

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Niagara Mohawk Energy Marketing, Inc.)	
)	
v.)	Docket No. EL00-82-000
)	
New York Independent System)	
Operator, Inc.)	

**NEW YORK INDEPENDENT SYSTEM OPERATOR’S ANSWER TO
COMPLAINT AND REQUEST FOR FAST TRACK PROCESSING AND STAY**

The New York Independent System Operator, Inc. (“NYISO”) hereby answers the Complaint and Request for Fast Track Processing and Request for Stay (“Complaint”) filed by Niagara Mohawk Energy Marketing, Inc. (“NMEM”) on June 12, 2000. The Complaint asserts that the NYISO wrongfully denied an attempt by NMEM to export power because of a flaw in the NYISO’s Security Constrained Unit Commitment (“SCUC”) software. Pursuant to Rules 206 and 213 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.206 and 213, the NYISO hereby files its answer to NMEM’s complaint and motion. As stated more fully below, the NYISO acknowledges a need to improve the SCUC software’s handling of export transactions such as the one that is the focus of the Complaint. The NYISO is in the process of developing appropriate improvements to the SCUC software, in consultation with the appropriate committees and working groups of its members. The NYISO is working to improve the SCUC software as diligently as possible, and believes that the soonest appropriate improvements can be in place is by mid July—and that such improvements will be in place by that date. Accordingly, the issues and requested relief in the Complaint are essentially moot, and the Complaint should therefore be dismissed.

COMMUNICATIONS

Communications regarding this proceeding should be addressed to:

Robert E. Fernandez, Esq.
General Counsel
John P. Buechler
Director of Regulatory Affairs
New York Independent System
Operator, Inc.
3890 Carman Road
Schenectady, NY 12303
Tel: (518) 356-6153
Fax: (518) 356-4702
jbuechler@nyiso.com
rfernandez@nyiso.com

Arnold H. Quint
William F. Young
Ted. J. Murphy
Hunton & Williams
1900 K Street, N.W.
Washington, D.C. 20006
Tel: (202) 955-1500
Fax: (202) 778-2201
AQuint@hunton.com
BYoung@hunton.com
TMurphy@hunton.com

ANSWER

1. The NYISO Concurrs in the Need to Improve the SCUC's Handling of Exports, and is Working Diligently to Implement Appropriate SCUC Changes Within Its Committee/Working Group Structure

The NYISO concurs with NMEM that there is a need to revise the SCUC software to avoid the cancellation of export transactions in the kinds of situations described in the Complaint. Indeed, the NYISO had been working on revisions to the SCUC's handling of export transactions even before the May 8 events described in the Complaint, and has been working diligently since then to develop a workable proposal that incorporates the input of the relevant committees and working groups of its members. The only real difference between the NYISO and NMEM is over the procedures for developing SCUC revisions. By filing its Complaint, NMEM apparently seeks to shortcut the NYISO's internal committee/working group process, and thus to deprive other members of an opportunity for input on any proposed changes to the SCUC software.

Based on its evaluation of the potential for the SCUC to produce results such as those described in the Complaint, the NYISO developed a proposed modification to the SCUC for consideration by the NYISO Business Issues Committee (“BIC”) at its meeting on May 18, that is, only 9 or 10 days after the transaction described in the Complaint. *See* Affidavit of Robert Thompson at ¶ 5. Shortly prior to the May 18 BIC meeting, however, the on-going testing and evaluation of the proposal by the NYISO and its outside consultants revealed that the proposal could have significant unintended adverse impacts on reliability, and could affect market performance. *Id.* at ¶ 5. This testing included evaluation of the proposal under the high load conditions experienced on May 8 and 9. *Id.* at ¶ 5. In light of the NYISO’s report of these test results, the BIC voted unanimously not to implement the proposal, and agreed that the NYISO should develop an alternative proposal that would take into account the reliability and market performance concerns disclosed by the testing. *Id.* at ¶ 5.

Thereafter, the NYISO proceeded with development of an alternative proposal. As agreed at the June 7 meeting of the Scheduling and Pricing Working Group (“S&P WG”) of the BIC, a draft of a new proposed SCUC modification was sent to the Chair of the S&P WG on June 16 for circulation. *Id.* at ¶ 6. Simultaneously, the NYISO has begun working with its software vendor to begin the software modification process, subject to whatever changes may emerge from the S&P WG and BIC reviews. *Id.* at ¶ 7.

As explained in the attached affidavit of Mr. Ricardo Gonzales, the NYISO Manager of Scheduling & Commitment, the SCUC performs a series of iterative passes in which successive refinements are made to the Day-Ahead unit commitment to ensure that sufficient capacity is available under applicable security and operational constraints to meet both bid and forecast New

York loads and external loads. Gonzales at ¶ 6. Under the revised proposal, all export transactions will be scheduled in the final dispatch pass of the SCUC, and on the basis of a comparison of the export transaction Sink Price Cap Bids (*i.e.*, decremental bids) with the Day-Ahead LBMPs resulting from the final SCUC pass. *See* Affidavit of Ricardo Gonzales at ¶ 13. This will ensure that all export transactions that are economic under the final Day-Ahead prices resulting from the final SCUC pass will in fact be scheduled in the Day-Ahead Market. Accordingly, the revised SCUC modifications directly address NMEM's concerns. *Id.* at ¶ 13.

