UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

New York Independent System Operator, Inc.	)))	**Docket No. ER17-446-000**

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PROTEST OF THE NRG COMPANIES AND MOTION FOR LEAVE TO FILE ONE DAY OUT OF TIME

Pursuant to Rule 211 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission ("Commission" or "FERC") 18 C.F.R. § 385.211, and the December 1, 2016 "Combined Notice of Filings #1" issued by the Commission, the NRG Companies ("NRG")[1] respectfully submit this protest in response to the New York Independent System Operator, Inc.'s ("NYISO") filing to limit the financial impact of the proposed export of 511 MW of capacity associated with the Roseton Generating Facility into New England (the "Proposal").

I. SUMMARY

The NYISO Proposal includes a scheme to discount the financial impact of capacity exports by generators within the NYISO's footprint (specifically, the Roseton generator, which is located in NYISO's Zone G, but has cleared a portion of its capacity in ISO New England's Forward Capacity Market). The NYISO's proposal is inconsistent with the competitive functioning of the New York energy markets and must be rejected. Specifically, the Proposal:

1. Arbitrarily discounts the financial impact of generation leaving the market, even though New York relies on a prompt-month capacity market structure to ensure resource adequacy;

[1] For purposes of this filing, the NRG Companies consist of NRG Power Marketing LLC and GenOn Energy Management, LLC.

2. Assumes that a single generating resource can provide resource adequacy to two markets, based on a redefinition of "capacity" from a unit-contingent product into a "slice of system" product;

3. Erroneously conflates the *energy market* benefits of having the Roseton facility participate in the NYISO *energy markets* with an alleged capacity market benefit without doing a robust, statistically significant analysis to show that these energy market outcomes are relevant to long-term resource adequacy; and

4. Bypasses the established NYISO process for determining the Installed Reserve Margin and Locational Capacity Requirements and implements changes out-of-cycle.

The NYISO Proposal represents a significant retreat from competitive markets and, if accepted here, threatens to undermine capacity market structures across the organized markets.

II. BACKGROUND

In the instant docket, the NYISO proposes to change its capacity market rules so that an export of capacity from one of the constrained "Localities" embedded within the New York Control Area is modeled, not as a unit-contingent flow of capacity from the affected unit to the purchasing balancing authority, but as a "slice of system" energy export. While the rule changes proposed by the NYISO, in theory, apply to all capacity exports, they are specifically designed to address the recent commercial decision of the owner of the Roseton generating facility to sell a portion of its capacity into New England on a forward basis.

While the NYISO recognizes that the Roseton facility has sold its resource adequacy attributes to New England, it proposes to require load to backfill only a fraction of Roseton's exported capacity from the G-J Locality, where the Roseton facility is actually located. Even though Roseton has committed its capacity to a neighboring balancing authority, the NYISO proposes to allow load to backfill the exporting resource through a mix of resources located across the larger New York Control Area ("NYCA"), including the lower priced Rest of State zone.

In support of its proposal, the NYISO points to its analysis of real-time power flows and generator shift factors which show that the Roseton facility, when it is online, provides valuable "counterflow" benefits, which the NYISO claims increases the ability to import capacity from outside of the G-J Locality in which Roseton is located. To reach its conclusion that only some of the exported capacity needs to be replaced in the G-J Locality, the NYISO conducted a power flow analysis to determine the ratio of the shift factor on the SENY interface (i.e. the constrained Southeast New York interface creating the need for the Locality) for capacity exported from G-I to ISO-NE to the shift factor on the SENY interface for capacity transferred from ROS into G-I.

The specific analysis that the NYISO conducted, purported to show, once it takes counterflow benefits into consideration, that the exported capacity from the G-J Locality does not need to be replaced by resources similarly located within the Locality, and the resource adequacy benefits can instead be provided by resources located in ROS. The result is that the NYISO proposes to create a new "Locality Exchange Factor" to reflect the percentage of the Roseton capacity that must be replaced in the G-J Locality (52.2%) and the percentage that can be replaced with capacity from Rest of State (47.8%).

Not satisfied with ignoring half of the financial impact of Roseton leaving the system, the NYISO Proposal includes an additional proposal to discount the impact of Roseton leaving the system by 80%. The NYISO's basis for this additional discount is simply to reduce capacity prices in the G-J Locality.

