# NOTICE OF APPEAL OF KEYSPAN-RAVENSWOOD, INC. TO THE BOARD OF DIRECTORS FROM THE MANAGEMENT COMMITTEE'S DECISION AT ITS JUNE 19, 2002 MEETING

## I. SUMMARY STATEMENT

KeySpan-Ravenswood, Inc. ("Ravenswood") appeals the decision of the Management Committee on June 19, 2002 in connection with Ravenswood's appeal from the decision of the Operating Committee 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 results in potential reliability and safety issues. In addition, it causes a material shift to project developers of the transmission system upgrade costs that were and are necessary to maintain system reliability.[1]

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") 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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> (2) any generic units used in the Baseline Assessment must be reasonably selected and feasible of construction for the in-service year specified in the Baseline Assessment;
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> (3) the Baseline Assessment and Annual Transmission Reliability Assessment ("Reliability Assessment") be based on up-to-date and accurate data; 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.

[1] 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. Future developers will be required to reimburse Class of 2001 developers for the headroom that excessive payments create. Thus, the issues raised here by Ravenswood will affect the Class of 2002 and later Class Years, as well as the Class of 2001.

## II. ARGUMENT

### A. 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 facility costs to developers of the generating projects in the Class of 2001.[2] The allocation of system upgrade facility 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.[3] The goal of this exercise is to identify the cost of system upgrade facilities required to meet the introduction of the new generic 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.[4]

Notwithstanding the requirements of Attachment S, NYISO Staff did not 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").[5] Instead, NYISO Staff incorporated two

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[2] 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.

[3] *See* discussion in Section II.B, 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.

[4] 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.

[5] Because there were significant capacity deficiencies in New York City during 1999 and 2000, in September 2000 the NYISO, New York Public Service Commission, New York State Reliability Council 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 Consolidated Edison Company of New York, Inc. ("Con Edison") and Orion, respectively, was undertaken and relied upon to meet the reliability needs of the City. The NYPA gas turbine units and the Hudson Avenue No. 10 plant were – and are – clearly existing, and clearly required to meet reliability requirements, and as such
(footnote continued on next page)

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 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 existing plants which were 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)[6]

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 jeopardize reliability and shift the cost of any system upgrade facilities associated with the plants not included to developers instead of transmission owners and their customers. This cost shift results because transmission facility upgrade costs identified in the

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belong in the Baseline Assessment. The NYPA units are also in the Class of 2001, and thus will be allocated system upgrade costs, while NYISO Staff does not seek to allocate upgrade costs to Hudson Avenue No. 10. Similarly, the recently-constructed units in PJM that were excluded by NYISO Staff should be included.

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

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.[7] Since both the NYISO and Con Edison have stated that they sought only to minimize system upgrade facility 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.

NYISO Staff has not indicated that it will require extensive work to revise its cost allocation to comply with Attachment S, as outlined in this section, and Ravenswood submits that the work can be completed in time for resolution in August 2002.

## B. 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

[7] NYISO Staff has repeatedly described 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.

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 the year-by-year "feasibility" 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.[8] 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.[9] 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

[8] NYISO Staff indicated that the generic units were selected in a process intended to track standard utility planning practice. It is wholly unrealistic to focus on just system upgrade facility costs as opposed to all relevant costs. In the case of Con Edison's selection of generic units, it indicated that its overriding concern was to minimize just the cost of addressing fault current issue and that it did not consider other issues such as year-by-year feasibility when selecting generic units.

[9] Any claim that a utility would have constructed such units given sufficient time is an attempt to use an option which has expired.

meeting reliability requirements, but a cost estimate designed to shift, to the maximum extent possible, the cost of system upgrade facilities to developers.[10]

### C. 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. In fact, 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 relied upon Con Edison's short circuit studies and used an outdated database prepared by Con Edison. Ravenswood understands that the vintage of the representation of the Con Edison service territory in this database is more up-to-date than the representation of adjacent control areas.[11]

NYISO Staff has refused to update the portions of the database applicable to the two adjacent control areas.[12] NYISO Staff's explanations of why it refuses to 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's recognition of the need to update the Con Edison database with respect to the representation of Long Island. Actual conditions in PJM and ISO-NE, which are different from those in the outdated Con Edison database, will certainly have an impact on fault current and the reliability of the Baseline Assessment. 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

[10] As noted in Section II(A), these changes can be made without extensive work.

