**NOTICE OF APPEAL OF KEYSPAN-RAVENSWOOD, INC.
TO THE MANAGEMENT COMMITTEE FROM THE
OPERATING COMMITTEE'S APPROVAL OF THE
COST ALLOCATION REPORT FOR THE CLASS OF 2001**

I. SUMMARY STATEMENT

KeySpan-Ravenswood, Inc. ("Ravenswood") appeals the decision of the Operating Committee on May 23, 2002 to approve the Cost Allocation of New Interconnection Facilities to the New York State Transmission System for projects in Class Year 2001 ("Cost Allocation Report"). The Operating Committee's decision is based upon New York Independent System Operator, Inc. ("NYISO") Staff's fundamental misreading of key tariff provisions, which resulted in NYISO Staff's preparation of a baseline plan that fails to meet the NYISO's reliability requirements for each of the years identified in the Report and will cause excessive costs to be allocated to developers. This misreading of the tariff is not a mere technical error, but causes a material shift to project developers of the transmission system upgrade costs that were and are necessary to maintain system reliability.

Specifically, the Cost Allocation Report fails to comply with the detailed requirements of the NYISO's tariff that:

> (1) the Annual Transmission Baseline Assessment ("Baseline Assessment") and Annual Transmission Reliability Assessment ("Reliability Assessment") be based on up-to-date and accurate data;
>
> (2) the Baseline Assessment include all units constructed to meet specific reliability requirements as well as existing and proposed units necessary to reliably meet load;
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> (3) any new units used in the Baseline Assessment must be reasonably selected and feasible of construction for the in-service year specified in the Baseline Assessment; and
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> (4) the costs of system upgrades adopted for the Reliability Assessment be determined by NYISO Staff to be the least costly configuration for both transmission owners and developers.

II. ARGUMENT

A. THE BASELINE AND RELIABILITY ASSESSMENTS MUST BE BASED ON CURRENT AND ACCURATE DATA

NYISO Staff inexplicably failed to use the most current available database for PJM Interconnection and ISO-New England in its analysis, although it acknowledged the need to use the most up-to-date database available for Long Island. In fact, it appears the NYISO did not even seek this information when it began the Cost Allocation process or when it discovered portions of the transmission system were at or near their reliability limits. NYISO Staff merely based its cost estimates on Consolidated Edison Company of New York, Inc.'s ("Con Edison") short circuit studies using an outdated database prepared by Con Edison. Con Edison's service territory, as well as neighboring service territories and control areas, are represented in this database. Ravenswood understands that the vintage of the representation of the Con Edison service territory in this database – and thus the degree of up-to-dateness – is not consistent with the vintage of the representation of adjacent control areas. Specifically, the treatment of the representation of Con Edison's own service territory is much more recent than the representation of service territories and control areas that border on Con Edison's system.

NYISO Staff reports in the Cost Allocation Report that it ***partially*** addressed this problem by updating the portion of the Con Edison short circuit database that represents Long Island. NYISO Staff's substitution of the updated representation in place of the old representation that had been previously included in the Con Edison database revealed additional reliability concerns and a significant change to the Baseline Assessment and resulting cost allocation. NYISO Staff, however, did not update equally important portions of the database reflecting the adjacent control areas in ISO New England, Inc. and PJM Interconnection, LLC. Ravenswood understands that such updated databases are available, just as the updated representation for Long Island was available.[1]

[1] NYISO Staff refused market participants' requests to model the neighboring control areas as a sensitivity case. Ravenswood understands that the databases are available to only system operators; Ravenswood has been unable to obtain the updated information to perform the analysis itself.

NYISO Staff's explanations of why it chose to selectively update the database are without merit. First, NYISO Staff claims that the database that it is using is accurate. This claim, however, is belied by NYISO Staff recognizing the need to update the database with respect to Long Island. Actual conditions in PJM and ISO-NE, which are different from those in the outdated Con Edison database, will clearly have an impact on fault current and the reliability of the Baseline Assessment. Considering the update of the Long Island representation alone had a significant impact it should be expected that changes in the representation of PJM and ISO-NE could have similar impacts and to ignore them is contrary to the rules and reliability planning. At a minimum, NYISO Staff needs to perform the fault current analysis using data that represents the system as it existed on May 1, 2001.

