

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

<b>New York Independent System Operator, Inc.</b>	)	<b>Docket No. ER00-1969-000</b>
	)	
<b>Niagara Mohawk Power Corp.</b>	)	<b>Docket No. EL00-57-000</b>
<b>v.</b>	)	
<b>New York Independent System Operator, Inc.</b>	)	
	)	
<b>Orion Power New York GP, Inc.</b>	)	<b>Docket No. EL00-60-000</b>
<b>v.</b>	)	
<b>New York Independent System Operator, Inc.</b>	)	
	)	
<b>New York State Electric &amp; Gas Corporation</b>	)	<b>Docket No. EL00-63-000</b>
<b>v.</b>	)	
<b>New York Independent System Operator, Inc.</b>	)	
	)	
<b>Rochester Gas and Electric Corporation</b>	)	<b>Docket No. EL00-64-000</b>
<b>v.</b>	)	
<b>New York Independent System Operator, Inc.</b>	)	<b>(not consolidated)</b>

**PRELIMINARY COMPLIANCE FILING AND  
LIMITED REQUEST FOR CLARIFICATION OF THE  
NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.**

Pursuant to Ordering Paragraph “B” of the Commission’s May 31, 2000 Order in this proceeding (“May 31 Order”),<sup>1</sup> the New York Independent System Operator, Inc. (“NYISO”) hereby submits its preliminary compliance filing describing its plans for implementing a permanent solution to the problems in its 10-minute reserve markets. The May 31 Order requires the NYISO to file its proposed permanent solution no later than September 1, 2000, to be effective November 1,

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<sup>1</sup> *New York Independent System Operator, Inc., et. al.*, 91 FERC ¶ 61,218 (May 31, 2000) (“May 31 Order”).

2000 (“September 1 Filing”). The September 1 Filing must also report to the Commission on several issues. The NYISO fully expects to make the September 1 deadline.

Indeed, as is noted in more detail below, the NYISO’s compliance efforts are already well underway, and the NYISO is working closely with market participants to develop the necessary solutions.

In addition, pursuant to Rule 212 of the Commission’s Rules of Practice and Procedure,<sup>2</sup> the NYISO seeks clarification of one of the reporting requirements set forth in the May 31 Order. This request for clarification is discussed below in Part V.

Finally, although the NYISO is separately filing a *Request for Limited Rehearing and Stay* of the May 31 Order, the relief requested in that pleading would not alter the terms of the compliance plan described herein.

**I. Procuring Reserves Located West of Central-East When the New York State Transmission System Is Not Constrained**

The May 31 Order directed the NYISO to “develop procedures to maximize access to western suppliers of 10 minute reserves.”<sup>3</sup> More specifically, the NYISO is required to address “procuring reserves located west of the central east constraint when the transmission system is not constrained”<sup>4</sup> in its September 1 Filing.

In response to this directive, the NYISO is studying the frequency and extent of constraints at Central-East and is determining the average and incremental amount of unused capacity at that interface over time. Based on its findings, it should be possible for the NYISO to implement software changes

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<sup>2</sup> 18 C.F.R. § 385.212 (2000).

<sup>3</sup> May 31 Order, *slip op.* at 14.

<sup>4</sup> May 31 Order, *slip op.* at 31.

that would lower the amount of reserves that must be procured from resources located east of Central-East by an amount equal to the average unused capacity at Central-East. For example, if the NYISO were to determine that the average unused capacity at Central-East is 200 MW, the amount of reserves that would have to be procured from resources located east of Central-East would be reduced from 1200 MW to 1000 MW. The study will include an evaluation of the possible use of a “latent reserve” mechanism to ensure that reliability in the east is not threatened when Central-East is constrained in real-time. The overall goal of this evaluation will be to ensure that any available capacity on Central-East is utilized in the most efficient manner possible.

The NYISO expects that it will complete this study in August. Over the next several months it will also seek input from the NYISO’s Reserve Working Group (“RWG”), Operating Committee (“OC”), Business Issues Committee (“BIC”) and Management Committee (“MC”) to ensure stakeholder support of any improvements that will be undertaken based on the study’s findings. No tariff revisions will be required to implement any such improvement. The NYISO will report on the status of all improvements, and provide a schedule describing its implementation of any necessary software modifications (and related testing/debugging) in its September 1 Filing.

## **II. Setting Aside Transmission Capacity for Reserves Located West of Central-East When It Leads to Lower Overall Costs**

The May 31 Order required the NYISO’s September 1 Filing to address “setting aside transmission capacity for reserves located west of the central east constraint when it leads to lower overall costs.”<sup>5</sup> In connection with the study described above, the NYISO is considering changes to its

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<sup>5</sup> May 31 Order, *slip op.* at 28.

Security Constrained Dispatch (“SCD”) software that would ensure that western reserves which are selected to run to help meet the 1200 MW eastern reserves requirement will be capable of being activated in real-time.<sup>6</sup> The development of this proposal will follow the same stakeholder review process described in Part I above. In particular, no tariff change will be required to implement these SCD software modifications, and a schedule for completing all such modifications (and related testing/debugging) will be included in the NYISO’s September 1 Filing.