Finally, the NYISO proposes to require facilities exporting capacity into adjoining balancing authorities to participate in the NYISO's day-ahead residual unit commitment process (the Supplemental Resource Evaluation, or "SRE," process), which would allow the NYISO to exceptionally dispatch the generating resource for New York to resolve New York system reliability issues.

II. PROTEST

A. The NYISO's Proposal Double Counts Capacity and Threatens Resource Adequacy.

Any proposal to allow double counting of resource adequacy benefits must be summarily rejected or else it will imperil the Commission's capacity market constructs. The NYISO Proposal suggests that a single capacity resource can simultaneously "serve two masters" by providing resource adequacy to two ISOs at the same time.[2] The NYISO argues that even though Roseton elected to sell its capacity into the higher-priced New England market (which also has an attractive forward delivery structure), the NYISO should still be allowed to count approximately one-half of the sold generation capacity to offsetting the local reliability needs of the G-J Locality. Specifically, the NYISO asserts the Roseton Generating Station continues to provide local capacity benefits to New York, even though Roseton has pledged its capacity attributes into ISO New England's two-settlement "Pay-For-Performance" Forward Capacity Market for the relevant deliverability periods.[3]

Historically, capacity markets provide for the ***physical*** resource adequacy of the markets they serve.[4] Those resource adequacy benefits have always been assumed to be sourced directly from the unit selling the capacity and the capacity benefits have always been attributed to the balancing authority purchasing the capacity.

1. The Northeast Memorandum Prohibits the NYISO's Proposal.

The Northeast Memorandum of Understanding ("Northeast MOU") between NYISO,

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[2] As the King James version of the Bible notes, "[n]o man can serve two masters: for either he will hate the one, and love the other; or else he will hold to the one, and despise the other." Matthew 6:24.

[3] ISO New England's revamped "Pay-for-Performance" capacity market utilizes a stringent two-settlement system that is designed "to more closely link capacity revenues to real-time performance" and address the "region's resource performance problems." *ISO New England Inc.*, 147 FERC ¶ 61,172 at P 36 (2014).

[4] *See, e.g., ISO New England Inc.*, 130 FERC ¶ 61,089 at P 29 (2010) (characterizing ISO-NE's Forward Capacity Market as "a physical rather than financial market.").

ISO-NE, and PJM "establish[es] a common understanding for ICAP products transacted (purchase/sale) across Control Area boundaries for the ICAP markets established by the ISO, NYISO, and PJM."[5] Among the principles set forth in the Northeast MOU is the requirement "that the ICAP resource is not committed to or sold to more than one Operating Jurisdiction."[6] Yet this is exactly what the NYISO proposes to do here: ensure that the portion of the Roseton facility committed to New England is also available to serve resource adequacy needs in New York.

The Northeast MOU also requires that the selling resource utilize "firm transmission service or equivalent delivery guarantee to the sink Operating Jurisdiction's border across restricted or congested external transmission" and that the selling resource's requirements "…should be consistent with the deliverability requirements of internal generators."[7] The NYISO Proposal violates this principle by adopting a delivery requirement for *exporting* resources that it is completely at odds with NYISO's requirements for *internal* capacity resources. Indeed, no MWs associated with internal capacity resources located in constrained Localities are discounted based on their real-time energy shift factors or alleged counterflow benefits. Thus, the treatment proposed by NYISO effectively discounts the impact of external units, while reflecting the benefits of 100% of internal capacity resources.

The Northeast MOU likewise requires that the "ICAP and associated energy must be a bundled resource (i.e. the energy bids associated with a specified resource must be bid according to the sink Operating Jurisdictions market rules)"; however, the rules do not "preclude" a system

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[5] *See* Attachment I: Northeast MOU General ICAP Principles, *available at*: http://www.nyiso.com/public/webdocs/markets_operations/committees/bic_icapwg/meeting_materials/2009-10-22/NE_MOU.pdf ("Northeast MOU").

[6] Northeast MOU, Planning Principles, at § 2.

[7] Northeast MOU, Planning Principles, at § 3(a) and (b).

ICAP contract so long as, among other things:[8]

a) the ICAP and associated energy are from the same jurisdiction and same seller.

b) such a sale is allowed by the market rules of the source and sink jurisdictions.

