

June 5, 2018

By Electronic Delivery

Honorable Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Re: New York Independent System Operator, Inc., *Proposed Tariff Revisions To Determine Locational Minimum Installed Capacity Requirements*,
Docket No. ER18-____-000

Dear Secretary Bose:

In accordance with Section 205 of the Federal Power Act (“FPA”) and Part 35 of the regulations of the Federal Energy Regulatory Commission (“FERC” or “the Commission”), the New York Independent System Operator, Inc. (“NYISO”) respectfully submits proposed revisions to Section 5.11 of its Market Administration and Control Area Services Tariff (“Services Tariff”) to revise the rules by which the Locational Minimum Installed Capacity Requirement¹ (“LCR”) for each Locality will be determined. The proposed revisions would establish a more robust, transparent, and predictable methodology for developing LCRs that are designed to maintain reliability while producing an optimized and lower cost for the New York Control Area (“NYCA”) as a whole than the current LCRs. The proposed revisions are thus just and reasonable and should be accepted by the Commission. The NYISO also respectfully asks that the proposed tariff revisions become effective on the day following the conclusion of FPA Section 205’s standard statutory sixty day notice period, *i.e.*, that they become effective on August 5, 2018.²

¹ Capitalized terms not otherwise defined in this filing letter shall have the meaning specified in the Services Tariff.

² The LCRs have already been established for the 2018-2019 Capability Year (*i.e.*, May 1, 2018 – April 30, 2019.) Although the tariff revisions proposed in this filing would become effective during the 2018-2019 Capability Year, the rules would first be implemented for the 2019-2020 Capability Year. Commission action within the sixty-day statutory period will facilitate the NYISO’s orderly implementation of the revised provisions in advance of the 2019-2020 Capability Year.

I. Documents Submitted

The NYISO respectfully submits the following documents with this filing letter:

1. A clean version of the NYISO's proposed tariff revisions ("Attachment I");
2. A blacklined version of the NYISO's proposed tariff revisions ("Attachment II"); and
3. Decision of the NYISO Board of Directors on Appeal (Attachment III).

II. Communications and Correspondence

All communications and service in this proceeding should be directed to:

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III. Background

In order to satisfy the Installed Reserve Margin ("IRM") established by the New York State Reliability Council ("NYSRC"), the NYISO derives the NYCA Minimum Installed Capacity Requirement.³ The NYISO then establishes for each Locality⁴ a Locational Minimum Installed Capacity Requirement. Beginning with the 2006-2007 Capability Year, both the IRM and the LCRs for Zone J and Zone K have been calculated using a unified method known as the "Tan 45" methodology.⁵ The Tan 45 methodology was developed prior to the existence of the

³ The Services Tariff provides that the "NYCA Minimum Installed Capacity Requirement ... will be established by multiplying the NYCA peak Load forecasted by the ISO by the quantity of one plus the NYCA Installed Reserve Margin." *See* Services Tariff at Section 5.10.

⁴ Presently the Localities are New York City (Load Zone J), Long Island (Load Zone K), and the G-J Locality (comprised of the Load Zones G, H, I and J).

⁵ This methodology calculates a number of points used to create curves for IRM/LCR pairs. Each pair meets the one day in ten years (or .01 days/year) NYCA reliability criterion for New York City and Long Island. The methodology then derives the IRM and LCRs by establishing the point on those curves

NYISO and its administered markets. It recognizes the fact that the one day in ten years NYCA loss of load reliability criterion may be achieved by carrying many different combinations of capacity in various locations. The methodology was designed to balance the amount of capacity required to be purchased in each area. With the creation of the G-J Locality, the NYISO added to the above procedures steps to calculate the G-J Locality LCR. Further, since the creation of that new Locality, stakeholders and the independent Market Monitoring Unit (“MMU”) had been expressing an interest in revisiting the methodology.

Starting in January 2016, the NYISO has worked with stakeholders to analyze and assess various options that could 1) economically optimize the LCRs to minimize the total cost of procuring capacity in the NYCA, 2) maintain a Loss of Load Expectation of one day in ten years, and 3) produce more stable results for capacity additions or removals than the current methodology. The NYISO’s extensive analysis and consultation with stakeholders culminated in the tariff proposal set forth in this filing. The proposed Services Tariff revisions accomplishes these objectives and stakeholders endorsed the proposal.