If the proposed SCUC modifications are favorably received by the S&P WG and BIC, the NYISO understands from its software vendor that the SCUC changes should be implemented by mid July. *Id.* at ¶ 14. If earlier implementation proves feasible, the NYISO will of course seek to do so. At present, however, the NYISO is not aware of any steps that could be taken that would result in significantly earlier implementation of the software changes sought by the Complaint. *See* Thompson at ¶ 10 and Gonzales at ¶ 15. Thus, the NYISO respectfully submits that further proceedings on the Complaint are not warranted, and that the remedies sought in the Complaint are essentially moot.

2. The Interim Manual Fix Requested by NMEM is not Feasible

In its request for relief, NMEM asks the Commission to order the NYISO to “immediately implement mechanical check procedures to ensure that the SCUC program does not reject economically rational bids for export capacity transactions.” Complaint at 12. The Complaint also implies that the NYISO has arbitrarily refused to undertake such a mechanical check procedure. Complaint at 7.

While the use of an interim manual fix may sound desirable, it is in fact not feasible. The SCUC employs highly sophisticated software that simultaneously solves for a number of parameters, each of which has an interactive or iterative impact on the SCUC output. This output includes generation schedules and prices, as well as the external load schedules that NMEM proposes be adjusted manually. A manual after-the-fact change in external schedules at the end of this process would be inconsistent with the entire design of the SCUC. The manual adjustment proposed by NMEM would add external load that would not have been taken into account in the SCUC determination of Day-Ahead prices, and no generation would have been scheduled at Day-Ahead prices to meet this load. At the same time, the Day-Ahead prices could not be re-determined manually, since the only way to correctly determine Day-Ahead prices is through the iterative SCUC process that takes account of all the multi-pass interactions. Any attempted manual calculation of prices or schedules would necessarily require software changes, such as the software changes that are already being designed and implemented by the NYISO. *See* Gonzales at ¶ 15. Thus, a manual addition of export transactions at the end of the SCUC process would result in incorrect prices that do not match generation to load. Accordingly, the NYISO respectfully submits that the better course is to devote its available resources to developing, testing and implementing a comprehensive fix within the SCUC itself, as described above and in the attached affidavits.

3. Current SCUC Procedures were not Adopted as a Means to Discriminate Against Exports

The Complaint suggests that the current SCUC procedures were adopted in a deliberate effort to discriminate against exports from New York. Complaint at 2. This is not true. The

SCUC protocols that caused the NMEM export on May 8 not to be scheduled were the result of the implementation of assumptions made in the software development process in favor of preserving reliability. *See* Affidavit of Ricardo Gonzales at ¶ 4. In essence, the problem arose because of differences in the outcomes of the first SCUC pass, which is based on the submitted load bids, and the second, third and fourth SCUC passes, which are based on the NYISO's independent load forecast. These later passes are necessary to ensure reliability, by performing SCUC iterations based on the NYISO's review of load and generation conditions in the New York Control Area as a whole. These load forecast iterations ensure that sufficient resources are on-line or otherwise available to meet the NYISO's load forecast. *Id.* at ¶ 12. In some instances, the NYISO's load forecast can be 10% or more above the sum of the load bids, and this was the case for the Day-Ahead Market for May 8. *Id.* at ¶ 8.

As detailed in Mr. Gonzales Affidavit, when the forecast load is significantly greater than the bid load, the SCUC passes utilize the NYISO's forecast load to assure that sufficient capacity is scheduled to meet the forecast load. In doing so, the SCUC selects generation resources, in accordance with the applicable NYISO Tariff, on the basis of capacity availability (start-up and minimum generation) cost rather than simply energy cost, and has at times produced strike prices at certain proxy busses high enough that certain export transactions have not been scheduled. *Id.* at ¶ 12. The external load schedules determined in these reliability passes then remained in place in order to ensure that the schedules could be met. This methodology did not adequately take into account, however, the fact that the dispatch of resources to meet the bid load in the final SCUC pass may ultimately result in Day-Ahead prices that would have warranted scheduling the exports.

As described above, with the benefit of experience with the implementation of the SCUC, the NYISO has determined that it is possible to make the ultimate evaluation of export schedules by comparison to the final Day-Ahead prices rather than the proxy prices produced in earlier runs while still maintaining a reliable forecast solution. *Id.* at ¶ 13. But this refinement has been attained only with the benefit of experience. Prior to the initiation of the bid-based New York energy markets, the NYISO was faced with the implementation of a complex, full-featured market system that was without precedent anywhere in the world, and thus needed to deal with a lack of certainty about the actual bidding behavior of market participants and other factors potentially affecting market outcomes. In this setting, it was entirely reasonable to make certain necessary assumptions in favor of ensuring that the new markets would result in reliable service to end users—just as it is also appropriate, as experience with the markets is being gained, to refine the implementation of those assumptions in light of this experience.

COMPLIANCE WITH RULE 213

In light of NYISO's answer in this docket, the NYISO requests a waiver of the requirements of Rule 213, 18 C.F.R. § 385.213.

CONCLUSION

For the foregoing reasons, the NYISO respectfully requests that the Commission dismiss the June 12, 2000 Complaint of NMEM and deny the relief it seeks.

Respectfully submitted,

NEW YORK INDEPENDENT
SYSTEM OPERATOR, INC.

Docket No. EL00-82-000

By: _____
Counsel

Arnold H. Quint
William F. Young
Ted J. Murphy
Hunton & Williams
1900 K Street, N.W.
Washington, D.C. 20006
Tel: (202) 955-1500
Fax: (202) 778-2201

Of Counsel

Dated: June 20, 2000

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.

Dated at Washington, D.C. this 20th day of June 2000.

William F. Young
Hunton & Williams
1900 K Street, N.W.
Washington, D.C. 20006-1109
(202) 955-1500