

MOLLIE LAMPI
DIRECT DIAL: 518-356-7530
EMAIL: MLAMPI@nyiso.com

December 1, 2000

FILE NO: 55430.000005

BYHAND

The Honorable David P. Boergers
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

New York Independent System Operator, Inc.'s
Report on Certain Generation Issues One Year After Start-Up
in Docket Nos. ER97-1523-003, and -004, OA97-470-004
and -005, and ER97-4234-002 and -003

Dear Mr. Boergers:

In its January, 1999 order conditionally accepting the tariffs and market rules of the New York Independent System Operator, Inc. ("NYISO") in Docket Nos. ER97-1523-000, OA97-470-00 and ER97-4234-000 ("*January Order*"),¹ the Commission approved the New York "Member Systems"² proposal that the NYISO not be required to pay for "uninstructed *i.e.*, "power delivered above the amount scheduled or requested by the ISO."³ The Commission agreed with the Member Systems that "strong rate disincentives" were needed in order to induce suppliers to avoid overgeneration.

In its July, 1999 *Order Denying in Part and Granting in Part Rehearing and Clarification and Conditionally Accepting Compliance Filing*, ("*July Order*") in the above

¹ *Central Hudson Gas & Electric Corp., et al.*, 86 FERC ¶61,062 (1999).

² The Member Systems are the seven transmission-owning utilities doing business in New York and the New York Power Authority. The Member Systems filed the original version of what ultimately became the NYISO's Open Access Transmission Tariff and its Market Administration and Control Area Services Tariff on January 31, 1997.

³ *January Order* at 61,225.

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captioned proceeding,⁴ the Commission affirmed the *January Order's* holding with certain refinements. Specifically, the Commission directed the NYISO to evaluate the circumstances under which not paying for uninstructed overgeneration remained justified and whether special market rules were necessary to accommodate the special operating characteristics of "intermittent generators" such as wind, photovoltaic and small hydro facilities.⁵ The Commission also required that the NYISO "[C]onsult with stakeholders on these issues, and file a report on its conclusions and recommendation with the Commission one year after it begins market operations."⁶

Accordingly, the NYISO is timely submitting⁷ a report on its evaluation of these issues which was conducted in close consultation with New York market participants. At the present time the NYISO and the market participants are developing a description of the circumstances when paying for uninstructed overgeneration would be appropriate. The NYISO anticipates that when agreement is reached it will submit appropriate tariff amendments to the Commission for its review.

In addition, the NYISO and many, if not all, market participants have concluded that it is necessary to accommodate the special operating characteristics of intermittent generators. Some such accommodations have already been approved by the Commission and implemented by the NYISO.⁸ Others will be included in a tariff filing that will be made within the next several months to implement a permanent installed capacity ("ICAP") market design. If it is determined that additional tariff amendments are necessary, the NYISO and the market participants will submit them to the Commission as well.

⁴ *Central Hudson Gas & Electric Corp., et al.*, 88 FERC ¶ 61,138 (1999).

⁵ Section 4.18(D) of the NYISO Market Administration and Control Area Services Tariff ("Services Tariff") precludes payment for energy produced above SCD Base Point Signal unless the ISO has initiated a reserve pick-up or a Transmission Owner ("TO") has initiated a reserve pick-up in accordance with a Reliability Rule, including a Local Reliability Rule.

⁶ *July Order* at 61,398.

⁷ The NYISO commenced operations on December 1, 1999.

⁸ Existing and up to 50 MW of new intermittent resources are paid for energy delivered to the grid beyond their schedule. See: NYISO Services Tariff Section 4.18. As is noted below, the NYISO intends to increase the cap to 500 MW as part of its proposed permanent installed capacity market design.

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I. Documents Submitted

1. This report;
2. Form of *Federal Register* Notice (“Attachment A”).

II. Copies of Correspondence

Communications regarding this proceeding should be addressed to:

Mollie Lampi, Senior Attorney
John P. Buechler, Director of Regulatory Affairs
New York Independent System Operator, Inc.
3890 Carman Road
Schenectady, NY 12303
Tel: (518) 356-7530
Fax: (518) 356-4702
mlampi@nyiso.com
jbuechler@nyiso.com

Arnold H. Quint
Ted. J. Murphy
Hunton & Williams
1900 K Street, N.W.
Washington, D.C. 20006
Tel: (202) 955-1500
Fax: (202) 778-2201
aquint@hunton.com
tmurphy@hunton.com

III. Report

The NYISO’s Market Administration and Control Area Services Tariff (“Services Tariff”) precludes payment to generators for energy delivered above their Security Constrained Dispatch (“SCD”) base point signal, in most circumstances, as a disincentive to overgeneration.⁹ The Member Systems originally justified this tariff provision by arguing that overgeneration could threaten reliability and cause damage to other generation and transmission equipment.

In accepting the tariff provisions as filed, the *July Order* required that the NYISO evaluate whether they were necessary in all cases, regardless of generator location, and to

⁹ Generators scheduling a bilateral or offering energy into the LBMP energy market submit bid curves to the NYISO in the Day-Ahead and Hour-Ahead markets. If selected, generators, both on and off-dispatch, receive a Day-Ahead or Hour-Ahead schedule, as appropriate, and base point signals from the NYISO (often through the local Transmission Owner) as to the output expected according to their schedule.

