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

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| **Imbalance Provisions for Intermittent Resources** | **Docket No. RM05-10-000** |
| **Assessing the State of Wind Energy In Wholesale Electricity Markets** | **Docket No. AD04-13-000** |

# COMMENTS OF THE NEW YORK INDEPENDENT SYSTEM OPERATOR, INC. IN RESPONSE TO NOTICE OF PROPOSED RULEMAKING

Pursuant to Rule 213 of the Federal Energy Regulatory Commission's ("Commission") Rules of Practice and Procedure, the New York Independent System Operator, Inc. ("NYISO") submits these Comments in response to the Commission's April 14, 2005 Notice of Proposed Rulemaking ("NOPR" or "Proposed Rule") in the above referenced proceeding.

To promote good scheduling practices by transmission customers, Order No. 888[1] defined and established the terms and conditions for energy imbalance service to be reflected in the pro forma open access transmission tariff ("OATT"). In its Proposed

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[1] Promoting Wholesale Competition Through Open Access Non-discriminatory Transmission Services by Public Utilities and Recovery of Stranded Costs by Public Utilities and Transmitting Utilities, Order No. 888, 61 Fed. Reg. 21,540 (May 10, 1996), FERC Stats. & Regs. ¶ 31,036 (1996), order on reh'g, Order No. 888-A, 62 Fed. Reg. 12,274 (March 14, 1997), FERC Stats. & Regs. ¶ 31,048 (1997), order on reh'g, Order No. 888-B, 81 FERC ¶ 61,248 (1997), order on reh'g, Order No. 888-C, 82 FERC ¶ 61,046 (1998), aff'd in relevant part, remanded in part on other grounds sub nom. Transmission Access Policy Study Group, et al. v. FERC, 225 F.3d 667 (D.C. Cir. 2000), aff'd sub nom. New York v. FERC, 535 U.S. 1 (2002).

Rule, the Commission notes that the presence of intermittent resources has grown significantly since the issuance of Order No. 888. The Commission further notes that the application of imbalance provisions in general, which are designed for resources with the ability to control fuel input and thus schedule energy outputs with precision, may be restricting intermittent resources from availing themselves of transmission services. Seeking to ameliorate the effects of imbalance provisions on intermittent resources while still providing these generators with an incentive to schedule as accurately as possible, the Commission proposes to establish a standardized schedule under the pro forma OATT that would be applicable to generator imbalances for intermittent resources ("Intermittent Generator Imbalance Service"). The NOPR distinguishes energy imbalance from generator imbalance and indicates that the existing Schedule 4 Energy Imbalance Charge will continue to apply to transmission customers' net hourly deviations in scheduled loads.

The proposed Intermittent Generator Imbalance Service schedule would establish a deviation band of +/- 10 percent, with a minimum transaction size of 2 MW, around a scheduled transaction, which would be applied on a net hourly basis to intermittent generator imbalances. For deviations above or below schedule but within the band, settlements to or from generators would be priced at 100 percent of the Transmission Provider's System Decremental Cost. Intermittent generator output in excess of 110 percent of scheduled output would be settled at 90 percent of System Decremental Cost. Shortfalls from the deviation band's lower limit of 90 percent of scheduled output would be paid for by the generator at 110 percent of System Decremental Cost.

## I. NYISO Comments

### A. The NYISO's present market rules relieve existing intermittent resources, as well as the next 500 MW of new intermittents in New York, of the obligation to balance their actual outputs against scheduled outputs. Thus, the New York markets already accommodate the unique characteristics of wind generation and the Commission's proposed rule should not be made applicable to independent system or regional transmission operators that already have similar rules in place.

The NYISO agrees with the Commission's assessment of the disadvantageous affects of standard energy imbalance provisions on intermittent generators. It is precisely for this reason that the NYISO's tariffs and market rules are already structured to address the unique operating characteristics of generators that cannot more precisely control their outputs by varying fuel or other operating inputs. These intermittent generation-specific market rules have, thus far, been working very effectively in the New York markets. Moreover, the NYISO is committed to working with its stakeholders to assess the need for amendments or refinements to its market rules as the penetration of intermittent generation in the New York increases in the future.

