Independent
Power Producers
of New York, Inc. (IPPNY)

194 Washington Avenue, Suite 315
Albany, NY 12210
phone: 518-436-3749
fax: 518-436-0369
www.ippny.org
Gavin J. Donohue, *President &*
Chief Executive Officer

Via Electronic Mail to deckles@nyiso.com, enelson@nyiso.com, & jboles@nyiso.com

To: New York Independent System Operator, Inc.

From: Matthew Schwall, Director, Market Policy & Regulatory Affairs

Date: 7/18/17

Re: NYISO Development of a Probabilistic Analysis-Based Locality Exchange Factor

Independent Power Producers of New York, Inc. ("IPPNY") hereby responds to the New York Independent System Operator's ("NYISO") request at the June 29th, 2017 Installed Capacity Working Group ("ICAPWG") meeting for Market Participants to provide feedback on whether the NYISO should continue to devote resources to the further development of a probabilistic analysis-based model to determine the percentage of exported capacity from Import Constrained Localities that can be replaced by capacity from Rest of State resources (the "Locality Exchange Factor" or "LE Factor").

After more than six months of work, GE Energy Consulting ("GE") has been unable to meet the stated objective of developing a probabilistic model that is transparent and provides certain and predictable results. As became apparent during the meeting, the fault lies in the methodology itself as applied in this context. As GE concluded in its report, the model itself is complex, uncertain, heavily assumption-driven, and does not provide results which differ significantly from the currently effective deterministic model. Indeed, GE's most recent presentation at the June 29th ICAPWG meeting demonstrated that the results of its model cannot be repeated for capacity sales emanating from each Locality to each adjoining region.[1] Thus, no further time or resources should be allocated towards the development of a probabilistic-based LE Factor at this juncture.

In keeping with its commitment to Market Participants last fall when the deterministic approach was approved to evaluate other alternatives for addressing capacity exports from Import Constrained Localities, the NYISO retained GE to evaluate a probabilistic-based approach to

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[1] See GE Presentation on *Probabilistic Locality Exchange Factor Analysis,* Slide 3, NYISO ICAPWG (June 29,2017), ("June 29th ICAPWG")
https://www.nyiso.com/public/webdocs/markets_operations/committees/bic_icapwg/meeting_materials/2017-06-29/Locality_Exchange_Factor_Analysis_06232017.pdf

calculating LE Factors.[2] GE has made numerous presentations to the ICAPWG on this topic. Most recently, at the June 29th ICAPWG meeting, GE presented the results of the sensitivity analyses that it performed to measure the stability and robustness of its probabilistic model. The sensitivity analyses resulted in LE Factors that were significantly different than the results that GE had expected intuitively. These results provided strong evidence that the probabilistic model is not suitable to replace the deterministic model.[3]

The mere fact that the latest iteration of GE's probabilistic model results in a higher – albeit marginally – LE Factor than that produced by the deterministic model provides no basis for turning a blind eye to the flaws inherent therein. As GE noted, errors in the model, such as the perfect capacity assumption, result in an upward bias to the LE Factor, and, therefore, additional research would be necessary to address modeling concerns. Assuming these errors could be addressed, GE stated that the probabilistic model would likely produce a lower LE Factor. In addition, GE readily acknowledged that the results of the probabilistic model are highly dependent on the assumptions that are used, adding another layer of complexity and uncertainty to what should be a stable, transparent, and predictable process.

At the end of the June 29th presentation, NYISO Staff offered the preliminary recommendation that further resources should not be devoted to additional work on the probabilistic model because these resources could be better used on the substantial number of other capacity market projects currently underway at the NYISO. IPPNY agrees with NYISO Staff that the probabilistic model does not provide the same level of simplicity, stability, and transparency as the deterministic model which is currently a part of the NYISO's tariff. Therefore, IPPNY strongly supports NYISO Staff's proposal to discontinue work on the probabilistic-based LE Factor and redirect those resources to the other capacity market projects under consideration.

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[2] The FERC found the deterministic approach was just and reasonable. *New York Indep. Sys. Operator, Inc.*, 158 FERC ¶ 61,064, (2017)

[3] June 29 ICAPWG at Slide 16