

June 23, 2004

Via Hand Delivery and Electronic Mail

Hon. Jaclyn A. Brillling
Secretary
New York State Public Service Commission
Three Empire State Plaza
Albany, New York 12223

**Re: Case 03-E-0188 – Proceeding on Motion of the Commission
Regarding a Retail Renewable Portfolio**

Dear Secretary Brillling:

Please accept the original and twenty-five copies of this letter in lieu of a Brief on Exceptions from the New York Independent System Operator, Inc. (“NYISO”) in the above-identified proceeding.

The NYISO supports Administrative Law Judge (“ALJ”) Stein’s June 03, 2004 recommendation that the Commission moves ahead in this proceeding and issue a policy statement on the basic renewable portfolio standard (“RPS”) infrastructure issues. These issues include procurement design, funding mechanisms, eligible technologies, targets, objectives, and the development of a Generation Attributes Trading System (“GATS”).¹

The ALJ also appropriately recommends that the Commission initiate an implementation phase to put its policy decisions in place. The details of that implementation phase, however, are sufficiently vague that the NYISO is concerned that

¹ Case 03-E-0188, *Recommended Decision by Administrative Law Judge Eleanor Stein*, June 3, 2004, (“RD”) at p. 6.

significant issues surrounding reliability and market impacts may not be adequately addressed. If the Commission agrees with the ALJ and supports the RPS, the NYISO urges the Commission to affirmatively commit to address, in the implementation phase, operational, reliability and market implications that have yet to be identified, but which are the subjects of various pending studies.² The conclusions of these evaluations need to serve as guiding principles that will shape the resolution of issues in the implementation phase. Thus, the Commission's policy statement should affirmatively indicate that they will be addressed. These issues are discussed more completely below.

Commit to Implement the RPS in a Manner that will Promote Reliability

The Phase I Report of the joint NYISO/NYSERDA Wind Study provides only a preliminary review of the reliability impacts of adding significant wind resources to the New York transmission system; Phase II of the Wind Study will complete that review. Among other things, the Phase II study will address changes that may be required by the North American Electric Reliability Council ("NERC"), the Northeast Power Coordinating Council ("NPCC"), and the New York State Reliability Council ("NYSRC"). These include the reliability standards, criteria, and rules for planning and operating the New York State Power System (*e.g.*, any special requirements or conditions that should be placed on wind generation development) to meet the overall needs of New York for a reliable electrical grid.

The NYISO suggests, therefore, that the ALJ overstates the completeness of the record on this point when she comments that the record contains a "comprehensive

² For instance, Phase II of the joint NYISO/ NYSERDA evaluation of the reliability implications of the RPS will not be finalized before early next year. Phase I of that evaluation, *Effects of Integrating Windpower on Transmission System Planning, Reliability and Operations* ("Phase I Wind Study"), was

examination of . . . reliability considerations.”³ Moreover, the RD recommends only that the implementation proceeding “take into consideration” the joint NYISO/NYSERDA Phase II Report. Although the RD acknowledges the further work that the NYISO is performing on its own to assess the short-term reliability and resource adequacy implications of adding these resources, it is silent on how the NYISO’s conclusions will be incorporated, or even considered in the implementation phase.⁴

The conclusions of these evaluations are too significant to simply be “considered” in implementing the RPS. For example, voltage or stability constraints, from a network security point of view, as well as operational considerations, could ultimately decrease the preliminary Phase I determination that the transmission system could interconnect up to 3,300 MW of intermittent resources.⁵ The RD, nonetheless, recommends now that wind resources increase to just less than 3,000 MWs by 2013.⁶

Similarly, the addition of significant subsidized resources, particularly in the western part of the State, could adversely impact existing, marginally operating, thermal generation. The retirement of existing generation, or the deferral or cancellation of expected new generation that could be displaced by significant additions of new wind power may adversely impact system reliability, although the NPCC minimum reliability

released late last year. As well, the NYISO’s evaluation of the impacts of significant, subsidized resources on wholesale market efficiency and competition will not be ready for several months.

³ RD at p. 31. Nonetheless, the NYISO agrees that even a preliminary review of reliability is sufficient to support, as the ALJ does, the issuance of a policy statement supporting the establishment of the broad infrastructure for an RPS.

