

DEWEY & LeBOEUF

Dewey & LeBoeuf LLP
99 Washington Avenue
Suite 2020
Albany, NY 12210-2820

tel +1 518 626 9308
fax +1 518 626 9010
pgioia@dl.com

January 7, 2010

VIA E-MAIL AND HAND DELIVERY

Honorable Jaclyn A. Brilling
Secretary
New York State Public Service Commission
Three Empire State Plaza
Albany, New York 12223-1350

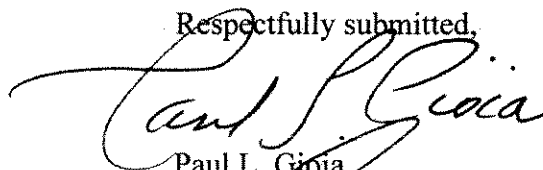
Re: Case 07-E-0088 –In the Matter of the Adoption of an Installed Reserve
Margin for the New York Control Area

Dear Secretary Brilling:

On behalf of the New York State Reliability Council, enclosed please find the original copy of comments in the above-referenced cases. A copy of these comments was submitted to the Commission electronically on this date.

If you have any questions regarding this filing, please contact me.

Respectfully submitted,



Paul L. Gioia
Counsel to the
New York State Reliability Council

Enclosure

cc: David Drexler (w/o Exhibits)
Edward Schrom (w/o Exhibits)
102430

**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 STATE RELIABILITY COUNCIL
ON THE INSTALLED RESERVE MARGIN
FOR THE 2010-2011 CAPABILITY YEAR**

George C. Loehr
Chairman
NYSRC Executive Committee
New York State Reliability Council
4101 Killington Road NW
Albuquerque, NM 87114

Dated: January 7, 2010

**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 STATE RELIABILITY COUNCIL

New York State Reliability Council, LLC (“NYSRC”), through the Chairman of its Executive Committee, respectfully submits these Comments in Case 07-E-0088. On December 23, 2009 the New York State Public Service Commission (“Commission”) solicited comments on whether the Commission should adopt the NYSRC’s Installed Reserve Margin (“IRM”) of 18.0% for the New York control area for the capability year beginning on May 1, 2010 and ending on April 30, 2011. The NYSRC respectfully requests that the Commission consider these comments in support of the NYSRC’s IRM determination for the 2010-2011 capability year.

I. SUMMARY

On December 4, 2009, the NYSRC Executive Committee adopted an IRM of 18.0% for the New York control area (“NYCA”) for the capability year beginning on May 1, 2010 and ending April 30, 2011. The Executive Committee’s decision was based on a technical study, the New York Control Area Installed Capacity Requirements for the Period May 2010 through April 2011, Technical Study Report (“2010 IRM Study”) and other relevant factors.

Since the 18.0% IRM for the 2010-2011 capability year adopted by the NYSRC represents a change from the 2009-2010 IRM of 16.5%, the NYSRC is required to make an appropriate filing with the Federal Energy Regulatory Commission (“FERC”) under Section 3.03 of the NYSRC Agreement. The NYSRC submitted its filing to FERC on December 14, 2009

and requested that FERC accept and approve the filing effective no later than February 16, 2010 so that the revised IRM may be in place for the installed capacity auction to be conducted by the NYISO on March 30, 2010.¹ The NYSRC requests that the 2010 IRM Study, which is attached to these comments as Exhibit 1, be made part of the record in these proceedings.

II. BACKGROUND

Formation and Responsibilities of the NYSRC

The NYSRC was approved by FERC in 1998 as part of the comprehensive restructuring of the competitive wholesale electricity market in New York State.² Under the restructuring, the New York Power Pool (“NYPP”) was replaced by the New York System Independent System Operator (“NYISO”) as the entity with the primary responsibility for the reliable operation of the State’s bulk power system. The NYISO also assumed responsibility for administration of the newly established competitive wholesale electricity markets.