[11] The representation of PJM is approximately three years old and excludes significant existing generation.

[12] NYISO Staff refused market participants' requests to model the neighboring control areas as a sensitivity case. NYISO Staff did update, however, the representation of Long Island in the Con Edison short circuit database relatively late in the process of preparing the Baseline Assessment. This resulted in additional circuit breakers being over their rated capacity in the Baseline Assessment, requiring upgrades to maintain reliability.

changes in neighboring control areas caused the need to perform a sensitivity analysis.[13] 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 information that could have significant impacts on both 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."[14] Such "information and input" to be provided by market participants includes accurate and up-to-date data about a material issue.

Finally, such a claim unreasonably introduces an artificial jurisdictional boundary. Good utility practice requires the NYISO to seek out relevant data concerning impacts from adjacent control areas at the 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. To exclude up-to-date data from adjacent control areas raises the question whether the Baseline Assessment meets the Applicable Reliability Requirements, as well as whether the Cost Allocation is correct.[15]

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

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

[15] The update required addresses short circuit issues, not other reliability issues. For the Cost Allocation Report, such an update should be able to be performed in a short period. Ravenswood has been able to update its database in less than one week.

The NYISO's preparation of the Reliability Assessment without updating the pertinent databases is also inconsistent with the NYISO's System Reliability Impact Study Criteria and Procedures ("SRIS Criteria"). The SRIS Criteria provide that all currently existing facilities, within and outside New York State and all proposed facilities sited outside New York State, that have completed an evaluation comparable to a NYISO SRIS, have reached a comparable stage of state regulatory review and that may reasonably be expected to affect the results of the SRIS must be assumed as Baseline Study Assumptions by project developers.[16] Attachment S, in turn, requires the NYISO to update in the Reliability Assessment the results of the plant-specific System Reliability Impact Studies that have previously been performed for proposed interconnection projects, consistent with the SRIS Criteria. Attachment S, Tariff Sheet 674 (Sections IV.F.5.a and IV.F.5.b). Thus, the SRIS Criteria and Attachment S together require the NYISO to prepare the Reliability Assessment based on all currently existing and projected plants inside and outside New York State.

The NYISO concedes that its database is not up-to-date with respect to existing and proposed generating facilities in the adjacent control areas of PJM and New England and suggests that it will be brought up to date in the near future.[17] While the NYISO may claim that it does not have to use information that is current, this does not excuse it not using data brought up-to-date at the time that it conducted its cost allocation study.

The fact that the Reliability Assessment is flawed and does not meet the requirements of the SRIS Criteria, and thus of Attachment S, is not just a cost issue. It also affects the ability to assure that the NYISO's transmission system is reliable. Without having an up-to-date database, the NYISO

[16] SRIS Criteria, Page 5.

[17] NYISO Staff has indicated that it expects to have the updated database by late July or early August, 2002. The fact that the databases are out-of-date is also inconsistent with the requirement of the SRIS Criteria that individual SRISs be conducted with the correct assumptions as to other existing or proposed plants. While the NYISO asserts that it used the best data available, it did not even contact PJM or ISO New England to seek current data.

cannot simply determine whether the transmission system will meet reliability requirements with existing facilities in place.

The results of updating the database could be significant. A number of Con Edison's breakers are very close to their rated capacity, that is, with less than 100 amps margin, based upon the outdated data bases. Con Edison, in its Plan dated November 27, 2000, conducted a sensitivity analysis limited to changes in the PJM portion of the database. Just this limited update (*i.e.,* without reference to updating the New England portion of the database) indicated fault current increases of up to 700 amps in substations that are close to their limits. This data should have resulted in the NYISO updating its database or at least conducting sensitivity analyses to determine if reliability is not being compromised. They failed to do either.

### 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 . . . ."[18] 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 Plan is 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 has not distributed to the extent they looked at the issue. The conclusory statements in the Cost Allocation Report that the Report is the least cost plan cannot substitute for the required analysis. In reality, NYISO Staff simply delegated this critical function to Con Edison[19]

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

[19] When Con Edison's Plan was presented to the NYISO's Operating Committee in August 2001, that Committee did not approve the Plan.

## III. CONCLUSION

Ravenswood respectfully urges the Board of Directors 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. NYISO Staff should be directed to revise the Cost Allocation Report so that costs are not inappropriately shifted to developers and so that the Report is consistent with the requirements of Attachment S.

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