Con Edison itself recognized that changes in neighboring control areas caused the need to perform a sensitivity analysis.[2] The fact that Con Edison included a sensitivity analysis in its Plan should have put NYISO Staff on notice, well in advance of the time it began work on the Cost Allocation Report, of the need to update the databases for adjacent control areas. Regardless, there is no reason now to continue to exclude the information because it will have significant impacts on reliability and cost allocation.

Second, NYISO Staff claims that Attachment S bars the use of updated data. In fact, nothing in Attachment S supports such claim. Attachment S makes a clear distinction between the Applicable Reliability Requirements, which are defined as those in effect when the assessment is commenced, and data as to which there is no requirement that the identification of data be fixed at the outset of the study. In fact, the contrary is true. Attachment S directs NYISO Staff to regularly provide working drafts and data to the Operating Committee, "to ensure that all affected Market Participants have an opportunity to contribute whatever information and input they believe might be helpful to the process."[3] Such

[2] Con Edison's Fault Current Management Plan at 9 (November 27, 2000). The same information was in the revised Plan issued last year.

[3] Attachment S, First Revised Sheet No. 664.

"information and input" to be provided by market participants includes accurate and up-to-date data about a material issue. Thus, there is support in Attachment S for updating the data during the course of the study.

Finally, such a claim unreasonably introduces an artificial jurisdictional boundary. Con Edison's database for its Fault Current Management Plan involves data that concern impacts from adjacent control areas. Good utility practice requires the NYISO to seek out this information at the very outset of its study process and to refine such data if system conditions appear to be extremely close to their limitations, as is the case in the Baseline Assessment. Using a database representing in-State transmission facilities that is more up-to-date than the database for adjacent territories' transmission facilities makes no sense. To exclude up-to-date data from adjacent control areas raises the question whether the Baseline Assessment meets the Applicable Reliability Requirements, as it is required to under Attachment S and whether the Cost Allocation is correct.

B. THE BASELINE ASSESSMENT MUST INCLUDE ALL EXISTING AND PROPOSED UNITS REQUIRED TO MEET YEARLY RELIABILITY REQUIREMENTS

The NYISO proposes to allocate $59.7 million of system upgrade costs to developers of the generating projects in the Class of 2001, which will be required to pay for these upgrades.[4] The allocation of system upgrade costs is based, in part, upon the preparation of the Baseline Assessment, which is to include all existing generating and transmission facilities in the simulation model's database under the provisions of Attachment S. In addition, "generic generating" units, which must be (a) feasible on a year-by-year basis and (b) reasonable proposals considering all relevant factors, are then to be added to the Baseline Assessment until reliability requirements are satisfied.[5] The goal of this

[4] The Class of 2001 is currently made up of eight generating and one transmission projects, but system upgrade costs are allocated exclusively to the generating projects.

[5] *See* discussion in Section II.C, below, concerning the requirements in Attachment S that the generic units be "feasible solutions" on a "year-by-year" basis, and that the units be reasonably proposed.

exercise is to identify the cost of system upgrade facilities required to meet the introduction of the new plants identified in the Baseline Assessment. Under Attachment S, the cost of system upgrade facilities identified in the Baseline Assessment is the responsibility of transmission owners.[6]

On May 1, 2001, the NYISO began the Cost Allocation Process for Class Year 2001. The first issue to be determined was what the existing system conditions were (i.e. what facilities existed as of May 1, 2001). Because there were significant capacity deficiencies in New York City during 1999 and 2000, in September 2000 the NYISO, NYPSC, NYSRC and the City of New York determined that additional generation needed to be installed in-City before the Summer of 2001 to meet the reliability needs of the transmission system and customers. As a result, 408 MW of new generation by NYPA, and the restarting of 60 MW and 175 MW of generation owned by Con Edison and Orion, respectively, was undertaken.

Unfortunately, NYISO Staff did not, however, include all existing plants in the Baseline Assessment, but rather excluded eight existing units built and operated by Con Edison and the New York Power Authority ("NYPA").[7] Instead, NYISO Staff incorporated two generic generating units which do not exist, without regard to whether these units could feasibly be built and placed in service by the year for which they are needed and, further, without regard to whether the units were reasonably proposed to meet reliability requirements. NYISO Staff simply adopted the generic units proposed by

[6] The NYISO also produces a cost estimate of the system upgrade facilities that need to be implemented as a result of interconnection of developers' projects in the Reliability Assessment in the same way as for the Baseline Assessment. Any incremental cost of system upgrade facilities identified in the Reliability Assessment is the responsibility of developers.

