

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

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| Regional Transmission Organizations                                 | RT01-99-000,<br>RT01-99-001,<br>RT01-99-002 and<br>RT01-99-003 |
| Bangor Hydro-Electric Company, <i>et al.</i>                        | RT01-86-000,<br>RT01-86-001 and<br>RT01-86-002                 |
| New York Independent System Operator, Inc., <i>et al.</i>           | RT01-95-000,<br>RT01-95-001 and<br>RT01-95-002                 |
| PJM Interconnection, L.L.C., <i>et al.</i>                          | RT01-2-000,<br>RT01-2-001,<br>RT01-2-002 and<br>RT01-2-003     |
| PJM Interconnection, L.L.C.   | RT01-98-000  |
| ISO New England, Inc.<br>New York Independent System Operator, Inc. | RT02-3-000   |

**ANSWER OF  
THE NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.**

Pursuant to Rule 213 of the Commission’s Rules of Practice and Procedure,<sup>1</sup> the New York Independent System Operator, Inc. (“NYISO”) answers<sup>2</sup> the request of Niagara Mohawk Power Corporation d/b/a National Grid (“National Grid”) that the NYISO be ordered to modify its modeling of Quebec-New York transactions in the manner requested by H.Q. Energy Services (U.S.), Inc. (“HQUS”). National Grid’s

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<sup>1</sup> 18 C.F.R. §385.213 (2006).

<sup>2</sup> Because Rule 213(a)(2) does not expressly prohibit answers to “comments” the NYISO believes that it has authorized to make this answer under Rule 213(a)(3). If, however, the Commission views the pleadings the NYISO is answering as tantamount to “protests,” which may not ordinarily be answered under Rule 213(a)(2), the NYISO respectfully requests leave to answer.

request for an order should be rejected. The NYISO does not believe that any other commenter has asked for the Commission to issue an order in this proceeding, and would object to any such request. The NYISO is also authorized to state that if any party is seeking Commission action with respect to the PJM-New York interface, the PJM Interconnection (“PJM”) would support the NYISO’s position.<sup>3</sup>

The NYISO recognizes that the timely resolution of “seams” is important both to the Commission and to all ISO/RTO stakeholders in the Northeast. While many seams have been successfully eliminated, others still need to be addressed. The commenters in this proceeding have raised legitimate concerns that the NYISO takes seriously and wants to resolve as soon as it can.

National Grid goes too far, however, by asking the Commission to decide a complex issue on an incomplete and overly narrow record. Like all ISOs/RTOs, the NYISO has limited resources that it must allocate among the many projects proposed by its stakeholders, or mandated by the Commission. The NYISO has a well-established “Project Prioritization Team” (“PPT”), comprised of senior staff and representatives elected by stakeholders, that decides which projects will receive attention first. Issues related to the Quebec-New York interface have never been ignored, but they have never become a top priority because other projects were seen to be more important. Granting National Grid’s request would bypass the NYISO’s Commission-approved governance

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<sup>3</sup> HQUS, expressly did not request immediate Commission action. It likewise appears that New York Transmission Owners (“NYTOs”) have not asked the Commission to issue an order. To the extent that the NYTOs meant to include such a request, with respect to the Quebec-New York interface, the NYISO opposes it for the reasons set forth in Sections II.A-C below. To the extent that the NYTOs seek a remedy from the Commission with respect to the PJM-New York interface, the NYISO opposes it for the reasons set forth in Sections II.A, II.B, and II.D below. The NYISO is authorized to state that PJM supports its argument in Section II.D below. The NYISO takes no position with respect to the modeling of the 1385 line between New England and New York.

process. It would also undermine the PPT by giving all stakeholders an incentive to make an end-run around it and try to persuade the Commission to impose their individual preferences. As a result, the NYISO's ability to plan and execute projects would be harmed. The Commission would then have to deal with many disputes that are currently managed within the NYISO shared governance system.

## I. COMMUNICATIONS

Communications regarding this proceeding should be addressed to:

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## II. ANSWER

### A. National Grid's Request Is Procedurally Defective

As an initial matter, this proceeding is not the right venue for National Grid to obtain the relief that it seeks. The quarterly ISO/RTO reports that National Grid (and HQUS) commented on are voluntary informational updates posted on ISO/RTO websites. They are not filed with the Commission. All of the dockets that are listed in the caption in this proceeding have been terminated, and there is no pending Commission investigation under Section 206 of the Federal Power Act ("FPA").<sup>4</sup> HQUS, the party whose arguments National Grid adopts, recognized that comments on the quarterly

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<sup>4</sup> See *RTO Informational Filings, et al.*, 105 FERC ¶ 61,327 (2003); see also *RTO Informational Filings, et al.*, 104 FERC ¶ 61,296 at P 4 (2003) (noting that the Petition filed in Docket No. RT02-3 was withdrawn without objection).

reports are not the appropriate vehicle for seeking an order.<sup>5</sup> If National Grid wants the Commission to act, it should file a complaint and meet the evidentiary requirements established under FPA Section 206 and the Commission's regulations.<sup>6</sup>

If the Commission were to issue an order, it would do so without an adequate record, without a full understanding of why different seams have been assigned different priorities, and without giving other interested stakeholders a fair opportunity to be heard. It would also postpone other worthy projects, without being fully cognizant of the consequences of delay. The Commission can avoid these undesirable results by requiring National Grid to comply with the complaint rules before considering whether it should issue an order.