Consequently, the NYISO urges the Commission to refrain from applying the Proposed Rule to independent system operators or regional transmission operators (collectively referred to as "ISOs/RTOs"), such as the NYISO, that already have tariff and market rule frameworks in place for accommodating the unique characteristics of intermittent generation.

Consistent with the Commission's prior orders, the NYISO OATT includes a Schedule 4 for Energy Imbalance Service. This schedule reflects the Commission's standard provisions for Energy Imbalance Service Charges, including charges based on

the greater of 150% of Real-Time locational based marginal prices ("LBMPs") or $100 per MWh. To incent Market Participants to participate in the NYISO's market and scheduling services, however, Schedule 4 further specifies that imbalances for Transmission Customers that have executed a Service Agreement under the ISO Market Administration and Control Area Services Tariff ("Services Tariff") will be considered to be supplied at Real-Time LBMPs without the additional multiplier.

Generator balancing is provided for in detail in the NYISO Services Tariff's scheduling and financial settlement provisions for the Day-Ahead and Real-Time Energy Markets. For all generators other than New York's intermittent resources,[2] shortfalls in generator output between what was scheduled by the NYISO in the Day-Ahead Market and what is actually produced during the dispatch day is paid for by the generator at the prevailing Real-Time LBMPs; output in excess of the scheduled amount is compensated by the NYISO only up to the compensable over-generation limit for the unit.

The unique characteristics of intermittent generation resources, however, have been recognized in the NYISO Services Tariff since its inception. In fact, intermittent resources currently benefit from exemptions from market rules that are more advantageous than the provisions of the Commission's Proposed Rule. For example, intermittent resources that were in existence in November 1999, plus up to an additional 500 MW of any subsequently developed new intermittent resources, are exempt from many of the market and settlement rules and tariff provisions that otherwise apply to

[2] Other similarly-specialized resource categories that are recognized in the NYISO Services Tariff include Energy or Capacity Limited Resources, Special Case Resources, PURPA resources, and existing (as of November 1999) municipally-owned generation.

generators in the New York markets. Specific to the Commission's proposal in the NOPR, intermittent resources within the exemption amount are not subject to the above-described balancing charges or penalties for deviations in output, either above or below, NYISO-directed operating levels. Instead, for financial settlement purposes, the actual Real-Time output of an intermittent resource is deemed to be its scheduled amount.

### B. The NYISO and its stakeholders will continue to assess the need for changes in market rules to accommodate intermittent resources.

As it has informed the Commission in previous comments in this docket, the NYISO is currently examining whether its existing energy and capacity market rules for intermittent generation in New York should be revised. The NYISO has anticipated a growing presence of intermittent resources in New York, very likely in the same order of magnitude as the Commission notes in the NOPR for the nations as a whole. Consequently, the NYISO began a review of its intermittent resource-focused rules and related reliability issues as the New York State Public Service Commission's ("NYPSC") began its consideration and, in 2004, adoption of a renewable portfolio standard ("RPS") for the State of New York ("RPS Order").[3]

The objective of the RPS is to increase the proportion of electricity attributable to renewable resources to at least 25% of electric energy consumed in New York State by the end of 2013. Accordingly, the implementation of the RPS may result in the need for the NYISO to integrate as much as 3,300 MW of new intermittent wind resources into its

1 See, Case 03-E-0188, Proceeding on Motion of the Commission Regarding a Renewable Portfolio Standard, Order Regarding Retail Renewable Portfolio Standard (issued September 24, 2004).

operation of New York's wholesale energy markets and high-voltage transmission system. An increase of intermittent resources of this magnitude would represent nearly 100 times the amount of wind power currently installed in New York.

The RPS Order designated the New York State Energy Research and Development Authority ("NYSERDA") as the agency responsible for developing the structure and administering the procurement of new renewable resources under the RPS. Given that NYSERDA has already commenced the procurement process for the first several hundred MW of new renewable resources, the significant portion of which will likely be wind power, the NYISO is faced with the immediate need to review the market rules applicable to wind and other intermittent resources. Consistent with its control area operation responsibility, the NYISO will assess any necessary operational or market rule revisions from two perspectives: first, whether and how the addition of new intermittent resources in the magnitude sought by the RPS will affect the security and the reliable operation of the New York State Bulk Power System; and, second, how to ensure that any undue barriers to entering and participating in New York's competitive energy markets for intermittent resources are removed in a manner that is fair to all Market Participants, including incumbent generators.

