

June 25, 2001

*Via Overnight Mail*  
Chairman Richard J. Grossi  
c/o President William J. Museler  
New York Independent System Operator  
3890 Carman Road  
Schenectady, NY 12303

Dear Chairman Grossi:

The City of New York (“City”) respectfully submits its “Motion in Support” of the New York State Electric & Gas Corporation’s June 19, 2001 “Notice of Appeal” of the Management Committee’s June 6, 2000 decision to establish a one-month obligation procurement period for the NYISO’s installed capacity markets. Enclosed is the original document plus ten copies. Please contact me if you have any questions.

Yours Very Truly,

Jay L. Kooper, Esq.  
Energy Policy Advocate

Cc (via e-mail): Members of the Management Committee  
Robert Fernandez, Esq. (NYISO General Counsel)  
Ira Freilicher, Esq. (Hunton & Williams)

**MOTION OF THE CITY OF NEW YORK IN SUPPORT OF  
NYSEG’S APPEAL OF THE MANAGEMENT COMMITTEE’S  
JUNE 6, 2001 DECISION TO APPROVE THE  
STAGE II ICAP TARIFF FOR FILING.**

**PRELIMINARY STATEMENT**

The City of New York (“City”) submits this “Motion in Support” pursuant to §§ 1.03 and 4.01 of the New York Independent System Operator’s (“NYISO”) Procedural Rules for Appeals. The City requests that the Board sustain the New York State Electric & Gas Corporation’s (“NYSEG”) appeal to overturn the Management Committee’s June 6, 2001 decision (“June 6 Decision”) approving the Stage II Installed Capacity (“ICAP”) Tariff, which, inter alia, decreases the obligation procurement period (“OPP”) for ICAP from six months to one month.

The City shares NYSEG’s concern that the June 6 Decision will result in a destabilization of the NYISO ICAP market. For this very reason, the neighboring Pennsylvania-New Jersey-Maryland (“PJM”) ISO has recently decided to change its one-day OPP to a seasonal OPP. See PJM, 95 FERC ¶ 61,330 (2001). Like NYSEG, the City believes that the most practical way for the NYISO to approach ICAP issues is through interregional coordination with its neighboring PJM and New England ISOs. The NYISO Board of Directors’ (“Board”) adoption of the June 6 Decision would directly conflict with such efforts. Accordingly, the Board should sustain NYSEG’s appeal and adopt the relief requested therein.

## DISCUSSION

Both the PJM ISO and the Federal Energy Regulatory Commission (“Commission”) have acknowledged that a short-term ICAP OPP creates significant reliability problems for an ISO control area. In PJM, 95 FERC ¶ 61,330 (2001), the PJM ISO filed a request to amend its Reliability Assurance Agreement (“RAA”), which governs the procurement periods for ICAP obligations. Id. slip op. at 1. In its request, the PJM ISO argued that its daily ICAP OPP had created a significant reliability problem because:

Under the current system whereby an entity can commit generation resources to PJM one day and delist<sup>1</sup> it the next, the differential between the energy price within and outside of PJM creates an incentive for generators to swing their capacity resources on and off PJM on a highly volatile basis.

PJM, slip op. at 4. The PJM ISO therefore requested a change in its ICAP OPP from a daily basis to a seasonal basis. Id. slip op. at 1.

On June 1, 2001, the Commission approved the PJM ISO’s request to shift away from a short-term (daily) ICAP OPP and adopt a longer-term (seasonal) ICAP OPP. PJM, 95 FERC ¶ 61,330 (2001). The Commission stated that:

PJM makes a convincing case that its present system of daily capacity obligations is not just and reasonable due to flaws that could result in serious reliability problems during the coming summer peak season. Moreover, most of the parties--even some who object to PJM’s proposal--agree that PJM’s current method for ensuring reliability has serious flaws. PJM has proposed to eliminate the most serious of these flaws by moving from a daily to a seasonal capacity commitment period. We believe that PJM’s proposal represents a just and reasonable solution to the problems in the current system. The longer-term capacity commitment...will not only encourage LSEs and capacity holders to contract in advance for adequate capacity over the summer season, but will discourage the delisting of capacity during the summer.

---

<sup>1</sup> “Delisting” is the practice whereby a generator may remove its capacity from an ISO’s supply of capacity resources. If generation capacity is delisted, it can be sold outside of an ISO, and that ISO may not count on it as a capacity resource. See PJM, slip op. at 4.

Id. slip op. at 10-11.

Like the PJM ISO, the NYISO risks serious ICAP market destabilization if it shifts to a shorter ICAP OPP. Generators in the NYISO territory will have less of an incentive to engage in long-term capacity transactions with LSEs because they will be able to commit generation resources to the NYISO in one month and then delist those resources the next month. The withholding of capacity from long-term transactions (or from sales within the NYISO, for that matter) will cause the NYISO ICAP market to become vulnerable to short-term market fluctuations, price increases, and decreased capacity--all of which would contribute to a destabilization of the NYISO capacity markets and the increased possibility of capacity shortfalls during peak demand periods.

A one-month OPP would cause the same problems as the one-day OPP that was ultimately rejected by the PJM ISO. For example, under a one-month OPP, the NYISO will likely have a limited opportunity to acquire alternative sources of ICAP if such sources are needed. Moreover, such a shortened timeframe could create a situation where the NYISO is attempting to purchase alternative sources of ICAP to cure a capacity deficiency in the middle of a peak demand period. See NYSEG Appeal at 8. This situation could be worsened if alternative ICAP sources were already committed elsewhere. Id. Thus, if it adopted a one-month OPP, the NYISO would be playing a dangerous game of “Russian Roulette” with its ICAP markets, instead of collaborating with its neighboring Northeastern ISOs to adopt common ICAP principles.<sup>2</sup>

---

<sup>2</sup> The Board appears to have realized this when it “suggested that the Management Committee consider the eventual desirability of adopting the same Obligation Procurement Periods as were recently adopted by PJM.” See NYISO Press Release, “NYISO Approves Balanced Penalties Plan” at 2 (Jun. 19, 2001) <<http://www.nyiso.com>>.

## CONCLUSION

The City respectfully requests that the Board defer consideration of the June 6 Decision until after: (1) the resolution of NYSEG's appeal; (2) NYISO's exercise of a good faith effort to arrive at common ICAP market principles with its neighboring Northeastern ISOs; and (3) full consideration of the adverse effects of a shortened OPP on NYISO ICAP market reliability.

Dated: June 25, 2001  
New York, New York

Respectfully Submitted,

Jay L. Kooper, Esq.  
Energy Policy Advocate  
City of New York  
110 William Street, 4<sup>th</sup> Floor  
New York, NY 10038  
(212) 312-3787  
jkooper@nycedc.com

Energy/NewYorkISO/ICAP/MotionNYC.doc