IV. Description of Proposed Tariff Revisions

A. Proposed Revisions to the Rules for Determining LCRs

The NYISO’s proposed new methodology for determining LCRs will use an economic optimization algorithm to minimize the total cost of capacity for the NYCA, which will result in lower total capacity costs than the LCRs established using the currently effective methodology. It will do so while maintaining the one day in ten-year reliability criterion, respecting the NYSRC-approved IRM, and avoiding violations of transmission security limits. The NYISO’s analyses using the methodology in the proposed tariff revisions resulted in LCRs within the range of historic LCRs given comparable system conditions, while minimizing the total NYCA cost to procure capacity and reducing the volatility of the LCRs due to changes in existing capacity. For example, using each of the 2017 and the 2018 IRM base cases, the NYISO’s analysis shows a lower total NYCA cost of capacity when using LCRs established using the proposed new methodology (the optimized LCRs with the Transmission Security Limit) as compared with the current LCRs.⁶

The NYISO’s proposed new tariff language would also provide a more transparent and specific description of the objectives that the NYISO seeks to achieve, and the methods that it

where the tangent of the curves has a slope of -1, otherwise known as the “Tan 45.” It is from those points on the curve that the NYISO has established the G-J Locality LCR.

⁶ See Consumer Impact Analysis, Tariq N. Niazi, February 27, 2018, also describing and incorporating in part analysis previously presented to stakeholders, available at: http://www.nyiso.com/public/webdocs/markets_operations/committees/bic/meeting_materials/2018-02-14/CIA%20-%20Alternative%20LCR%20Determination%20for%202018%20Base%20Case_Final_Updated.pdf.

will use when computing LCRs. Accordingly, the NYISO's proposal is just, reasonable, and not unduly discriminatory. It should be accepted under Section 205 without modification.

Specifically, the NYISO proposes adding new language to Section 5.11.4 of the Services Tariff entitled "LSE Locational Minimum Installed Capacity Requirements" to establish its new LCR setting methodology. The currently effective version of Section 5.11.4 contains a general description of how the NYISO will "take into account all relevant considerations" when determining LCRs.

New Section 5.11.4(a) states that when computing LCRs the NYISO shall "minimize the total cost of capacity at the prescribed level of excess." The NYISO's proposal builds on, and is consistent with, established capacity market structures. The NYISO would derive the cost of capacity for each locality using cost curves of the Net Cost of New Entry established in its quadrennial Installed Capacity ("ICAP") Demand Curve reset, and the annual update thereto. Section 5.11.4(a) would provide that the NYISO:

[S]hall use the prescribed level of excess (as such term is defined in Section 5.14.1.2.2 of this Tariff,) and shall take into account the cost curves established with the results of net Energy and Ancillary Services revenue offset (as such term is defined in Section 5.14.1.2.2 of this Tariff), that are (i) if for the first Capability Year covered by the applicable periodic review (as described in Section 5.14.1.2.2 of this Tariff,) the values utilized by the ISO in calculating the reference points for each ICAP Demand Curve as proposed by the ISO to be applicable for such first year in the ISO's filing referenced in Section 5.14.1.2.2.4.11 of this Tariff; and (ii) if for any subsequent Capability Year covered by such periodic review, the values utilized by the ISO in calculating the reference points for each ICAP Demand Curve for the respective Capability Year.

New Section 5.11.4(b) adds a requirement that when computing LCRs, the NYISO shall "maintain the loss of load expectation of no more than 0.1 days per year" This language will ensure that this key reliability criterion is honored.

New Section 5.11.4(c) states that the NYISO would ensure "that the transmission security limits determined by the ISO in accordance with this paragraph and ISO Procedures, are respected." The NYISO would do this by "using inputs consistent with the NYSRC Installed Reserve Margin base case for the Capability Year to which the Locational Minimum Installed Capacity Requirements will apply." The limits would be calculated "by determining the bulk power system transmission capability into the Locality, the MW of generation within the Locality accounting for capacity unavailability, the minimum MW of available capacity required for each Locality based on forecasted Load, and using the N-1-1 system planning criteria (*i.e.*, a sequence of a primary contingency event followed by a secondary contingency event) to analyze thermal limits affecting the Locality." The purpose of this provision is to preserve reliability by establishing floor values below which LCRs will not be set. A provision in this Section also requires NYISO to post a report on this determination on its website.

Finally, new language is included in Section 5.11.4 to specify that the NYISO's computations "shall utilize results from probabilistic modeling of reliability simulations, recognizing system constraints." This language delineates the further process steps thus adding transparency.