The NYISO previously informed the Commission that a significant part of this assessment was begun during the RPS proceeding and is continuing. To study whether the implementation of an RPS and the addition of intermittent resources in amounts envisioned by the RPS objective would create system reliability issues, the NYISO and NYSERDA have jointly sponsored a study ("Joint Wind Study"), which was described in

more detail in the NYISO's compliance filing under Docket Nos. RM02-1-001 and ER04-449-000, as well as its comments on the American Wind energy Association's May 20, 2004, petition in Docket Nos. PL04-15-000, RM02-12-000, -1-001, and -1-005.

Phase I of the Joint Wind Study provided a preliminary review of the reliability impacts of adding significant wind resources. The Study also recommended certain specific transmission interconnection features or capabilities that New York should require for all new wind farms.

The NYISO recently received the initial results of Phase II of the Joint Wind Study, which recommended, among other things, changes to reliability standards, criteria, and the rules for system planning and operations (*e.g.*, any special requirements or conditions that should be placed on wind generation development) to ensure that the security and reliability of the New York transmission system is maintained. With the completion of Phase II of the Study, the NYISO will assess whether the current exemptions from energy imbalance penalties and other energy market rules for intermittent resources should be revised as these resources become a larger portion of New York's total generation base.

The NYISO notes that the creation of a centralized wind forecasting facility was one of the recommendations contained in Phase I of the Joint Wind Study. Beyond the issues of intermittent resources, effective forecasting tools are important for the NYISO and its Market Participants, particularly for applications such as forecasted hourly and peak electric loads, weather, and generation capabilities. Accordingly, given that improved tools for forecasting wind flows could be one way to reduce energy imbalance penalties and enable intermittent resources to compete on a more equal footing with other

resources, the NYISO is presently examining the system being used by the California Independent System Operator. The NYISO supports the use of a centralized wind forecasting center. The merits of its involvement in such a center and the manner in which forecasts might be integrated into market operations will continue to be evaluated by the NYISO and its stakeholders. Balancing and other market rules will need to be compatible with the chosen forecasting approach, which will require consensus support from Market Participants.

The Joint Wind Study also recommends that, over the longer term as the addition of intermittent resources becomes a larger portion of New York's generation base, regulation requirements, load following, and reserve requirements could be affected. Accordingly, the NYISO intends to assess the need for changes in these areas in parallel with the continued addition of intermittent resources. To the extent that the addition of intermittent resources begins to trigger the incurrence of incremental transmission system costs, the NYISO believes that any resulting new market rules should attempt to identify the causation of such cost increases and assign them accordingly. For example, in the NOPR, the Commission cites support in previous comments in this docket for the proposition that market mechanisms should be developed to address the regulation requirements and energy imbalances that could result from under-generation from intermittent resources. The NYISO urges the Commission to provide ISOs/RTOs with the flexibility to pursue such market-based approaches in the future.

## II. Conclusion

The NYISO's current tariff provisions and market rules for intermittent generation already allow these resources to effectively participate in the New York wholesale energy markets while exempting them from the disadvantageous operation of imbalance provisions. Moreover, the NYISO's existing market rules accommodate the operating characteristics of intermittent resources more favorably than the proposed rule.

For the foregoing reasons, therefore, the NYISO urges the Commission (i) to refrain from requiring the inclusion of the Proposed Rule in the OATTs of ISOs/RTOs that presently recognize the unique characteristics of intermittent generation resources in the generator balancing provisions of their respective tariffs; and (ii) to continue to afford individual ISO/RTOs the flexibility to develop intermittent resource market rules that reflect specific regional needs while ensuring workable competition in each of their respective markets.

Respectfully submitted,

NEW YORK INDEPENDENT
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May 26, 2005

# CERTIFICATE OF SERVICE

I hereby certify that I have this day served, via United States First Class Mail and electronically, the foregoing document upon each party designated on the official service list compiled by the Secretary in Docket Nos. RM05-10-000 and AD04-13-000, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.2010 (2004).

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Dated at Albany, NY this 26th day of May, 2005.

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