

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

Niagara Mohawk Power Corporation,)	Docket No. EL06-1-000
A National Grid Company)	
)	
v.)	
)	
New York State Reliability Council and)	
New York Independent System Operator, Inc.)	

Quarterly Informational Report

**Actions Taken by the
New York State Reliability Council and the
New York Independent System Operator
Concerning the Issues Raised in the Complaint Filed by
Niagara Mohawk Power Corporation, d/b/a National Grid**

I. Joint NYSRC/NYISO Quarterly Report

This quarterly informational report is submitted by the New York State Reliability Council ("NYSRC") and the New York Independent System Operator, Inc. ("NYISO") pursuant to the Federal Energy Regulatory Commission's ("Commission" or "FERC") July 26, 2006 Order Accepting Informational Report and Requiring Further Reports, 116 FERC ¶ 61,084 (2006) ("July 26 Order").

In a complaint filed on October 5, 2005 with the Commission under Section 206 of the Federal Power Act, Niagara Mohawk Power Corporation, d/b/a National Grid ("National Grid") alleged that current practices of the NYSRC and the NYISO pertaining to the setting of the statewide installed reserve margin ("IRM") and locational capacity requirements ("LCRs") cause electricity consumers in upstate New York to subsidize the costs of maintaining reliability in the

downstate regions.¹ National Grid requested FERC to direct the NYSRC and the NYISO to implement a lower statewide installed capacity requirement to eliminate the claimed subsidy. National Grid's Complaint also alleged that the current NYSRC and NYISO procedures for setting the IRM and LCRs are inconsistent with Commission orders and policy underlying locational markets and depress price signals for increasing capacity in the downstate zones.²

The Commission dismissed the National Grid Complaint, without prejudice, and required that National Grid first exhaust its methods of resolving this dispute within the NYSRC and the NYISO before filing a complaint with the Commission. Although it dismissed the Complaint, the Commission directed the NYSRC and the NYISO to file a report within ninety days of the date of the order describing the progress that they and National Grid have made in resolving National Grid's concerns.³

On April 28, 2006, NYSRC and the NYISO submitted a joint informational report ("First Joint Report") as required by the Commission's February 2 Order. In its July 26 Order, the Commission accepted the First Joint Report and directed the NYSRC and the NYISO to file quarterly reports, beginning September 29, 2006 describing the progress they, their task force and National Grid are making in resolving National Grid's concerns, with specification of the progress made since the previous quarterly report.⁴ This is the third quarterly report submitted jointly by the NYSRC and the NYISO as directed in the Commission's July 26 Order.

II. Communications

All communications, pleadings, and orders with respect to this proceeding should be sent to the individuals listed below:

¹ *Niagara Mohawk Power Corp. v. N.Y. State Reliability Council*, 114 FERC ¶ 61,098, at P 1 (2006) ("February 2 Order").

² *Id.* at P 10.

³ *Id.* at P 25.

⁴ July 26 Order at P 12 and ordering paras. (A) & (B).

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III. Background

Under the NYISO/NYSRC Agreement, the NYSRC is assigned the responsibility for establishing the annual statewide IRM for the New York control area (“NYCA”),⁵ and the NYISO is assigned the responsibility of establishing installed capacity requirements for load serving entities (“LSEs”) including LCRs, to ensure that the statewide IRM is achieved.⁶ Currently, there are two areas in the state that are subject to LCRs: New York City and Long Island.

Over the past several years, the NYSRC and the NYISO have worked cooperatively to improve the procedures for determining the IRM and LCRs. A description of the procedures used to determine the IRM and LCRs, including the Unified Study Method and the Tan 45 anchoring method are included in the previous Quarterly Report submitted in this Docket by the NYSRC and the NYISO on September 29, 2006.

⁵ NYISO/NYSRC Agreement, Section 4.5.

⁶ *Id.*, Section 3.4.

In its Complaint, National Grid contended that the Tan 45 anchoring method results in a higher statewide IRM to meet reliability criteria, uncouples resource adequacy needs from market signals, and results in a subsidy of installed capacity payments that flow from upstate consumers to downstate consumers. National Grid and other parties supporting its position urged that the Tan 45 anchoring method be replaced by an anchoring method described as the Free-Flowing Equivalent (“FFE”) method.

IV. Status Report on Actions Taken by NYSRC and NYISO

This report will describe the current status of actions undertaken by the NYSRC and NYISO to address National Grid’s concerns.

1. 2007-2008 IRM Study

As was anticipated in the December 29, 2006 Quarterly report, the Unified and IRM Anchoring methodologies were used in the 2007-2008 IRM study. The 2007-2008 IRM study was unanimously approved at a special meeting of the NYSRC Executive Committee on January 5, 2007. Based on the results of the IRM study, and its consideration of sensitivity cases and other factors, the NYSRC Executive Committee adopted a 16.5% IRM for the 2007-2008 capability year. Pursuant to the requirements in Section 3.03 of the NYSRC Agreement, the NYSRC submitted a filing to the Commission for approval of the revised IRM. The Commission issued an order on March 5, 2007, accepting the revised IRM, effective March 1, 2007.⁷ In a separate proceeding, the New York Public Service Commission adopted the 16.5% IRM.⁸ On February 8, 2007 the NYISO Operating Committee endorsed LCRs corresponding to the Tangent 45 degree anchor point of the IRM/LCR curve in the 2007-2008 IRM study.

⁷ *N.Y. State Reliability Council*, 118 FERC ¶ 61,179 (2007).

⁸ Order Adopting an Installed Reserve Margin for the New York Control Area, Case 07-E-0088, Case 05-E-1180, issued and effective March 8, 2007; Confirming Order issued and effective March 21, 2007.