The NYISO Proposal is likewise non-compliant with this section of the Northeast MOU. Specifically, Section (a), reflected above, requires that the "ICAP resource *and the associated energy*" originate from the same jurisdiction and are sold by the same seller. In this case, Roseton is the ICAP resource, but would not be the "same seller" of the associated energy, since the NYISO is assuming that energy flows not from Roseton, but from a slice of system resources, including those located in Rest of State. Further, while the term is undefined, the NRG Companies believe that section (a) only makes sense if the "same jurisdiction" phrase means the same "Locality" within New York.[9] Here, the NYISO Proposal would allow for energy to be sourced from a combination of Zone G and Rest of State, even though the ICAP resource is located only in Zone G.

2. Capacity Markets are Physical, Not Financial, Markets.

The NYISO Proposal disregards the fundamental assumption that capacity flows from the particular unit supplying the capacity to the purchasing jurisdiction. Instead, the NYISO advances the argument that ISO New England is not receiving capacity from a specific external resource, but that it is receiving capacity from a "slice" of resources across New York. The Commission should reject this approach to capacity markets, or at a minimum, limit its holding to this particular case.

[8] Northeast MOU, Scheduling Principles § 3.

[9] This understanding is consistent with Section 3(c) as well, which states that sales of capacity must meet "all applicable requirements of the source, intermediate and sink Operating Jurisdictions[.]" The reference to "intermediate sink" would seem to include zonal constraints between the Roseton resource and ISO New England.

Notably, it does not appear that the NYISO itself would qualify an ICAP resource under the terms it proposes here. In order to be a capacity resource in New York, the importing resource "…must provide specific contract and resource information to the NYISO" and "[u]nless entities are supplying External Installed Capacity as Control Area System Resources,[10] requests for External Installed Capacity shall be resource-specific."[11] While substitutions from "resources located in the same External Control Area" are allowed, they are "subject to review and approval by NYISO[.]"[12]

PJM rules likewise require resources to be physically identifiable and separable in order to qualify as capacity. As PJM explains, its Reliability Pricing Model "requires specific, identifiable resources, it is well-established that undifferentiated 'slice-of-system' commitments do not qualify as PJM Capacity Resources."[13] Further, PJM specifies that "'portfolio bidding,' in which a seller offers a megawatt amount of capacity that can be satisfied, at the seller's election, from any one or more of an identified portfolio of resources, does not qualify as a PJM Capacity Resource."[14] PJM then concludes by noting that "[b]ecause RPM requires specific identifiable resources" that "two Capacity Market Sellers cannot offer the same capacity from the same resource."[15] While PJM's approach is obviously not dispositive here, it clearly shows the Commission's long-standing understanding that capacity is a physical product that cannot be

[10] The NYISO defines "Control Area System Resource" as "[a] set of Resources owned or controlled by an entity within a Control Area that also is the operator of such Control Area."
[11] NYISO Tariff at § 25.7.11.1.4.2.7

[12] *Id.*

[13] *Initial Comments of PJM Interconnection on Technical Conference*, Docket No. ER13-2108, at p. 8 (citing PJM's Reliability Assurance Agreement as requiring that a Generation Resources that offer into RPM Auctions must have established their capability . . . and had their deliverability tested by PJM. Similarly [a] Capacity Resource . . . must be on a unit-specific basis, and may not include 'slice of system' or similar agreements that are not unit specific.") (Internal citations omitted).

[14] *Id.*

[15] *Id.*

turned into a slice of system product, as proposed by the NYISO in the instant filing. This is entirely consistent with the Commission's historical characterization of capacity markets as "physical, rather than … financial markets."[16] In this proceeding, the NYISO urges the Commission to abandon this venerable tenant of market design.