⁴ RD at pp. 28-30. While the NYISO agrees that an analysis of barriers to interconnection in parts of the grid needs to be performed before a final RPS is implemented (RD pp. 106-107), this is not the only issue that will be addressed by the further examination of reliability impacts.

⁵ Case 03-E-0188, Comments of the New York Independent System Operator, Inc. On Phase I *The Effects Of Integrating Windpower On Transmission System Planning, Reliability And Operations*, March 18, 2004, (“Comments”), p. 2.

⁶ RD at p. 89.

threshold would be maintained. The Phase I Report did not examine the effects of new wind generation on existing generation.

The RD correctly recommends that the Commission adopt the measures to protect reliability outlined in the Phase I report. These include interconnection requirements and the implementation of features still under development – features that offer the ability to set power ramps, governor functions, reserve functions and zero-power voltage regulation.⁷ The RD also appears to endorse the development and use of a centralized wind-forecasting center that would provide data to the NYISO and wind farms.⁸

The implementation phase, however, must accommodate, and not merely consider, the conclusions reached in the Phase II report and in the NYISO's short-term reliability study. The NYISO will continue to keep the Commission apprised of any adjustments to the RPS design or implementation that may be prudent, based on the results of these evaluations. The NYISO reiterates that firm conclusions in the crucial reliability area cannot be made until the conclusions of Phase II are reviewed and analyzed.

Commit to Implement the RPS in a Manner that will Support Market Efficiency and Competitiveness

The RD does not adequately recognize the value and significance of the market impact analysis that the NYISO is performing. The Commission should strongly commit to implement the RPS in a manner that will support wholesale market efficiency and promote competition. The Commission should also indicate that final decisions on such issues as the design of the subsidy and the precise role of the central procurement entity

⁷ RD pp. 90, 93.

⁸ RD Appendix D., p.1.

will be further addressed during the implementation phase and after receipt of the NYISO-sponsored recommendations.

As the NYISO indicated in its Comments, it plans to evaluate the impacts of intermittent resources on the efficiency and effectiveness of the wholesale market.⁹ The NYISO intends to consult with its independent Market Advisor, Dr. David Patton on, among other things, RPS-resource procurement options that would bring these resources on-line in a manner that minimizes adverse impacts on the wholesale market's efficiency and competitiveness.

The Commission's policy statement should refrain from endorsing the details of any particular procurement or contracting methodologies (including the hybrid contracts for differences approach initially proposed by DPS Staff) until the results of the NYISO analysis are available. The eventual decisions on these issues will be crucial to maintaining an efficient and competitive market and they should be reached in a manner that incorporates Dr. Patton's recommendations. Only through a very comprehensive examination of the market implications of these issues will the Commission avoid unintended, adverse economic consequences.

Finally, the NYISO supports Judge Stein's recommendation to reinvigorate efforts to develop a GATS in order to "immediately" establish a New York State attributes trading system, and to "develop as soon as possible" a trading system without borders.¹⁰ The NYISO also strongly supports the Judge's recommendation that the GATS include the functionality that will allow parties to buy and sell Renewable Energy Credits ("RECs") online in real time.

⁹ Comments, p. 6. The NYISO will utilize the infrastructure decisions included in any Commission-issued policy decision to guide this effort.

The NYISO has a significant interest in the design, trading rules, and operation of a New York GATS, and should be an active participant in its design. NYISO involvement is necessary to ensure that any trading system's design or rules do not create new "seams" between New York State and its neighboring electrical control areas. NYISO involvement is also crucial to ensure that the interface between a GATS and the NYISO's financial settlement system is efficient and workable. Because the RD does not specifically recommend that the NYISO be included in developing the GATS implementation plan since the NYISO is not a state agency¹¹, the Commission should affirmatively indicate that the NYISO is to be an involved party in the design of any GATS system.

The NYISO anticipates and looks forward to working effectively with DPS Staff and other interested parties on these important issues in this proceeding.

Respectfully submitted,

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¹⁰ RD, Appendix C at iv.

¹¹ The RD states: "The recommendation is that DPS Staff should draft rules with other state agencies as appropriate and that Working Group Four be reconvened for consultation, with a charge to present an implementation plan to the Commission no later than December 2004." (RD at 99.)