The NYISO believes that a Security Constrained Unit Commitment (“SCUC”)<sup>7</sup> based solution, in conjunction with SCD changes, would be more flexible than a SCD-only solution, but that it will be difficult to complete, and properly test, the requisite SCUC modifications by November 1. Any SCD-only solution that can be implemented by the deadline will be identified in the September 1 Filing. The September 1 Filing will inform the Commission of whether the NYISO plans to pursue a longer term SCUC-based option.

### **III. Modifying the NYISO’s Software to Add the Blenheim-Gilboa Pumped Storage Facility as a Supplier of Spinning and Non-Spinning Reserves**

The May 31 Order stated that the NYISO must modify its software in order to properly model the Blenheim-Gilboa Pumped Storage Facility and permit it to bid in as a supplier of spinning and non-spinning reserves.<sup>8</sup> This improvement is already being implemented. In early June, the NYISO completed modeling changes that permit the Blenheim-Gilboa facility to be utilized as four separate units. These four units may now bid separately into both the 10-minute spinning and/or non-spinning

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<sup>6</sup> The SCD algorithm allocates load to generation in the NYISO’s Real-Time market.

<sup>7</sup> The SCUC computer algorithm establishes the NYISO’s Day-Ahead market.

<sup>8</sup> May 31 Order, *slip op.* at 14, 31.

reserves markets when Blenheim-Gilboa is in its generating or “standstill” mode. The NYISO is currently implementing modeling and software changes to permit the four units to make separate bids into the 10-minute spinning and non-spinning reserves markets when Blenheim-Gilboa is in “pumping” mode. These changes will be complete no later than September 1 and will be implemented before September 1, if possible.

None of these changes require tariff revisions or further NYISO Committee or Commission approvals. The NYISO therefore expects to be in full compliance with the May 31 Order’s directive regarding Blenheim-Gilboa on or before September 1. The NYISO will report to the Commission on its compliance status in its September 1 Filing.

#### **IV. Providing for Self-Supply Outside of the NYISO Market Structure**

The May 31 Order directed the NYISO to work with its market participants to devise a plan that will “permit its customers to self-supply outside of the NYISO market.”<sup>9</sup> The NYISO is currently working with interested market participants to evaluate a proposed self-supply system that will comply with this requirement. Consistent with the May 31 Order, any new self-supply rules will require customers to “self-supply generation capacity that meets all applicable [NYISO] technical requirements, including locational requirements.”<sup>10</sup>

The NYISO, in cooperation with the RWG, will complete its evaluation of new self-supply proposals by early August. If a proposal is endorsed by the appropriate Committees (*i.e.*, the MC, BIC and/or OC, as appropriate), the NYISO will work with the market participants to develop the

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<sup>9</sup> May 31 Order, *slip op.* at 26, 31.

<sup>10</sup> May 31 Order, *slip op.* at 26.

tariff changes and additions needed to implement new self-supply procedures. After securing the requisite Committee and NYISO Board of Directors (“Board”) approvals (which the NYISO will seek no later than mid-August), the NYISO will work with its market participants to finalize proposed self-supply tariff revisions and submit them to the Commission for its review in the September 1 Filing. The NYISO will propose a November 1, 2000 effective date. A schedule describing the implementation of all software modifications (and related testing/debugging) required to implement the new self-supply procedures will be included in the September 1 Filing.

**V. Reviewing Existing Cost Recovery Arrangements for State-Wide Reliability Rules with Locational Effects, and Request for Clarification**

**A. Request for Clarification**

The May 31 Order instructed the NYISO to review whether the cost-recovery arrangements for state-wide reliability rules that have locational effects should be revised.<sup>11</sup> This requirement was imposed in response to New York State Electric & Gas Corporation’s (“NYSEG”) complaint in Docket No. EL00-63-000.<sup>12</sup> NYSEG claimed that the NYISO was violating its tariff by permitting units satisfying “Local Reliability Rules”<sup>13</sup> to establish the state-wide market-clearing price for operating reserves. In its answer, the NYISO agreed that the tariff did not allow Local Reliability Rules to set the market-clearing price, but explained that the rule NYSEG had identified was a state-wide reliability rule with locational effects, not a Local Reliability Rule, and thus could lawfully establish the market-clearing

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<sup>11</sup> May 31 Order, *slip op.* at 28.

<sup>12</sup> See NYSEG’s *Complaint, Motion to Consolidate and Conditional Request for Expedited Complaint Procedure*, Docket No. EL00-63-000 (March 31, 2000).

<sup>13</sup> The term “Local Reliability Rule” is defined in Section 2.96 of the NYISO’s Market Administration and Control Area Services Tariff (“ISO Services Tariff.”)

price.<sup>14</sup> Nevertheless, the NYISO committed to study whether the cost-recovery arrangements associated with state-wide reliability rules with locational effects should be revised. The May 31 Order determined that the NYISO's approach was reasonable, and directed it to report on its findings in the September 1 Filing.