In the original NYISO filing, Dr. Patton suggested that a marginal resource in ROS might actually be the unit supplying energy to ISO-NE when ISO-NE calls upon its NYISO capacity resources. While this is certainly true as a matter of short-term energy flows, it is not clear that this is accurate from a long-term resource adequacy/system planning purpose. That same resource cannot supply capacity to NYISO at the same time that it is supplying capacity to ISO-NE, so it is not providing resource adequacy to NYISO. It is true that to some extent (subject to deliverability) energy is physically fungible, but each RTO must have its own unique set of capacity resources to preserve resource adequacy, or one of them will end up short in a crisis. That is why the Commission has expressly disallowed slice-of-system capacity purchase agreements that are not backed by verifiable resources.[17]

Indeed, a simple thought experiments shows just how problematic the NYISO's proposed methodology is: imagine Balancing Authority A and Balancing Authority B, each with a 1,000 MW peak load and a 15% reserve margin, with a free-flowing tie between the regions, for a total resource adequacy need of 1,150 MW of capacity. Under the NYISO's theory, if all the generation resources housed in Balancing Authority A were to bilaterally sell their capacity to Balancing Authority B and vice-versa, the total capacity reserved to serve the two regions would remain unchanged, yet any locational capacity requirements within those balancing areas would

[16] *Id.*

[17] *See Midwest Indep. Transmission Sys. Operator, Inc.*, 125 FERC ¶ 61,061 at P 19 (2008), *order on reh'g and compliance,* 126 FERC ¶ 61,143 (2009) (holding that power purchase agreements can only qualify as capacity resources if they are backed by actual, verifiable resources).

be cut by approximately 50%. The NYISO fails to explain how such an outcome is consistent with reliability needs.

Because the NYISO's threshold assumption raises such serious questions of resource adequacy, the Commission should, if does not reject the proposal outright, convene a technical conference to examine the national implications of departing from the long-standing precedent that capacity sales are unit contingent.

B. The NYISO's Reliance on Short-Term Energy Market Outcomes to Justify Resource Adequacy Outcomes is not Just and Reasonable.

There are several fundamental problems inherent with NYISO's Proposal to base its capacity market modeling on short-term power flows. *First*, the assumption that a capacity resource's resource adequacy attributes are susceptible to an *energy market* shift factor analysis is entirely novel and without support anywhere in the Commission's literature. The proposal conflates *energy* market flows and suggests that these short-term outcomes ought to be reflected in the *capacity* market design. The NYISO argument that continued operation of a unit in the NYISO markets conveys long-term planning benefits is thus untested and should not be accepted. Indeed, the NYISO has provided no evidence that short-term power flows are indicative of long-term resource adequacy outcomes. The NYISO and New York State Reliability Council have an established process for translating on-the-ground conditions into an installed reserve margin and local sourcing requirement, but those processes were not followed here.

Second, not only has the NYISO not shown that energy market outcomes are relevant to resource adequacy outcomes, but the NYISO also failed to show that the power flow analyses it conducted are sufficiently robust. The NYISO repeatedly denied requests from market participants, including NRG, to conduct a Monte-Carlo simulation to demonstrate that their

conclusions stand up under multiple load conditions. Such robust market simulations are necessary before the Commission should accept an operational time horizon (like real-time energy flow analysis) as indicative of long-term planning horizon outcomes. Without a showing that the resource adequacy results that the NYISO expects to achieve are realistic, there remain serious questions as to whether the NYISO will be able to maintain resource adequacy under various operating conditions.

C. The NYISO Elected a Short-Term Capacity Market, Which Allows for Greater Short Term Price Fluctuations.

The NRG Companies have long advocated for a longer-term capacity market; preferably with a delivery period at least three years in advance. To date however, the NYISO has not elected to make this change, even knowing that, as a consequence, prices could be more volatile and could increase over relatively short periods of time as resources exit the NYISO market. While the NRG Companies are sympathetic to load concerns over short-term price impacts associated with capacity entering or leaving the system, it is a consequence of the prompt-month capacity market structure currently in place. For example, the Commission Staff in its 2013 Report on Centralized Capacity Market Design Elements concluded that "[a] longer commitment period can also address short-term volatility in capacity market prices by locking-in the price for capacity for a longer time horizon, thus providing certainty to suppliers for the revenue streams needed to contribute to the recovery of fixed costs."[18]

[18] "Centralized Capacity Market Design Elements," Commission Staff Report, Docket No. AD13-7-000, at P 14 (Aug. 2013). Available at: https://www.ferc.gov/CalendarFiles/20130826142258-Staff%20Paper.pdf (the "Report") (noting that "the NYISO and its stakeholders recently considered whether to alter the structure and timing of its auctions, it ultimately decided not to do so." And citing "NYISO has commissioned two independent studies over the past five years to analyze its capacity market and both studies concluded that a longer-term forward capacity market does not appear warranted. FTI Consulting, *Evaluation of the New York Capacity Market*, at xi-xiii (Mar. 5, 2013), *available at* http://www.nyiso.com/public/webdocs/markets_operations/documents/Studies_and_Reports/Studies/Market_Studies/Final_New_York_Capacity_Report_3-13-2013.pdf; The Brattle Group, *Cost-Benefit Analysis*

