by GE Energy Consulting optimized LCRs using LOLE results that excluded loss of load events in these areas, there is no reason why the optimization could not work successfully to find a least cost set of LCRs that meets 0.1 days/year LOLE Criterion measured while including loss of load events in these areas.

LIPA's comment that the rounding convention used to report LCR calculations in the Alternative LCR Methodology to a tenth of a percentage is a flaw is unfounded. Currently, Appendix C of NYSRC Policy 5⁴⁶ and section 5 of the NYISO's Locational Capacity Requirement Calculation Process ("LCR Calculation Process")⁴⁷ address rounding conventions to a whole or a half of a percentage point. NYSRC Policy 5 explicitly states that "in establishing LCRs the NYISO will calculate LCR values, that together with the final IRM, will meet the NYSRC 0.100 LOLE criterion." With the Alternative LCR Method the NYISO expects to round calculated LCRs to the nearest tenth of percentage, which is an enhancement to the past practice of rounding used by the NYISO in setting LCR values. Appendix C of Policy 5 and the NYISO's LCR Calculation Process make it clear that if rounding occurs to the LCR values, the GE MARS model will be run using these rounded values to ensure the target LOLE or 0.1 days/year or better (as established by the NYSRC IRM determination) will be met or exceeded. Contrary to the LIPA's claims, the NYISO clearly sees the rounding conventions used for the

⁴⁶ New York State Reliability Council, LLC, *Reliability Policy No. 5-13: Procedure for Establishing New York Control Area Installed Capacity Requirements* (approved by Executive Committee May 11, 2018) ("NYSRC Policy 5"); [http://www.nysrc.org/pdf/Policies/NYSRC%20POLICY%205-13%20%20Final\[3586\].pdf](http://www.nysrc.org/pdf/Policies/NYSRC%20POLICY%205-13%20%20Final[3586].pdf).

⁴⁷ The NYISO's LCR Calculation Process can be found on the NYISO's website at http://www.nyiso.com/public/markets_operations/market_data/icap/index.jsp. These current procedures describe the process that is currently performed by the NYISO in calculating LCRs. The NYISO has committed to issue a revised set of procedures that will fully describe the process developed to implement the Alternative LCR Method in mid-November. Further, Appendix C of Policy 5 states that the LCRs rounded or otherwise, together with the NYSRC-established IRM, shall meet the 0.1 days/year LOLE criterion.

Alternative LCR Method as an enhancement that will save consumers while ensuring the LOLE criterion of 0.1 days/year or better is met.

In addition, LIPA suggests that the Alternative LCR Methodology will result in Localities failing to have adequate levels of generation capacity. It claims that establishing LCR floors using the Transmission Security Limits calculated annually for each Locality is a flawed approach because the “LCR floor will not take into account generation adequacy with the zone itself.” These claims are misplaced since the Alternative LCR Methodology is accounting for both generation adequacy and transmission security when calculating LCRs. The Alternative LCR Methodology ensures that the NYCA LOLE is equal to or better than 0.1 days per year when it runs the Alternative LCR Methodology. In addition, the NYISO is establishing a floor on the LCRs based upon ensuring that the LCRs do not fall below the generation required to be sited in each Locality to secure the transmission system.

LIPA seems to suggest that the NYISO’s appropriately conservative approach to establishing transmission security limits and LCR floors is an oversimplification. It suggests that the NYISO should pursue an additional generation adequacy criterion beyond LOLE. No such criterion is currently used in the existing Tan 45 Method and there is no evidence that such additional criterion for generation adequacy beyond the 0.1 days/year LOLE is needed in New York.

E. The Alternative LCR Methodology Appropriately Accounts for the Level of Excess Used In Establishing the Demand Curves and for Quantity and Pricing Treatment Associated With the Market Mechanics of the NYC and G-J Localities

LIPA wrongly claims that the NYISO’s economic optimization is fatally flawed because it fails to optimize the cost of capacity using an LOLE associated with the ICAP Demand Curve’s Level of Excess (“LOE”). Essentially, LIPA suggests that multiple GE MARS

databases should be developed to ensure a proper alignment of Demand Curve costs with the LCRs. At a minimum the NYISO would be required to develop a second GE MARS database that differs from the database developed for the NYSRC to set the IRM. This second database would be used to calculate an NYCA-wide LOLE for the Demand Curve LOE condition. The GE MARS database used for the IRM would then need to be reset to reflect the change from the 0.1 days/year LOLE to a much smaller LOLE. These complicating steps would need to be done each year to determine the appropriate LOLE value to use as a constraint for the optimization, or in this instance 0.072 days/year LOLE for the 2018 GE MARS database.