**B. Granting National Grid's Request Would Undermine the NYISO's Ability to Plan Projects Effectively and Control Costs**

Even if National Grid's request were valid under the applicable law and regulations, it would be unwise for the Commission to grant it. The Commission has traditionally discouraged attempts to bypass ISO/RTO stakeholder processes and to induce the Commission to impose individual preferences on all other stakeholders.<sup>7</sup>

Indeed, in the four years that the Northeastern ISOs/RTOs have been submitting quarterly

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<sup>5</sup> *Comments of H.Q. Energy Services (U.S.), Inc.* at 5 (reserving the right to "more fully raise this matter with the Commission in the appropriate manner and proceeding.").

<sup>6</sup> 18 C.F.R. §385.206(b) (2006).

<sup>7</sup> *See, e.g., Niagara Mohawk Power Corp., a National Grid Company v. New York State Reliability Council and New York Independent System Operator, Inc.*, 114 FERC ¶ 61,098 at P 22, 24 (2006) (dismissing complaint and stating that the issues raised in the complaint should first be addressed through the NYISO's stakeholder process); *KeySpan-Ravenswood, LLC v. New York Independent System Operator, Inc.*, 110 FERC ¶ 61,116 at P 37 (2005) (expressing "sympathy" with concerns about KeySpan's attempt to sidestep the stakeholder process); *New York Independent System Operator, Inc.*, 90 FERC ¶ 61,319 (2000) (rejecting alternative proposal put forward by a single party in opposition to a proposal approved by the NYISO's stakeholder committees).

seams updates, comments have been rare and the Commission has not taken any action in response to them.

One of the key components of the NYISO's shared governance system is the PPT, which includes the elected chairs of the NYISO's three main stakeholder committees and the chair of the Budget, Standards and Performance Subcommittee.<sup>8</sup> As part of the PPT process, all market participants have a chance to review recommended project priorities and to provide feedback. The PPT is responsible for creating and maintaining an integrated priority list under agreed upon project evaluation criteria, including cost considerations. Its existence reflects the fact that the NYISO cannot simultaneously make every project a top priority. This is especially true given the NYISO's, and the Commission's, emphasis on controlling costs and maximizing consumer benefits.

While the Commission is obviously not bound by the PPT's decisions, it has generally respected its work. For example, the Commission recently accepted the NYISO's position, which was based on PPT prioritizations, that a settlement system replacement project should be implemented before beginning efforts to increase the integration of demand side resources into the real-time markets.<sup>9</sup> Similarly, in 2001, the Commission allowed the NYISO to follow PPT-determined priorities for dealing with software and market design problems that emerged after the inception of the NYISO's markets.<sup>10</sup> Taking this approach has allowed the Commission to avoid dealing with the

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<sup>8</sup> Additional information about the PPT is available at [http://www.nyiso.com/public/committees/documents.jsp?com=mc\\_ppt](http://www.nyiso.com/public/committees/documents.jsp?com=mc_ppt).

<sup>9</sup> *New York Independent System Operator, Inc.*, 116 FERC ¶ 61,043 (2006).

<sup>10</sup> *See, e.g., New York Independent System Operator, Inc.*, 94 FERC ¶ 61,371 (2001). Although the Commission did not expressly adopt the PPT project list that was discussed in the underlying proceeding, the NYISO ultimately went on to implement projects using the PPT's priorities.

highly technical business, software, resource allocation, and cost questions that are inevitably part of project prioritization.

None of this is to say that the PPT's conclusions are sacrosanct or that the NYISO should not change its priorities to reflect new circumstances. For example, the NYISO is already re-examining its project schedules in light of the compliance obligation imposed by Order No. 681.<sup>11</sup> The Commission itself stated that satisfying the requirements of that rule might well require ISOs/RTOs to defer work on other important matters.<sup>12</sup>

At the same time, the NYISO is open to the possibility that it might be appropriate to give Quebec-New York interface issues a higher priority than they have had in the past now that more stakeholders are expressing concern about their possible implications. Nevertheless, the NYISO should not be required to elevate the priority of specific projects simply because some commenters bring them to the Commission's attention. Instead, the NYISO and all of its stakeholders should have a chance to consider the comments, decide whether changes to previously established priorities are warranted, and identify how to most cost-effectively address Quebec-New York interface issues. If the Commission were to grant National Grid's request and preempt this stakeholder process, it would undermine the PPT. Such an order would send a clear signal that there are major benefits to be had by making end-runs around the PPT. The resulting disruptions would

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<sup>11</sup> See *Long-Term Firm Transmission Rights in Organized Markets*, Final Rule, Order No. 681, 71 Fed. Reg. 43564 (Aug. 1, 2006) ("Order No. 681"). The NYISO is challenging several aspects of Order No. 681 on rehearing and expressly reserve all of its rights.