The proposal is designed to achieve the above-described benefits while maintaining the one day in ten years NYCA loss of load reliability criterion. The NYISO and its stakeholders discussed one stakeholder's suggestion that the proposal also incorporate cost causation elements, as well as other potential elements. Consistent with its discussions with stakeholders and the proposal that resulted in the 77.55% affirmative vote of the NYISO Management Committee, the NYISO believes that the instant proposal is just and reasonable without further consideration of such elements. Therefore, the NYISO requests that the Commission accept these tariff modifications, as proposed, so that the benefits to the NYCA can be achieved. The proposed tariff revisions do not foreclose any stakeholder from proposing, and seeking approval of, any further tariff modifications in the NYISO's stakeholder process. Further, as stated by the NYISO's Board of Directors in its Decision on Appeal, "[t]he NYISO is open to further discussion on this topic and potential alternative approaches to cost allocation."⁷

B. Tariff Renumbering and Elimination of Obsolete Language

For ease of reference, the proposed tariff revisions also divide what had been Section 5.11.4 into two parts, which results in several paragraphs that are currently part of Section 5.11.4 being placed in a separate Section 5.11.5. What had been Section 5.11.5, is re-numbered Section 5.11.6. This renumbering requires updating the cross-references to the renumbered sections within certain definitions in Services Tariff Section 2.12 as follows. The cross-reference in the definition of "Locality Exchange MW" would be updated from Section 5.11.4 to Section 5.11.5, and the cross-reference in the definition of "Locality Exchange Factor" would be updated from Section 5.11.4.1 to Section 5.11.6. Accordingly, the NYISO has included those revisions in this filing.⁸

In addition, the NYISO proposes to eliminate an obsolete paragraph located in what is proposed herein to become Section 5.11.5.⁹ The obsolete language addresses a scenario in which a Customer "purchases Unforced Capacity associated with any generation that is subject to capacity market mitigation measures in an ISO-administered auction." That scenario cannot exist because the Services Tariff clearly provides that Unforced Capacity subject to a buyer-side

⁷ See Attachment III at p. 4.

⁸ The tariff revisions presented to and voted on by the NYISO's stakeholder committees proposed the renumbering within Section 5.11. Subsequently, the NYISO identified that the Section 5.11 renumbering would also require updating the existing cross-references to certain 5.11 sections that are in Services Tariff Section 2.12. In accordance with the stakeholder processes, the NYISO reviewed these two additional ministerial revisions with the Chairs of the Management Committee, Business Issues Committee, and the Installed Capacity Work Group. The NYISO then notified its stakeholders that this FPA Section 205 filing include the ministerial cross-reference updates in Section 2.12.

⁹ The obsolete paragraph currently is located in Section 5.11.4.

market power mitigation Offer Floor, or that is from an Interim Service Provider, or from an RMR Generator (with a limited proviso for a pre-existing approved bilateral) can only be offered in the ICAP Spot Market Auctions. *See* Services Tariff Sections 23.4.5.7(ii), 23.4.5.7.12, and 23.4.5.8.1. Accordingly, the indicated paragraph should be removed.

V. Stakeholder and Board of Directors Approval and Market Monitoring Unit Review

The proposed tariff revisions incorporated input from, and have been reviewed by, the MMU. They were approved by the NYISO Management Committee on February 28, 2017 with 77.5 percent approval.

On March 14, 2018, Helix Ravenswood, LLC; the Long Island Power Authority and its operating subsidiary, the Long Island Lighting Company d/b/a Power Supply Long Island (collectively “LIPA”); and NRG exercised their rights under the NYISO’s shared governance system to appeal the Management Committee’s action to the NYISO Board of Directors. The NYISO’s Board of Directors issued a decision denying the appeal¹⁰ and approved the NYISO’s filing of the tariff revisions proposed in this filing.

VI. Requested Effective Date

In accordance with Section 205 of the FPA, the NYISO requests that its proposed tariff revisions be made effective on August 5, 2018, *i.e.*, the day following the conclusion of the standard sixty-day notice period under Section 205 of the FPA.

VII. Service

The NYISO will send an electronic link to this filing to the official representative of each of its customers, to each participant on its stakeholder committees, to the New York State Public Service Commission, and to the New Jersey Board of Public Utilities. In addition, the complete filing will be posted on the NYISO’s website at www.nyiso.com.

¹⁰ The NYISO Board of Directors’ Decision is Attachment III to this transmittal letter.

Ms. Kimberly D. Bose, Secretary

June 5, 2018

Page 7

VIII. Conclusion

The New York Independent System Operator, Inc., respectfully requests that the Commission accept the proposed tariff revisions in this filing. The analysis and justification in this filing letter demonstrate that the proposed package of revisions are just and reasonable.

Respectfully submitted,

/s/ Gloria Kavanah

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