While a prompt-month auction tends generally to result in decreased prices, the tradeoff for investors is that, when prices do increase, there is always a period of lag before new entrants are able to come in and mitigate the price increase. (Indeed, as noted elsewhere, NRG's demand response affiliate is already investigating whether the increased prices will drive additional demand for its services). If the Commission allows the NYISO to artificially reduce prices, it will fundamentally undercut the purposes of the capacity market, making it increasingly expensive for generators to deploy capital, since the risk premium that they will face will increase.

D. The Commission Should Discount the Attempt by NYISO Stakeholders to Vote Themselves an Even Greater Capacity Market Discount.

Even though the NRG Companies respectfully disagree with the entire premise that the capacity market impacts of capacity exported to New England should be discounted by 50%, the Commission should certainly reject the portion of the NYISO Proposal that would discount the financial impacts of an exported unit by 80% for a period of years. As noted in the Protest of the Independent Power Producers of New York ("IPPNY") filed in this docket, there is no principled basis for discounting the effects of supply and demand in the capacity market. Supply has decreased and prices must go up if the region is going to attract new capacity. Indeed, one of NRG's affiliates, NRG Curtailment Solutions has already increased its marketing of demand response services in the area in anticipation of the increased prices. Because it ignores basic competitive principles such as supply and demand, the Commission should reject the proposal to phase in the capacity market impacts over time. That is not how capacity markets in New York

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of Replacing the NYISO's Existing ICAP Market with a Forward Capacity Market, at 3 (June 15, 2009), *available at* http://www.brattle.com/_documents/uploadlibrary/upload789.pdf.").

were designed and the Commission cannot allow Stakeholders voting their short-term pocketbooks to destroy the integrity of the markets.

E. The NYISO's Proposal to Make Exporting Units Subject to its Control Should be Rejected and is Inconsistent with Resource Adequacy Needs.

A major component of the NYISO's logic for its Proposal is that a unit that is on-line in a given Locality inherently provides an energy market benefit because it provides counterflow across certain interfaces. However, a generation resource that has not cleared in the NYISO's capacity market is currently not subject to the NYISO's must-offer obligations. In order to allow its Proposal to move forward, the NYISO proposes to take the unprecedented step of requiring a generation resource, with no capacity obligations to its host balancing authority, to respond to reliability dispatch directives from NYISO. The NYISO's Proposal would install a new principle: resources without a capacity supply obligation are obligated to respond to reliability dispatches without compensation. Notably, the NYISO Proposal goes far beyond requiring that the exporting unit offer into the NYISO Day-Ahead Market (which it would be required to do anyway as a condition of participating in the ISO New England capacity market). Instead, the NYISO wants to be able to commit the exporting resource through its out-of-market reliability dispatch process without compensation. In other words, the NYISO wants to be able to count on the exporting resource as a reliability unit without compensating the resource for this extra service, a concept that the Commission has clearly rejected in other contexts.

For example, in California, the Commission approved a capacity backstop mechanism that required a supplemental payment for resources "exceptionally dispatched" by the CAISO for system reliability needs. The exceptional dispatch process in California is roughly akin to the SRE process in New York. There, the Commission required the CAISO to provide a backstop capacity payment to resources, not otherwise under a resource adequacy contract, which was

dispatched to fulfill reliability needs.[19] The implications of allowing the NYISO Proposal to go through unmodified would allow the NYISO to rely on non-capacity resources to serve a capacity function. This blurring of the lines threatens resource adequacy and should be rejected.

Additionally, the NYISO's Proposal is focused solely on what it argues is an inefficient price outcome, without fully considering the key resource adequacy assumptions underlying its analysis. In order for the NYISO to rely on the purported benefits of the unit exporting capacity, it has to assume that the unit will be "on" in the energy market. For this reason, NYISO included a provision that creates an obligation for a unit exporting capacity from a Locality – i.e. that the unit must respond to an SRE. Thus, if the unit is *not* committed in the NYISO energy market, the NYISO can ensure that the unit is called on outside of its Day-Ahead Market commitment process. In fact, NYISO has to come up with such a mechanism in order to make its proposal work, since if the energy is not required in ISO-NE, the NYISO receives none of the assumed reliability benefits.