<sup>12</sup> See Order No. 681 at P 491 ("We will not rule out at this time the possibility that transmission organizations may seek permission from the Commission to reorder its schedule for market design changes, tariff changes or other projects that were directed by the Commission."). The Commission should therefore, at a minimum, refrain from imposing a significant new modeling requirement for the Quebec-New York interface until an Order No. 681 compliance plan is in place.

severely interfere with the NYISO's ability to make, and execute, coherent, cost-effective plans. The NYISO urges the Commission not to move in this direction.

**C. Factual Corrections Relating to the Quebec-New York Interface**

For the reasons set forth above in Section II.A, it would not be appropriate for the Commission to address the merits of National Grid's request for relief in this proceeding. Nevertheless, the Commission should be aware of the following four factual corrections in case it decides to address the merits of National Grid's claim.

First, HQUS was not correct to suggest that its preferred solution to the Quebec export-import issue, *i.e.*, integrating automated transaction netting into the market software for this specific situation, could be implemented easily.<sup>13</sup> In reality, this proposal depends on the introduction of a multiple proxy bus system that has not been adopted on any other ISO/RTO border. Historically, this was because having multiple proxy buses at a single interface created substantial opportunities for gaming. While the NYISO believes that it now has the capability to prevent gaming if there was an additional proxy bus on its Quebec interface to differentiate between import-export and wheel-through transactions, the fact remains that the design of a multiple proxy bus model poses significant challenges. The NYISO's best estimate is that the netting model HQUS outlined could not realistically be in place until late in 2007, at the earliest. The NYISO is exploring whether there are alternative, and simpler, options that could be done more quickly and is working with HQUS to determine whether such an alternative would be acceptable. Nevertheless, the NYISO believes that good alternatives exist. The

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<sup>13</sup> See HQUS at 4.

NYISO is already pursuing these possibilities without any need for further Commission action.

Second, although it is not yet clear exactly how much it would cost to implement the HQUS proposal, it appears likely that the \$250,000 estimate HQUS cites is too low. HQUS appears to have taken this figure from a preliminary budget estimate that was included in a NYISO staff presentation to its stakeholders in January. The NYISO staff has subsequently become concerned that more significant changes to its bidding software would be required than was initially expected. In short, additional analysis and review needs to be done before the final cost will be known and the Commission should not rely on the \$250,000 figure.

Third, as was noted above, project priorities are developed collaboratively by the NYISO and its stakeholders through the PPT. It is wrong to suggest that the NYISO has ignored the Quebec interface or sat on its hands. In reality, the NYISO has always understood that there were issues at the Quebec-New York interface but these issues have historically not impacted efficient trade because of the limited number of market participants involved in the Quebec marketplace. The NYISO also did not see its current practices as being as problematic as HQUS asserts because NYISO operators have historically almost never had to manually enforce the 1200 MW real-time import limit at times when the ability to account for exports would have made a significant difference. It has always been clear that the modeling of the Quebec-New York interface could be improved but the NYISO, and most stakeholders, have, until recently, believed that other issues were much more pressing and that efficient trade was not being impacted.



Fourth and finally, it is misleading for HQUS to suggest that its favored netting solution could have been implemented several years ago. The truth is that the successful implementation of the NYISO's new real-time scheduling software, which was not accomplished until 2005, was a necessary pre-requisite to the introduction of netting at the Quebec-New York interface.

**D. The PJM-New York Interface**

Lastly, as was noted in footnote 3 above, the NYISO does not believe that the NYTOs are requesting Commission action with respect to the PJM-New York interface at this time. To the extent that they are, the Commission should reject the request for the procedural and policy reasons set forth in Sections II.A and B above. The Commission should also be aware that the NYISO and PJM have traditionally, for numerous technical and historic reasons, taken slightly different approaches to the determination of external proxy bus prices. The differences are complex and any changes in this area are likely to have subtle but important implications, for example, with respect to the four party operating protocol that has been developed in Docket No. EL02-23-000.<sup>14</sup> The NYISO and PJM have had preliminary discussions on this issue in the past, and more recently in response to inquiries from the NYTOs. The NYISO and PJM have no objection to discussing these issues with all of its stakeholders through the usual governance process. There is thus no need for Commission action in this area.

The NYISO is authorized to state that, to the extent that any commenter is seeking a Commission order with respect to the PJM-New York interface, PJM supports the NYISO's position as set forth in this Section II.D.

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<sup>14</sup> See *Operating Protocol for the Implementation of Commission Opinion No. 476*, submitted in Docket No. EL02-23-006 on February 18, 2005, and subsequent compliance filing.

### III. CONCLUSION

WHEREFORE, for the foregoing reasons the New York Independent System Operator, Inc. respectfully asks that the Commission reject National Grid's request for an order in this proceeding.

Respectfully submitted,

/s/ Ted J. Murphy  
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September 14, 2006

**Certificate of Service**

I hereby certify that I have on this day served the foregoing document on the official service lists compiled by the Secretary in these proceedings.

Dated at Washington, DC this 14<sup>th</sup> day of September, 2006.

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