The NYSRC was established to promote and preserve the reliability of the New York State power system by developing, maintaining and, from time to time, updating the reliability rules (“Reliability Rules”) that govern the NYISO’s operation of the State’s bulk power system. The NYSRC develops Reliability Rules in accordance with standards, criteria and regulations of NERC, NPCC, FERC, the Commission, and the Nuclear Regulatory Commission.³ The NYISO/NYSRC Agreement provides that the NYISO and all entities engaged in transactions on the New York State power system must comply with the Reliability Rules adopted by the NYSRC.⁴ Compliance with NYSRC Reliability Rules, which are incorporated into the NYISO’s procedures, are made binding on market participants through the

¹ New York State Reliability Council, Docket No. ER10-416 (December 14, 2009).

² Central Hudson Gas & Electric Corp., et al., 83 FERC ¶ 61,352 (1998).

³ NYISO/NYSRC Agreement, Section 4.1.

⁴ NYISO/NYSRC Agreement, Section 2.1, 3.1.

NYISO's tariff.⁵ The NYISO/NYSRC Agreement also assigns to the NYSRC the responsibility to monitor the NYISO's compliance with the Reliability Rules and requires the NYISO to provide the NYSRC the data necessary for it to effectively perform its compliance monitoring responsibility.⁶ Each member of the NYSRC Executive Committee is required to have substantial knowledge and/or expertise in the reliable operation of bulk power electric systems.⁷

At its inception, the NYSRC adopted the pre-existing NYPP reliability rules. These planning and operating rules had been developed by the NYPP and the Commission based on decades of experience in the operation of the New York bulk power system. Revisions to the Reliability Rules are developed by the NYSRC in an open process with direct participation by the NYISO and Department of Public Service staff. If the NYSRC and the NYISO should disagree with respect to a new or modified Reliability Rule, and cannot resolve their differences, the matter is referred to the Commission for resolution, unless the dispute affects not only reliability but also matters subject to FERC's jurisdiction that must be resolved directly by FERC.⁸

In addition to incorporating NERC and NPCC reliability criteria, the NYSRC Reliability Rules include criteria that are more specific or more stringent than NERC and NPCC criteria that are necessary to meet the special requirements of the NYCA. These special requirements include the specific electric system characteristics and demographics of New York State, the complexities related to the maintenance of reliable transmission in New York State given the configuration of the State's bulk power system, and the severe consequences that result from power interruptions in New York State and, in particular, New York City and Long Island.

⁵ NYISO Market Services Tariff, Sections 5.1, 5.6.

⁶ NYISO/NYSRC Agreement, Section 3.6.

⁷ NYSRC Agreement, Section 4.03.

⁸ NYISO/NYSRC Agreement, Article 5.

PSC Support for NYSRC

As noted, the NYSRC was formed as an integral part of the restructuring of the electricity industry in New York State. It was formed, with the active support of the Commission, to ensure that the more stringent and mandatory reliability standards in New York State would be retained under the new competitive wholesale market structure. In its Supplemental Comments in the FERC proceeding in which the NYSRC Agreement and the NYISO/NYSRC Agreement were approved, the Commission stated:

PSCNY conditioned its support for the State Reliability Council upon amendments that would broaden the governance of the [NY]SRC to include more non-utility board members, and to narrow the responsibilities of the [NY]SRC. The Supplemental Filing appropriately circumscribes the authority of the SRC. As stated by the utilities, the [NY]SRC would be limited to establishing reliability rules that tailor the national North American Reliability Electric Reliability Council ("NERC") and regional Northeast Power Coordinating Council ("NPCC") standards to New York State. Consistent with NERC, NPCC, NYPP and NYPSC standards, the [NY]SRC would establish a state-wide reserve margin to ensure that adequate generation is available to serve load during normal conditions and system emergencies.

* * *

As proposed, the ISO would implement and enforce the reliability rules, not the [NY]SRC. Moreover, the ISO alone would apply the state-wide resource requirement to set the actual generation resource levels suppliers must meet on different parts of the state grid.⁹

NYSRC Establishment of Statewide IRM

One of the most important responsibilities assigned to the NYSRC is the establishment of the annual statewide installed capacity for the NYCA.¹⁰ Section 3.03 of the NYSRC Agreement reads as follows:

⁹ Supplemental Comments, State of New York Department of Public Service, Docket Nos. ER 97-1523, et al, (filed May 23, 1997), at 2.

¹⁰ NYSRC Agreement, § 3.03; NYISO/NYSRC Agreement, § 4.5.