Inherent in its Proposal is the NYISO's assumption that the exporting unit will be available during a peak period to provide the reliability benefits that the NYISO is now counting on to meet its resource adequacy needs. This is not a reasonable assumption if the resource is not subject to the NYISO's capacity rules. For example, generators submit planned outages for approval. Presumably, NYISO would not allow an outage during a peak period. Will NYISO decline such an outage request, or will ISO New England? NYISO seems to assume that Roseton would only be unavailable because of a forced outage, and not a planned outage, but no mechanism for ensuring this assumption has been addressed.

[19] *Cal. Indep. Sys. Operator Corp.*, 153 FERC ¶ 61,001 (2015).

F. The NYISO Proposes Unwarranted and Untested Changes to its Installed Reserve Margin and Local Capacity Requirements.

In this Proposal, NYISO effectively argues that its Locational Capacity Requirements ("LCR") ought to be "re-determined" after-the-fact to reflect actual energy market flows. The Proposal ignores the fact that both Installed Reserve Margin ("IRM") and the LCRs are set via a rigorous analytic process, set forth in the NYISO Tariff *before* the capacity market is actually run. Even if the NYISO is permitted to incorporate energy market benefits (*i.e.*, the counterflow benefits that the NYISO claims are present), these benefits should be considered as part of the IRM and LCR setting process. It is important for the Commission to note that the NYISO currently utilizes a robust probabilistic assessment process when it sets the LCR or IRM. The NYISO, however, has bypassed that process here, in favor of a much less robust set of power flow analyses that do not address all possible real-time conditions.

In particular, the Tariff requires the NYISO to alter the capacity market IRM and LCR only after conducting a probabilistic analysis to determine the appropriate reserve margin and locational capacity requirements to ensure resource adequacy in the NYCA. As the NYISO's Reliability Process Planning Manual #26 ("Manual #26") explains:[20]

> Currently the primary tool used by the NYISO for conducting the resource adequacy assessment is GE's Multi-Area Reliability Simulation program (MARS). MARS uses a Monte Carlo simulation to compute the reliability of a generation system comprised of any number of interconnected areas or zones. MARS is able to reflect in its reliability calculations each of the factors listed in NYSRC Reliability Rule AR-1 including the impacts of the transfer capability of the transmission system.

The reliability analysis conducted by the NYISO in support of its Proposal is nowhere near as robust as the MARS analysis required by Manual #26. Under NYISO's Proposal, however, it is

[20] *Available at:* http://www.nyiso.com/public/webdocs/markets_operations/documents/Manuals_and_Guides/Manuals/Planning/rpp_mnl.pdf

the real-time market impacts (*i.e.*, the after-the-fact energy market counterflows) that determine the appropriate amount of resource adequacy, which is very different from pre-defining the reserve margin and the locational capacity requirements, as currently contemplated by the NYISO and its Tariff. This is a fundamental departure from the way the IRM and LCR are set and could have significant pricing impacts. The NYISO's Proposal would send the full price signal for the total amount of exported MWs in the Rest of State region, but would mute the capacity market impacts in the constrained Localities, such as the G-J Locality. The NYISO argues that its proposal does not change the NYCA Minimum ICAP Requirement, and therefore does not change the IRM. However, this is an unproven assumption. Under NYISO's current methodology for determining both the IRM and the LCRs, or the amount of capacity that is required to be located in import-constrained areas of the NYCA system, the IRM and the LCR are determined with a "Unified Methodology." Essentially, the LCRs are tied to the IRM, and any changes to the LCRs could "introduce larger changes in IRM requirements and vice-versa."[21] In short, the NYISO Proposal offers no analysis in support of its claim that the overall IRM is unaffected by its proposed changes.