As discussed in the December 29, 2006 Quarterly report, the 2007-2008 IRM study used the identical IRM/LCR curves and base case assumptions in both the 2007-2008 IRM and LCR determinations, resulting in greater consistency and a more accurate relationship between the IRM and LCRs.

While the NYSRC and the NYISO did not adopt the Free-Flowing Equivalent methodology to determine the IRM, as proposed by National Grid in its Complaint, the current IRM methodology with updated modeling programs and model assumptions, resulted in a substantial reduction in the IRM for the 2007-2008 capability year, from 18.0% to 16.5%.

2. GE-MARS Modeling Enhancement

At the January 31, 2007 Installed Capacity Subcommittee (“ICS”) meeting, General Electric (“GE”) identified a further modeling enhancement to GE’s Multi-Area Reliability Simulation (“GE-MARS”) database involving the modeling of state transition rates associated with Consolidated Edison Company of New York, Inc. cable forced outage rates. GE recommended a method to more accurately model the transition rates of this interface given short outage events of less than one-hour. Because of the way in which transition rates are used in GE-MARS and sequential Monte Carlo simulations, outages of significant duration are more easily accommodated in an LOLE calculation. Thus, GE’s modeling recommendation is expected to reflect a more accurate modeling of the transmission corridor connecting Upstate and Downstate resulting in a more accurate relationship between the IRM and LCRs.

3. Upstate-Downstate Study

On March 13, 2007 the NYISO met with GE to formally re-start the Upstate-Downstate Study. The study had been suspended since the fall of 2006 due to the decision by the ICS to utilize the same data and assumptions that were used in the 2007-2008 IRM Study. This

decision was prompted by the modeling issues and revisions that were encountered during the conduct of the prior year 2006-2007 IRM Study. The Upstate-Downstate Study was therefore put on hold until the 2007-2008 IRM Study was completed. Further delay was encountered pending completion of the standards agreement between the NYISO and GE regarding the work to be performed for the study. This agreement was reached on February 27, 2007, and the Upstate-Downstate Study is currently underway.

As discussed in the December 29, 2006 report, the Upstate-Downstate Study, which will be performed by GE and managed by the NYISO, will evaluate the reliability parameters and inter-zonal assistance between the two NYCA "Super Zones" identified as Upstate (Zones A through I) and Downstate (Zones J and K). The study is intended to quantify emergency assistance benefits that the Upstate and Downstate Super Zones provide to each other. The study results, along with other factors under discussion by the NYSRC Executive Committee, will be considered in relation to contentions that current procedures for establishing the IRM and LCRs result in an unwarranted subsidy flowing from upstate consumers to downstate consumers. At the March 9, 2007 NYSRC Executive Committee meeting, it was agreed the Upstate-Downstate Study would also include a sensitivity case that includes the operation of the Neptune 660 MW intertie, provided that the development of this sensitivity case would not result in a delay the Upstate-Downstate Study.⁹

4. Resource Adequacy Issues Task Force

The Resource Adequacy Issues Task Force ("RAITF") is a joint task force chaired by the chairs of the ICS and the NYISO's Installed Capacity Working Group. The RAITF was formed for the express purpose of addressing the issues raised in the National Grid Complaint.

⁹ This cable is projected to be in service by July 15, 2007.

At meetings held in the fall of 2006, the RAITF heard a presentation from ISO-NE personnel on a Tie Benefits Study that they had produced,¹⁰ and a presentation by GE on the GE-MARS data base used for the NYSRC Installed Reserve Margin and NYISO LCR Studies. This included a detailed review of the GE-MARS input data tables, use of GE screening tools to identify data anomalies and a review of the overall reasonableness of GE-MARS input data used to perform resource adequacy studies.

Preliminary study results are expected to be completed by GE and reviewed by the ICS and the RAITF in April 2007. The RAITF and the ICS will consider the final study results and consider actions to address the concerns raised in the National Grid complaint. The final study results will then be forwarded, with any comments and recommendations, to the Executive Committee and the Operating Committee in the second or third quarter of 2007.

V. Summary

The NYSRC and the NYISO, through their relevant committees, continue to develop more accurate and consistent methodologies for the determination of the IRM and LCRs, and to consider the issues raised in the National Grid Complaint, including the relative merits of the Tan 45 and Free-Flowing Equivalent anchoring methods. The Upstate-Downstate Study is intended to provide key information that would be useful in analyzing the reliability benefits provided by the upstate and downstate regions to each other and to the NYCA as a whole, and whether the use of the Tan 45 method results in a subsidy flowing from upstate consumers to downstate consumers. Completion of the Upstate-Downstate Study has been delayed due to the need to devote resources to the timely completion of the 2007-2008 IRM Study and the adoption of the IRM and LCRs for the 2007-2008 capability year, but it is now underway. The current

¹⁰ http://www.nyiso.com/public/webdocs/committees/bic_icapwg_raitf/meeting_materials/2006-11-03/RAITF_Tie_Benefits_NYSRC_110306.pdf

expectation is that the Upstate-Downstate Study will be completed by the end of April 2007, and that its results will be considered by the ICS and the RAITF, and then by the NYSRC Executive Committee and the NYISO Operating Committee, in the second or third quarter of 2007. Upon completion of the study, the RAITF and the Executive Committee will be in a position to establish a firm schedule for completion of the process to address the issues raised in the National Grid complaint.

Conclusion

WHEREFORE, the New York State Reliability Council and the New York Independent System Operator, Inc. request that the Commission accept this quarterly report in compliance with the July 26 Order in this proceeding.

Respectfully submitted,

For the NYSRC:

/s/ Bruce B. Ellsworth

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list in this proceeding in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure.

Dated at Washington, D.C. this 29th day of March 2007.

/s/ Claire Brennan

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