

January 18, 2013

Hon. Jeffrey Cohen
Acting Secretary to the Commission
New York State Public Service Commission
Agency Building 3
Albany, NY 12223-1350
Phone: (518) 408-1978
Email: secretary@dps.ny.gov

Subject : Case 07-E-0088- In the Matter of the Adoption of an Installed Reserve Margin for the
New York Control Area.

Dear Secretary Cohen:

Pursuant to the Public Service Commission's December 26, 2012 Notice Soliciting Comments on Adoption of an Installed Reserve Margin in the above-entitled proceedings, the New York Independent System Operator, Inc. ("NYISO") hereby submits its comments via electronic mail. Should you have any questions, please contact me at 518-356-8540 or by email at kbluvas@nyiso.com.

Respectfully submitted,

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**STATE OF NEW YORK
PUBLIC SERVICE COMMISSION**

CASE 07-E-0088 - In the Matter of the Adoption of an Installed Reserve Margin for the New York Control Area

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

I. Introduction

The New York Independent System Operator, Inc. (“NYISO”) respectfully offers these comments in response to the New York State Public Service Commission’s (“PSC,” or “Commission”) December 26, 2012 notice in the above captioned proceeding. The NYISO supports the 17.0% Installed Reserve Margin (“IRM”) proposed by the New York State Reliability Council (“NYSRC”) for the upcoming 2013-2014 Capability Year in its recent filing with the Federal Energy Regulatory Commission (“FERC”).¹ The NYISO requests that this Commission coordinate its consideration of the proposed IRM with the FERC’s action on the NYSRC’s filing in order to avoid inconsistent agency decisions and to ensure timely implementation of the upcoming capacity auctions.

The NYISO is the independent body responsible for providing open access transmission service, maintaining and planning for bulk power system reliability, and administering competitive wholesale markets for energy, capacity, and ancillary services in New York State. Among its duties is the administration of installed capacity auctions, including the Summer 2013 Capability Period Installed Capacity (“ICAP”) auction scheduled to commence on March 28, 2013. The IRM is a key input to the ICAP auction process, where it is used, in conjunction with the ICAP Demand Curves, to calculate load serving entities’ (“LSEs”) minimum installed

¹ Capitalized terms have the meaning ascribed to them in the NYISO’s Market Administration and Control Area Services Tariff (“Services Tariff”).

capacity requirements. Thus, the NYISO has a direct interest in this Commission's review of the NYSRC's IRM decision for the 2013-2014 Capability Year.

II. Background

Section 3.03 of the NYSRC Agreement, which was approved by the FERC as part of the formation of the NYISO and the NYSRC, obligates the NYSRC to submit any proposed revisions to the New York Control Area ("NYCA") IRM to the FERC for approval before the beginning of the Capability Year to which the change would apply. The IRM was set at 18.0% for the 2000-2001, the 2006-2007 and the 2010-2011 Capability Years.² In recent years, the IRM has varied. Both the PSC and the FERC accepted an IRM of 16.5% for the 2007-2008 Capability Year,³ 15% for the 2008-2009 Capability Year,⁴ 16.5% for the 2009-2010 Capability Year,⁵ 15.5% for the 2011-2012 Capability Year,⁶ and 16.0% for the current Capability Year.⁷

The current NYCA IRM of 16.0% means that LSEs in the NYCA must procure ICAP equal to 116.0% of their forecast peak load.⁸ In addition, there are separate location-specific ICAP requirements for LSEs in New York City and on Long Island, which reflect the existence

² *New York State Reliability Council*, 90 FERC 61,313 (2000); *New York State Reliability Council*, Docket No. ER10-416-000 (January 28, 2010); *In the Matter of the Adoption of an Installed Reserve Margin*, Case No. 07-E-0088, 32 NY Reg. 9 (February 12, 2010).

³ *New York State Reliability Council*, 118 FERC 61,179 (2007); *In the Matter of the Adoption of an Installed Reserve Margin*, Case No. 07-E-0088 (March 8, 2007), 29 NY Reg. 17 (April 4, 2007).

⁴ *New York State Reliability Council*, 122 FERC 61, 186 (2008); *In the Matter of the Adoption of an Installed Reserve Margin*, Case No. 07-E-0088 (Feb. 29, 2008), 30 NY Reg. 8 (March 19, 2008).

⁵ *New York State Reliability Council*, Docket No. ER09-437-000 (February 6, 2009); *In the Matter of the Adoption of an Installed Reserve Margin*, Case No. 07-E-0088 (Feb.19, 2009), 30 NY Reg. 20 (March 4, 2009).

⁶ *New York State Reliability Council*, Docket No. ER11-2392-000 (January 24, 2011); *In the Matter of the Adoption of an Installed Reserve Margin*, Case No. 07-E-0088, (February 17, 2011).

⁷ *New York State Reliability Council*, Docket No. ER12-597 (February 3, 2012); *In the Matter of the Adoption of an Installed Reserve Margin*, Case No. 07-E-0088, (February 16, 2012).

⁸ For the 2006/2007 Capability Year, for example, the forecast peak load for the NYCA was 33,295 MW. The 18.0% IRM means the minimum ICAP requirement was 39,288 MW (*i.e.*, 18% more than 33,295 MW).

of transmission constraints in those areas.

At the request of the NYSRC, the NYISO conducted a study to determine the NYCA IRM necessary to meet all applicable reliability criteria for the upcoming Capability Year. The NYISO performed the IRM study according to the methodology set forth in NYSRC Policy 5 and under the supervision of the NYSRC Installed Capacity Subcommittee. As in prior years, the NYISO employed General Electric's Multi-Area Reliability Simulation model to determine the amount of installed capacity that is required NYCA-wide to meet the governing resource adequacy criterion that the probability of an unplanned disconnection of firm load not exceed one occurrence in ten years.⁹ The NYISO's base case evaluation yielded a NYCA IRM of 17.1% for the 2013-2014 Capability Year.