The NRG Companies urge the Commission to require the NYISO to follow its existing process for changing the IRM and LCR, rather than taking the short-cut proposed by the instant filing. The appropriate way to model the impact of an export that that provides counterflow benefits is to allow all possible LE Factors (*i.e.*, an analysis that includes all possible variations of shift factors, including various combinations of resources and line outages, which create various shift factors) to be included in the MARS model used to determine the IRM. One way

[21] "NYSRC Reliability Council Procedure for Establishing NYCA ICAP Requirements, Policy 5-10." http://www.nysrc.org/pdf/Policies/NYSRC%20POLICY%205-10%20%20Final.pdf
The New York State Reliability Council sets the IRM and NYISO determines the LCRs, taking into account any changes that may have occurred since the NYSRC approved the IRM basecase. However, the final LCRs maintain the assumptions of the Unified Methodology.

to do this is to reflect the probabilities of generator unit outages and transmission line outages that could impact the shift factors the NYISO has determined. This would ensure that the probabilistic model used to determine the IRM captures any claimed resource adequacy benefits from a Locality export. Modeling the LE Factors probabilistically fits within the existing IRM/LCR methodology and does not require NYISO to make after-the-fact changes to the LCRs that could actually be impacting the IRM. This would ensure that all market outcomes are efficient.

NYISO is currently evaluating potential changes to how it calculates the LCRs, but since any methodology change could impact the underlying IRM assumptions, NYISO's LCR methodology effort is a multi-year process, and is still ongoing.[22] In addition, the New York State Reliability Council ("NYSRC") will conduct an analysis of the possible export of capacity from a Locality next year. Until these analyses are complete, the Commission should reject NYISO's Proposal to make after-the-fact changes to the LCR that NYISO assumes, but has not demonstrated, do not impact the overall IRM.

Finally, the Commission has clearly stated that fundamental changes to the NYISO's capacity market parameters should be done through the demand curve process, and that the Commission would reject any proposal to modify demand curve parameters mid-cycle.[23] This Proposal, however, violates that precedent by altering key capacity market and demand curve metrics without waiting until the next demand curve reset cycle.

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[22] NYISO has hired Navigant Consulting to help with this complicated effort.

[23] In rejecting a plea from the generator community to open up the Demand Curve Process mid-cycle, the Commission noted that it "must balance the need for an out-of-cycle adjustment to provide proper price signals to encourage new economic capacity entry against the value of price stability, and certainty to customers in the market. The ICAP Demand Curve process is based on the premise that price stability and certainty are important to the market. . . To reopen and start anew the lengthy review process now would re-ignite the debate over all of the factors that determine the Demand Curves and would promote confusion and uncertainty rather than stability in the market with uncertain future benefits." *See Indep. Power Producers of N.Y., Inc. v. N.Y. Indep. Sys. Operator*, 125 FERC ¶ 61,311 at P 35 (2008).

G. The NYISO Proposal Fails to Address the Mismatch between Interconnection Rules and its Proposed Treatment of Resources.

Under NYISO rules, a generation resource that no longer participates in the ICAP market is deemed to lose its Capacity Resource Interconnection Service ("CRIS") rights after it has ceased clearing in the ICAP market for three years. The idea is that the "headroom" on the system associated with the non-participating unit should be made available to the New York ratepayers that paid for the transmission capacity to begin with. Thus, a resource that exports its capacity to an adjoining control area would lose its rights, under existing NYISO rules, in three years. The NYISO Proposal, however, appears to assume that the capacity market benefits of an exporting resource continue on indefinitely. At a minimum, the Commission should require that the NYISO clarify that any capacity market discount would cease once the exporting resource loses its injection rights in New York.

III. Motion for Leave to File One Day Out of Time

The NRG Companies request that the Commission find good cause to accept these comments one day out of time. NRG's comments were delayed because of staffing issues, as well as the press of additional business, and NRG apologies for the delay in filing. NRG's protest raises significant issues regarding the future of the investment signals in the NYISO system and their implications for long-term resource adequacy. NRG is one of the leading generators in New York, and thus represents a unique perspective. Importantly, no party will be prejudiced by the acceptance of these comments, and the proceeding will not be unduly delayed.

III. CONCLUSION

For the aforementioned reasons, NRG respectfully requests that the Commission reject the NYISO's Proposal.

December 22, 2016

Respectfully submitted,

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Certificate Of Service

I hereby certify that I have served a copy of the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Princeton, New Jersey this 22nd day of December, 2016.

/s/ *Maria DeLuca*
Maria DeLuca