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consider whether overgeneration penalties were truly necessary when undergeneration would not be penalized. The Commission also instructed the NYISO to evaluate whether Locational-Based Marginal Pricing (“LBMP”) signals were sufficient to address overgeneration problems, and thus obviated the need for special overgeneration rules, particularly since the PJM, California and New England ISOs all pay for uninstructed overgeneration in the real-time markets that they administer.¹⁰

The NYISO staff and the market participant committees have thoroughly reviewed these issues. The Operating Committee received a report on these issues from the System Operations Advisory Committee at its May, 2000 meeting and the Scheduling and Pricing Working Group is currently reviewing the issues before reporting back to the Business Issues Committee on its progress.¹¹

NYISO staff and market participants agree, in principle, that units that are willing to follow a LBMP price signal could benefit the transmission system during periods of increasing or decreasing loads. NYISO staff has proposed that a unit generating above its SCD basepoint when system indicators show additional generation is necessary to bring the Area Control Error back to zero should be paid its LBMP for all output. In addition, payment should be permitted when performance is within a reasonable deadband, so that generators are not unfairly denied payment when they are attempting to follow instructions and moving in a beneficial direction.

The NYISO Staff has proposed to link payment (to on-and off-dispatch generators) for compensable overgeneration to periods when system parameters indicate that the additional generation would not aggravate reliability constraints or result in sub-optimal regulation control. Under these system conditions, price alone appears likely to be an adequate indicator of constraint conditions and generation moving consistent with price should therefore be compensated. Because the NYISO retains operational authority to prevent transmission limit exceedances by ordering generators to reduce their output, harsher penalties should not be necessary, even when transmission limits are in imminent risk of being violated.

The NYISO is currently working with market participants to document the operating provisions necessary to allow payment for overgeneration, such as a requirement that the unit

¹⁰ *July Order*, at 61,398.

¹¹ At the request of NYISO staff a Generation Issues subgroup of the Scheduling and Pricing Working Group met on October 6, 2000 to review NYISO staff’s proposed resolution of this issue.

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comply with normal bidding and scheduling processes in order to avoid a sub-optimal hour-ahead Balancing Market Evaluation (“BME”) schedule. Market participants have reacted favorably and NYISO staff intends to complete its evaluation and be in a position to submit tariff amendments during the first quarter of 2001.

The NYISO has also worked with New York market participants, particularly those operating intermittent facilities that have difficulty scheduling or controlling their output, to develop market rules that accommodate their special operating characteristics. In particular, the NYISO intends that its permanent ICAP market design proposal will include a provision increasing the current cap on the amount of intermittent generation eligible for special energy balancing treatment under Section 4.18 of the NYISO Services tariff from 50 MW to 500 MW. In addition, the NYISO staff has circulated a proposed new Section 5.11(d) to the NYISO Services Tariff that would excuse intermittent generators that have sold ICAP from the bidding and scheduling requirements ordinarily imposed on ICAP suppliers pursuant to Article 5 of the NYISO Services Tariff. The NYISO staff and market participants are also discussing¹² the circumstances under which intermittent generators should be excused from regulation performance penalties which otherwise apply when suppliers produce energy at a level that differs from their schedules.¹³

The NYISO and its market participants have not yet concluded their work on these issues. As this report documents, however, NYISO staff expects that a consensus will be reached on substantially all of the overgeneration issues identified in the *July Order*. NYISO staff expects to make a filing addressing these matters during the first quarter of 2001.

IV. Federal Register Notice

A form of *Federal Register* Notice is provided as Attachment B hereto.

V. Service

Copies of this filing are being served on all of the parties in Docket Nos. ER97-1523-003 and -004, OA97-470-004 and -005 and ER97-4234-002 and -003.

¹² The most recent meeting on this subject was held on November 13, 2000.

¹³ The Commission rejected such a proposal, without prejudice to refile, in *New York Independent System Operator, Inc.*, 91 FERC ¶ 61,012 (April 4, 2000).

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VI. Conclusion

In conclusion, the NYISO respectfully requests that the Commission accept this report and find the NYISO to be in compliance with the *July Order's* reporting requirement.

Respectfully submitted,

NEW YORK INDEPENDENT
SYSTEM OPERATOR, INC.

By _____
Counsel

Mollie Lampi, Senior Attorney
New York Independent System Operator

Arnold H. Quint
Ted J. Murphy
Hunton & Williams
1900 K Street, N.W.
Washington, DC 20006-1109
Of Counsel

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in Docket Nos. ER97-1523-003, and -004, OA97-470-004 and -005, and ER97-4234-002 and -003, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure 18 C.F.R. § 2010 (1999).

Dated at Washington, D.C. this 1st day of December, 2000.

Ted J. Murphy
Hunton & Williams
1900 K Street, N.W.
Washington, D.C. 20006-1109
(202) 955-1588

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

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| New York Independent System Operator, Inc. |) | Docket Nos. ER97-1523-003, |
| |) | ER97-1523-004, OA97-470-004, |
| |) | OA97-470-005, ER97-4234-002 |
| |) | and ER97-4234-003 |

NOTICE OF FILING

Take notice that on December 1, 2000, the New York Independent System Operator, Inc. (“NYISO”), filed a Report on Certain Generation Issues One Year After Start-Up. The NYISO was required to submit this report pursuant to *Central Hudson Gas & Electric Corp., et al.*, 88 FERC ¶ 61,138 (1999).

A copy of this filing was served upon all parties in Docket Nos. ER97-1523-003, and -004, OA97-470-004 and -005, and ER97-4234-002 and -003.

Any person desiring to be heard or to protest this filing should file a motion to intervene or protest with the Federal Energy Regulatory Commission, 888 First Street, NE, Washington, DC 20426, in accordance with Rules 211 and 214 of the Commission’s Rules of Practice and Procedure 385.211 and 385.214). All such motions or protests should be filed on or before _____ . Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make protestants parties to the proceeding. Any person wishing to become a party must file a motion to intervene. Copies of this application are on file with the Commission and are available for public inspection.

David P. Boergers
Secretary