However, the "Reporting Requirements" section of the May 31 Order, which recites what must be included in the September 1 Filing, directs the NYISO to provide a review of "the costs incurred to meet local reliability rules being paid by customers in those local areas compared to all customers state-wide."<sup>15</sup> This section makes no reference to the requirement to conduct a study of the cost recovery mechanisms associated with state-wide reliability rules that have locational effects. Similarly, the preceding sections of the May 31 Order make no mention of a Local Reliability Rule study. Given the May 31 Order's earlier distinction between state-wide and Local Reliability Rules, the NYISO suspects that its reference to a study of Local Reliability Rules, rather than state-wide rules, may have been mistaken. The NYISO respectfully requests clarification of this aspect of the May 31 Order. The NYISO has already commenced a study of its state-wide reliability rules.

**B. Study of State-Wide Reliability Rules with Locational Effects**

The NYISO anticipates that it will complete its study of the cost recovery arrangements associated with state-wide reliability rules that have locational effects by August 15, 2000. One example of such a rule is the requirement that 1200 MW of 10-minute reserves be procured east of

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<sup>14</sup> See NYISO's *Answer to Complaint, Motion to Consolidate and Conditional Request for Expedited Complaint Procedure*, Docket No. EL00-63-000 (April 13, 2000).

<sup>15</sup> May 31 Order, *slip op.* at 28.

Central-East, and the related cost-recovery arrangement which requires loads located across New York state to pay the higher costs that result because of the operation of the rule.

The NYISO is concurrently reviewing the operational implications of possible changes, *e.g.*, a locational pricing system, that it would propose if it concludes that existing cost recovery arrangements associated with state-wide reliability rules should be changed. The NYISO will conduct this review in cooperation with the RWG. It will also discuss its preliminary conclusions with the BIC and OC at their scheduled August meetings, and will seek additional input from market participants at that time. If there is a consensus concerning the actions that should be taken in response to the study and the BIC and OC approve, the NYISO will submit a proposal for MC consideration. In the event that the MC and the Board agree on a proposal, the NYISO will submit it to FERC as expeditiously as possible. If such a proposal cannot be filed until after September 1, the NYISO will report on its progress and inform the Commission of its future filing plans in the September 1 Filing. The September 1 Filing will also include a schedule describing the implementation of any required software modifications (and related testing/debugging).

## **VI. Ensuring that Reserve Shortages On Long Island Do Not Set Prices State-Wide**

In its complaint, NYSEG alleged that the current reserve markets' design was flawed because certain generating units on Long Island are essentially being used as must-run unit, that are unchecked by mitigation and are allowed to establish state-wide market-clearing prices.<sup>16</sup> The May 31 Order required the NYISO to address this issue. The NYISO is currently working with market participants to develop appropriate tariff changes. The goal of this effort is to develop safeguards that would remain in

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<sup>16</sup> See May 31 Order, *slip op.* at 27.



effect until such time as the arrival of new generation on Long Island eliminates reserve shortages and market power in Long Island's reserve markets. Thus, although the changes might remain in effect for several years, they would, over the longer term, serve as a transitional mechanism.

The NYISO intends to submit a policy proposal on this issue to the OC, BIC and MC in August. Assuming that the requisite MC and Board approvals are obtained, the NYISO will work with its market participants to finalize a project schedule and proposed tariff language to be submitted to the Commission as quickly as possible. If such a proposal cannot be completed by September 1, the NYISO will include a schedule describing its filing plans, as well as the implementation of any required software modifications (and related testing/debugging) in the September 1 Filing.

## **VII. Other Measures**

The May 31 Order encouraged the NYISO to "consider any other measures that would help alleviate the market problems discussed in this order." Accordingly, in addition to implementing the measures that the May 31 Order required it to take, the NYISO intends to simultaneously evaluate other improvements that the Reserve WG and other NYISO Committees may recommend. The NYISO will report on any additional improvements that it proposes to implement in its September 1 Filing.

**VIII. Conclusion**

The NYISO respectfully suggests that the Commission accept its preliminary compliance filing.

Respectfully submitted,

NEW YORK INDEPENDENT  
SYSTEM OPERATOR, INC.

By \_\_\_\_\_  
Counsel

Arnold H. Quint  
William F. Young  
Ted J. Murphy  
Hunton & Williams  
1900 K Street, N.W., Suite 1200  
Washington, DC 20006-1109  
Of Counsel

June 30, 2000

cc: Service List  
Mr. Daniel L. Larcamp, Director Office of Markets, Tariffs and Rates, Room 8A-01, Tel. (202) 208-2088  
Ms. Alice M. Fernandez, Director Office of Markets, Tariffs and Rates – East Division, Room 82-15, Tel. (202) 208-0089  
Ms. Andrea Wolfman, Office of the General Counsel , Room 101-29, Tel. (202) 208-2097

**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 this proceeding 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 30th day of June, 2000.

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

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