The NYSRC shall establish the state-wide annual installed capacity requirements for New York State consistent with NERC and NPCC standards. The NYSRC will initially adopt the installed capacity requirement as set forth in the current NYPP Agreement and currently filed with FERC. Any changes to this requirement will require an appropriate filing and FERC approval. In establishing the state-wide annual installed capacity requirements, consideration will be given to the configuration of the system, generation outage rates, assistance from neighboring systems and Local Reliability Rules.

The installed capacity requirement is described generally in terms of an installed reserve margin or IRM.¹¹ The NYISO was assigned the responsibility to determine the installed capacity obligations of load serving entities (“LSEs”) and to establish locational capacity requirements needed to ensure that the statewide IRM is met.¹² The responsibilities assigned by the NYSRC Agreement and the NYISO/NYSRC Agreement are implemented in the NYSRC’s Reliability Rules, the NYSRC’s Policy No. 5-3, and the NYISO’s Market Administration and Control Area Services Tariff (“Market Services Tariff”). The following is a brief description of the relevant portions of those documents.

NYSRC Resource Adequacy Criteria

The Introduction to Section A, Resource Adequacy, of the NYSRC Reliability Rules provides that among the factors to be considered by the NYSRC in setting the annual statewide IRM are the characteristics of the loads, uncertainty in the load forecast, outages and deratings of generating units, the effects of interconnections to other control areas, and transfer capabilities within the NYCA.

Reliability Rule A-R1, NYCA Installed Reserve Margin Requirement, provides as follows:

¹¹ The annual statewide ICR is established by implementing Reliability Rules for providing the corresponding statewide installed reserve margin (“IRM”) requirements. The IRM requirements relates to ICR through the following equation: $ICR = (1 + IRM \text{ Requirement}) \times \text{Forecasted NYCA Peak Load}$ (NYSRC Reliability Rules, A. Resource Adequacy, Introduction).

¹² NYISO/NYSRC Agreement, § 3.4; NYISO Market Services Tariff, §§ 5.10 and 5.11.4.

The NYSRC shall establish the IRM requirement for the NYCA such that the probability (or risk) of disconnecting any firm load due to resource deficiencies shall be, on average, not more than once in ten years. Compliance with this criterion shall be evaluated probabilistically, such that the loss of load expectation (LOLE) of disconnecting firm load due to resource deficiencies shall be on average, no more than 0.1 day per year. This evaluation shall make due allowance for demand uncertainty, scheduled outages and deratings, forced outages and deratings, assistance over interconnections with neighboring control areas, NYS Transmission System emergency transfer capability and capacity and/or load relief from available operating procedures.

Reliability Rule A-R2, Load Serving Entity Installed Capacity, provides that:

LSEs shall be required to procure sufficient resource capacity for the entire NYISO defined obligation procurement period so as to meet the statewide IRM requirement determined from A-R1. Further, this LSE capacity obligation shall be distributed so as to meet locational ICAP requirements, considering the availability and capability of the NYS Transmission System to maintain A-R1 reliability requirements.

NYSRC Policy No. 5-3, Procedure for Establishing New York Control Area Installed Capacity Requirements

The last paragraph of Section 1.0, Introduction, of NYSRC Policy No. 5-3 provides that:

The final NYCA IRM requirement, as approved by the NYSRC Executive Committee, is the basis for various installed capacity analyses conducted by the NYISO. These NYISO analyses include the determination of the capacity obligation of each Load Serving Entity (LSE) on a Transmission District basis, as well as Locational Installed Capacity Requirements, for the following capability year. These NYISO analyses are conducted in accordance with NYSRC Reliability Rules and Procedures.

Section 2.2 of NYSRC Policy No. 5-3 provides a timeline for establishing the statewide IRM. This timeline is based on the NYSRC's providing the NYISO with the following year's NYCA IRM requirement by December 15, when the NYISO, under its installed capacity and procurement process, is required to begin its studies for determining the following summer's LSE capacity obligations.

Section 4.4 of NYSRC Policy No. 5-3 sets forth the process for approval of the annual statewide IRM by the NYSRC Executive Committee.

4.4 NYSRC Executive Committee

The NYSRC Executive Committee has the responsibility of approving the final IRM requirements for the next capability year.