The NYISO reported its results to the NYSRC's Installed Capacity Subcommittee in a Technical Study Report. That subcommittee reviewed the results of the study, with verification of the data inputs and modeling by General Electric. The NYSRC's FERC filing provides highlights of the Technical Study Report at pages 8, 9, 10 and 11, and includes the study itself as an attachment. As described in that filing, the NYSRC Executive Committee relied on this result as well as on its evaluation of modeling changes, sensitivity studies, and past experience, and determined to adopt an IRM of 17.0% for the 2013-2014 Capability Year.

On December 17, 2012, the NYSRC filed its proposed 2013-2014 NYCA IRM with the FERC and requested action on its filing by February 15, 2013. The PSC Notice seeking comments on the establishment of an IRM of 17.0% was published in the New York State Register on December 26, 2012.

⁹ This criterion is known as the "Loss of Load Expectation" or "LOLE" and is a standard applied in the reliability rules of the Northeast Power Coordinating Council ("NPCC") and the NYSRC.

III. Comments

A. The NYSRC's Decision to Establish a NYCA IRM of 17.0% is Reasonable

As explained above, the NYSRC has proposed to increase the NYCA IRM from 16.0% to 17.0%. The NYISO believes that it was reasonable for the NYSRC to have adopted the 17.0% level because it correctly applied the LOLE criterion and the Technical Study Report to select an IRM level within a range of reasonable IRM levels that will maintain reliability in New York for the upcoming 2013-2014 Capability Year.

The analysis described in the Technical Study Report yielded a base case that resulted in a minimum NYCA IRM of 17.1%. As described in its filing, the NYSRC Executive Committee relied on this base case result as well as its evaluation of modeling and assumption changes and numerous sensitivity studies, which resulted in IRMs higher and lower than the base case IRM. The NYSRC determined that, based upon the base case result, modeling and assumption changes and numerous sensitivities, a 17.0% IRM satisfied the resource adequacy criterion and should be adopted. In its calculation of LCRs, the NYISO uses the IRM provided by the NYSRC to meet the LOLE resource adequacy criterion. Accordingly, the NYISO has used the 17.0% IRM provided by the NYSRC to determine LCRs for the 2013-2014 Capability Year.

The NYISO believes that it was reasonable for the NYSRC to adopt the 17.0% level, and believes the NYSRC's evaluation correctly applied the LOLE criterion to select an IRM level within a range of reasonable IRM levels that will maintain reliability in New York for the upcoming 2013-2014 Capability Year.¹⁰

¹⁰ This Commission has previously noted that it gives "considerable weight" to the NYSRC's reasoning and recommendations. *In the Matter of the Adoption of an Installed Reserve Margin*, Case No. 07-E-0088 (Feb. 17, 2009) at 9-10. The NYISO submits that the process utilized by the NYSRC for developing the upcoming year's IRM meets the same standard that the NYSRC has applied in the past and that this Commission has approved.

B. The Commission Should Act Promptly

The NYISO respectfully requests that the Commission act on the NYSRC's filing by the time of its session scheduled for February 13, 2013. The NYISO has asked the FERC to issue an order on the IRM by February 15, 2013.

The NYISO needs to know the NYCA IRM sufficiently ahead of the generation capacity auction so that it can calculate the minimum NYCA-wide and locational capacity requirements and transmit this information to auction participants. Pursuant to its tariff, the NYISO has scheduled the first ICAP auction for the Summer 2013 Capability Period to commence on March 28, 2013. Moreover, in accordance with its manuals and past practice, the NYISO has informed Market Participants that the new minimum capacity requirements will be available by March 18, 2013. The intent of this timeline is to allow Market Participants enough time to develop or adjust their bidding strategies. Without timely information, it is much harder for ICAP Suppliers and LSEs to make capacity procurement decisions. Accordingly, the NYISO needs to make its calculations as early as possible in advance of the March 18th deadline.

If the Commission acts at the February 13, 2013 session, the NYISO is confident that it could complete its work on time and provide Market Participants the data they need on a schedule that promotes the effective functioning of the ICAP markets.

C. The Commission Should Coordinate with the FERC

The NYISO respectfully suggests that the Commission coordinate its review of the NYSRC's proposed NYCA IRM revision with the FERC. To the extent that both commissions address common questions, the NYISO also asks that the Commission take measures to ensure that its determinations are compatible with the FERC's. This Commission has noted the value of such federal/state coordination in its past consideration of IRM issues, and the NYISO urges the

Commission to continue with that approach.¹¹

Conflicting determinations could put the NYISO in the difficult position of trying to choose between inconsistent federal and state requirements. This would greatly complicate the NYISO's ability to fulfill its ICAP-related tariff responsibilities in a timely manner. The NYISO could also be exposed to demands for refunds, and other legal claims, from either LSEs claiming that the NYISO unlawfully required them to over-procure, or from generators alleging an unlawful under-procurement and lost revenues.

IV. Conclusion

WHEREFORE, for the foregoing reasons, the NYISO respectfully requests that the Commission: (i) act on the NYSRC filing by the February 13, 2013 Commission session; (ii) coordinate its review with the FERC to avoid inconsistent determinations; and (iii) approve the NYSRC's proposed NYCA IRM of 17.0% for the 2013-2014 Capability Year.

Respectfully submitted,

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¹¹ *Id.*, at 8-9.