[7] By May 1, 2001, all ten of the NYPA gas turbine units, Con Edison's Hudson Avenue Unit No. 10 and Orion's 175 MW restart existed or were being relied upon to provide the necessary in-City capacity reliability for the Summer of 2001. NYISO Staff, however, excluded from the Baseline Assessment seven of the NYPA units and Hudson Avenue No. 10. This modification violates the requirements of Attachment S as not all existing plants nor plants actually constructed to meet specific reliability needs were included in the Baseline Assessment. Even if the NYPA gas turbine units and the Hudson Avenue No. 10 plant are not considered existing, they are clearly required to meet reliability requirements and as such belong in the Baseline Assessment.

Con Edison, without independent assessment of the feasibility of such units and whether the units were required or able to meet reliability requirements.

NYISO Staff's failure to include all existing plants and those actually constructed to meet reliability needs in the Baseline Assessment is inconsistent with Attachment S. While the tariff provides that the NYISO shall identify the system upgrade facilities that are expected to be needed on a year-by-year basis during the five-year period covered by the Baseline Assessment, Attachment S specifies that the NYISO is to use existing units in its analysis and should select generic units only if ***existing*** facilities are insufficient to meet reliability requirements:

> If the existing transmission or generation facilities, combined with previously approved and accepted System Upgrade Facilities, are insufficient to meet Applicable Reliability Requirements, ***then*** the NYISO staff will develop feasible solutions that include the identification of System Upgrade Facilities that are sufficient to either interconnect additional generic generation and/or increase transmission transfer capability in order to satisfy the Applicable Reliability Requirements. (emphasis added)[8]

Since existing units are available – and were actually meeting reliability requirements in Summer 2001, such units must be selected for the cost allocation simulation – not the hypothetical units included in the Baseline Assessment.

The effect of NYISO Staff's refusal to include all existing plants constructed to meet reliability requirements in the Baseline Assessment is to shift the cost of any system upgrade facilities associated with the plants not included to developers instead of transmission owners and their customers. This shift results because transmission facility upgrade costs identified in the Baseline Assessment are for the account of transmission owners. Substitution of hypothetical, "fantasy" plants in place of operating plants built explicitly to meet reliability requirements leads to different system upgrade facilities being identified.[9] Since both the NYISO and Con Edison have stated that they sought to minimize system

[8] Attachment S, First Revised Sheet No. 667.

[9] NYISO Staff has repeatedly describes the Baseline Assessment as a "fantasy," rather than a realistic exercise that includes all the existing plants constructed to meet reliability requirements and other units reasonably proposed considering key siting requirements.

upgrade costs in their selection of generic units, the decision to exclude existing units had the effect of shifting costs from transmission owners, and thus from customers, to developers. While the current discussions taking place as part of the possible development of the Northeast Regional Transmission Organization and developments at FERC indicate customers should be required to pay for transmission upgrades installed to meet reliability requirements, in the instant proceeding, NYISO Staff has argued for exactly the opposite rule.

C. THE GENERIC UNITS IN THE BASELINE ASSESSMENT MUST BE BOTH FEASIBLE ON A YEAR BY YEAR BASIS AND OTHERWISE REASONABLE SOLUTIONS TO RELIABILITY REQUIREMENTS

To compound its error, NYISO Staff replaced existing, operating units that were installed to meet reliability needs in 2001 (1) with generic units that could not possibly be constructed and made operational in the time periods contemplated in the Cost Allocation Report and (2) without determining whether such generic units were reasonable to propose on a total cost basis. First, with respect to the in-service year, NYISO Staff's selection of units which cannot meet the in-service schedule needed to satisfy reliability requirements, violates the requirement of Attachment S that the facilities must be feasible solutions for the year they are needed. Generic Unit Nos. 1 and 5 included in Table 1.2 of the Cost Allocation Report do not exist and are not feasible in the time frame required to meet year-by-year reliability needs. Specifically, these plants cannot be on line for 2001, 2002, 2003 or 2004 as required by the rules. Thus, the NYISO's Baseline Assessment is not based upon feasible solutions for the years 2001, 2002, 2003 and 2004, as required by Attachment S and good utility practice.