As described in the August 9 Response, the NYISO considered three alternatives and discussed this issue with stakeholders prior to recommending the proposal to align the costs established in the Demand Curve resets process and LCRs in the economic optimization rather than changing the LOLE constraint value. The need for this alignment is driven by the assumptions used in determining the Net CONE values in the Demand Curve parameters at a LOE supply that is equal to a single peaking plant based upon the selected demand curve proxy technology. Currently this LOE is approximately 220 MW based upon the FERC-approved 2016 Demand Curve filing. In the market design effort, it was determined that altering the LOLE constraint between the IRM to some GE MARS calculated level, as is now being suggested by LIPA, was an unnecessary complicating factor. The NYISO and stakeholders determined that the most straight forward manner of aligning costs and requirements was to alter the optimal requirements solved for in the economic optimization to equal the $LCR + LOE$. Each step in the economic optimization would produce a potential least cost quantity that could then be used to calculate the corresponding LCR by subtracting off the LOE value and then using the

corresponding LCRs via the 2500 GE MARS Replications to determine if the resulting LCRs combined with the NYSRC-established IRM meet the 0.1 days/year LOLE.

Similarly LIPA suggests that the treatment of the NYC Locality variable in the objective function creates some ambiguity in the Alternative LCR Method. They are confused by the treatment of the NYC Locality because it is both a single Locality that must have its own LCR and LOE calculated and at the same time it is part of the G-J Locality. LIPA suggests that it is unclear how the NYC element is being modeled in the optimization, but it is perfectly clear by the formula itself as well as via the discussion of the results from the numerous sensitivities that the optimization formula follows exactly on how the market operates for the NYC Locality being included in the larger G-J Locality.

F. There Is No Need to Delay the Effective Date of the Proposed Alternative LCR Methodology

LIPA wrongly alleges that the NYISO is seeking to “rush the implementation of the Alternative LCR Method.”⁴⁸ It asks the Commission to pursue “intensive administrative means” such as a technical conference, a “paper hearing,” or a traditional administrative hearing with discovery procedures to explore potential changes to the proposal.⁴⁹

There is no basis for any of the procedural steps that LIPA proposes. The NYISO has demonstrated that the proposed Alternative LCR Methodology is just, reasonable, and not unduly discriminatory. The MMU has supported the NYISO’s proposed tariff revisions and urged the Commission not to delay the benefits that they are expected to bring. A clear super-majority of stakeholders endorsed the filing after three years of discussion. Neither LIPA nor any other party has raised any issue that could not readily be resolved based on the pleadings in

⁴⁸ LIPA Comments at 29.

⁴⁹ *Id.* at 30.

this proceeding.⁵⁰ As noted above, if the Commission believes that the NYISO should address LIPA's cost allocation concerns it can instruct the NYISO to do so separately without further delaying acceptance of the Alternative LCR Methodology. There is simply no reason to allow LIPA to continue to block the benefits that the proposal will bring.

II. CONCLUSION

In conclusion, the NYISO respectfully requests that the Commission accept the proposed Alternative LCR Methodology, as re-submitted by the August 9 Response, without requiring any modifications or any additional procedural steps. The Commission should make the Alternative LCR Methodology tariff revisions effective, as requested, on October 9, 2018.

Respectfully submitted,

/s/ David Allen

Senior Attorney

New York Independent System Operator, Inc.

10 Krey Boulevard

Rensselaer, NY 12144

Telephone: 518-356-7656

Email: dallen@nyiso.com

Dated: September 14, 2018

cc:	Nicole Buell	David Morenoff
	Anna Cochrane	Daniel Nowak
	James Danly	Larry Parkinson
	Jignasa Gadani	Douglas Roe
	Jette Gebhart	Kathleen Schnorf
	Kurt Longo	Gary Will
	John Miller	

⁵⁰ It is even more clear that there is no possible justification for a traditional hearing in this case. *See, e.g., Union Pac. Fuels v. FERC*, 129 F.3d 157, 164 (D.C. Cir. 1997) ("FERC may resolve factual issues on a written record unless motive, intent, or credibility are at issue or there is a dispute over a past event.")

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 14th day of September 2018.

/s/ Joy A. Zimmerlin

Joy A. Zimmerlin
New York Independent System Operator, Inc.
10 Krey Blvd.
Rensselaer, NY 12144
(518) 356-6207