

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

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| Central Hudson Gas & Electric Corporation |) | Docket No. ER97-1523-012 <i>et al.</i> |
| Consolidated Edison Company of New York, Inc. |) | |
| LIPA |) | |
| New York State Electric & Gas Corporation |) | |
| Niagara Mohawk Power Corporation |) | |
| Orange and Rockland Utilities, Inc. |) | |
| Rochester Gas and Electric Corporation |) | |
| Power Authority of the State of New York |) | |
| New York Power Pool |) | |

**ANSWER OF
NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.
TO COMMENTS OF PG&E ENERGY TRADING-POWER, L.P.**

The New York Independent System Operator, Inc. (“NYISO”), by counsel, hereby answers the “Comments” of PG&E Energy Trading-Power, L.P. On August 10, 1999, the NYISO submitted a detailed proposal for an installed capacity (“ICAP”) market. On September 17, 1999, the NYISO filed additional details with respect to the ICAP Auction Market.

On September 23, 1999, the NYISO advised the market participants that it had canceled the auction for the 1999-2000 Winter Capability Period. Although the materials filed on August 10, 1999, as supplemented on September 12, 1999, were characterized as describing interim procedures, the

NYISO intends for them to serve as default procedures in the event the NYISO and the market participants can not agree on permanent procedures or the Commission has not accepted revised procedures by the date of the first auction for the 2000 Summer Capability Period. That auction may be as early as February, 2000. The NYISO is committed to working with the market participants to undertake a thorough re-examination of the ICAP procedures. Nevertheless, early review by the Commission of the pending auction proposal will permit the NYISO and the market participants to incorporate any changes required by the Commission into plans for the next auction.

For the foregoing reasons, to assist the Commission in its analysis of these issues and to provide useful and relevant information, the Commission should accept this reply. Moreover, the Commission's rules do not prohibit an answer to comments.

Limitation of Purchasers to LSEs

One of the changes proposed September 17, 1999 was to clarify that a purchaser in the auction must be a Load Serving Entity ("LSE"). The August 10, 1999 filing had limited purchasers to "Customers" as that term is defined in the New York Independent System Operator Market Administration and Control Area Services Tariff ("ISO Services Tariff"). The September 17, 1999 filing described the change as consistent with Section 5.12 of the ISO Services Tariff. Section 5.12 of the ISO Services Tariff describes a process under which an LSE may choose to satisfy its Installed Capacity requirements through the ICAP auction.

The clarification was also made to address concerns that had been raised as a result of analysis of the Commodity Exchange Act and the regulations of the Commodities Futures Trading Commission thereunder. Limiting purchasers to LSEs would prevent the entry of speculators who are not engaged in the utility business.

The restriction is especially necessary with respect to generation located in New York City as a means of preventing an end-run around the Commission-imposed price limits.

Transmission Requirements

PG&E Energy Trading-Power's second concern relates to the transmission requirements for ICAP located outside the New York Control Area and the availability of that ICAP. The NYISO has been reluctant to place a label on the nature of transmission service that must be used to support ICAP from a neighboring control area. As a result, the NYISO has required that "the supplier must declare that any energy associated with ICAP is not recallable" and that "ICAP must be deliverable by whatever means the host control area requires. The NYISO does not require firm transmission service." The NYISO recognizes the varying approaches to transmission, and the labels placed on those approaches, that are currently in use just in NYISO, PJM and New England. The NYISO simply wants to be certain that capacity on which it is relying for reliability purposes will, indeed, be available when the NYISO requires it.

To that end, the NYISO has conferred with its neighboring control areas – Ontario Hydro, Hydro Quebec, NEPOOL, and PJM – with respect to their curtailment policies. The first three of those have stated that all export transactions from their respective control areas will be curtailed prior to load shedding within their control areas. As the NYISO understands it, such curtailment will occur even if the capacity is contractually committed to New York. As a result, the NYISO has determined that capacity from Ontario Hydro, Hydro Quebec and NEPOOL will not be qualified as ICAP in New York.

The NYISO has had extensive discussions of this and other issues with the market participants, including PG&E Energy Trading-Power. The NYISO submits that the Commission has sufficient details with respect to the ICAP auction to approve the ICAP auction details as filed.

WHEREFORE, New York Independent System Operator, Inc. respectfully requests that the Commission accept this reply.

Respectfully submitted,

NEW YORK INDEPENDENT SYSTEM
OPERATOR, INC.

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October 7, 1999

CERTIFICATE OF SERVICE

I hereby certify that the foregoing document has this day been served upon each person designated on the service list in this proceeding.

Dated at Washington, D.C., this 7th day of October, 1999.

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