The requirement of feasibility in Attachment S was intended to result in a more accurate reflection of the costs of maintaining system reliability. The NYISO's working group negotiations that resulted in the Attachment S frequently referred to the requirement that generic units be feasible, namely that they not be proposed at unrealistic sites such as "Central Park" or require unrealistic implementation schedules. This requirement was adopted in the tariff in terms of "feasibility" and year-by-year requirements.

With respect to NYISO Staff's second error, the purpose of including the generic units is to establish a reasonable baseline cost for meeting reliability requirements. Clearly, if transmission owners or the NYISO had to arrange for the construction of such units, they would do so on the most cost-effective basis, taking into account the ***total*** costs of constructing and operating the units, not just transmission system upgrade costs.[10] NYISO Staff, however, did not determine whether any of the six generic generating units added to meet the reliability requirements for 2002 were reasonable choices, considering the overall costs associated with the units (e.g., construction costs, fuel and fuel transportation costs, as well as interconnections and system upgrade costs) and the time required to bring the units online. Without undertaking any independent analysis, as required by the Federal Energy Regulatory Commission and Attachment S, NYISO Staff simply adopted Con Edison's proposed generic units, thus ignoring (1) reasonable siting considerations, as well as (2) the feasibility and year-by-year requirements. As a result, the Baseline Assessment is not a realistic cost estimate of meeting reliability requirements, but a purposely fictitious cost estimate designed to shift, to the maximum extent possible, the cost of system upgrades to developers.

D. THE NYISO SHOULD NOT RELY ON CON EDISON'S SYSTEM UPGRADE COST ESTIMATES WITHOUT VERIFYING THAT THEY REPRESENT THE LEAST-COST ALTERNATIVE

Attachment S provides that system upgrade costs shall be the "least costly configuration of commercial available components of electrical equipment that can be used, consistent with good utility practice . . . ."[11] NYISO Staff has not established that the system upgrade facilities covered by the Cost Allocation Report meet this standard. Nor can it establish that the facilities are the least cost configuration because the Staff did not study whether Con Edison's Fault Current Management Plan is

[10] NYISO Staff indicated that the generic units were selected to minimize system upgrade costs. Con Edison indicated its overriding concern was to optimize fault current and it did not consider other issues such as year-by-year feasibility when selecting generic units.

[11] Attachment S, Original Sheet Nos. 658A and 658B.

the least costly configuration of commercially available electrical components. Such a study would have required exploration of alternative plans to mitigate Con Edison's fault current requirements, which NYISO Staff did not report undertaking. The summary statements in the Cost Allocation Report that the Report is the least cost plan cannot substitute for the required analysis. NYISO Staff failed to do more than simply state a conclusion. It is not enough for NYISO Staff to claim that it conducted the necessary studies, but not to include them in the Report. In reality, NYISO Staff simply delegated this critical function to Con Edison and did not independently determine that the proposed system upgrade facilities in the Reliability Assessment are the least cost configuration of system upgrade equipment.

The absence of any demonstration that the Report contains the least costly configuration is underlined by the fact that, when Con Edison's Plan was presented to the NYISO's Operating Committee in August 2001, that Committee did not approve the Plan. Thus, an essential foundation for the NYISO's Cost Allocation Report is missing. NYISO Staff's proposal concerning the Cost Allocation Report necessarily includes the implicit request for NYISO approval of Con Edison's Plan, particularly as respects the requirement that the system upgrade facilities be the least costly configuration of equipment.

III. CONCLUSION

Ravenswood respectfully urges the Management Committee to reverse the erroneous decision made by the Operating Committee to approve the Cost Allocation Report, on the basis that the Report wrongly shifts costs for required reliability upgrades to developers, and because it does not comply with Attachment S.[12] NYISO Staff should be directed to revise the Cost Allocation Report so that costs are

[12] The errors in the Operating Committee's approval of the cost allocation for the Class of 2001 may also affect cost allocations to be made in the future. To the extent excessive costs are allocated to Class of 2001 developers, future developers will be required to reimburse Class of 2001 developers for the headroom these excessive payments create. The NYISO has listed projects totaling approximately 3,000 MW of additional capacity as meeting the requirements for the Class of 2002. Thus, the issues raised here by Ravenswood will affect the Class of 2002, as well as the Class of 2001. The NYISO should
(footnote continued on next page)

not inappropriately shifted to developers and so that the Report is consistent with the requirements of Attachment S.

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resolve the issues raised here by Ravenswood in the interests of expediting the construction of new generating units.