- Review and approve data and modeling assumptions for use in IRM Study.
- Review and approve final IRM Study prepared by ICS [Installed Capacity Subcommittee].
- Establish and approve the final NYCA IRM requirement for the next capability year. (See Section 5).
- To the extent practicable, ensure that the schedule for the above approvals allows that the timeline requirements in Section 2.2 are met.
- Notify the NYISO of the NYCA IRM requirements and meet with NYISO management as required to review IRM Study results.
- Make IRM requirement study results available to state and federal regulatory agencies and to the general public.

NYISO Market Services Tariff

Relevant portions of Section 5.10 of the NYISO's Market Services Tariff, NYCA

Minimum Installed Capacity Requirement, read as follows:

The NYCA Minimum Installed Capacity Requirement is derived from the NYCA Installed Reserve Margin, which is established each year by the NYSRC. The NYCA Minimum Installed Capacity Requirement for the Capability Year beginning each May 1 will be established by multiplying the NYCA peak Load forecasted by the ISO by the quantity of one plus the NYCA Installed Reserve Margin. The ISO shall translate the NYCA Installed Reserve Margin, and thus the NYCA Minimum Installed Capacity Requirement, into a NYCA Minimum Unforced Capacity Requirement, in accordance with the ISO Procedures.

* * *

The NYCA Minimum Unforced Capacity Requirement represents a minimum level of Unforced Capacity that must be secured by LSEs in NYCA for each Obligation Procurement Period. Under the provisions of this Services Tariff and the ISO Procedures, each

LSE will be obligated to procure its LSE Unforced Capacity Obligation.

The first paragraph of Section 5.11.4 of the Market Services Tariff, LSE

Locational Minimum Installed Capacity Requirements, reads as follows:

The ISO will determine the Locational Minimum Installed Capacity Requirements, stated as a percentage of the Locality's forecasted Capability Year peak Load and expressed in Unforced Capacity terms, that shall be uniformly applicable to each LSE serving Load within a Locality. In establishing Locational Minimum Installed Capacity Requirements, the ISO will take into account all relevant considerations, including the total NYCA Minimum Installed Capacity Requirement, the NYS Power System transmission Interface Transfer Capability, the Reliability Rules and any other FERC-approved Locational Minimum Installed Capacity Requirements.

III. Adoption of the IRM For 2010-2011 Capability Year

2010 IRM Study

The 2010 IRM Study was conducted by the NYSRC to determine the statewide IRM necessary to meet NYSRC and NPCC criteria within the NYCA during the period from May 1, 2010 through April 30, 2011. Computer runs for the 2010 IRM Study were performed by NYISO staff at the request and under the guidance of the NYSRC. The 2010 IRM Study uses a state-of-the art computer model called the General Electric Multi-Area Reliability Simulation Program ("GE-MARS"). The GE-MARS model includes a detailed load, generation and transmission representation of the 11 NYCA zones as well as the four external control areas ("Outside World Areas") interconnected to the NYCA. The GE-MARS model calculates the probability of outages of generating units, coupled with a model of daily peak-hour loads, thus determining the number of days per year of expected capacity shortages. The resulting measure, termed the "loss-of-load expectation" ("LOLE") index, provides a measure of generation system reliability. This technique is commonly used in the electric power industry for determining installed reserve requirements.

This 2010 IRM Study employs two study methodologies, the *Unified* and the *IRM Anchoring Methodologies*. These methodologies are discussed in the Study (at 4) under IRM Study Procedures. In addition to calculating NYCA IRM requirement, these methodologies identify corresponding Minimum Locational Capacity Requirements (“MLCRs”). In its role of setting the appropriate Locational Capacity Requirements (“LCRs”), the NYISO considers the MLCR determined in the IRM Study.

The 2010 IRM Study uses the NYISO’s preliminary peak load forecast for the following summer period based on the most recent actual summer load conditions. Use of this forecast allows the NYSRC IRM and NYISO LCR studies to use comparable data.

The 2010 IRM Study also evaluated IRM requirement impacts caused by the updating of key study assumptions and various sensitivity cases.¹³ These results are depicted in Tables 1 and 2 (at 15 and 16) and Table B-2 (at 63) in the IRM Study. The base case results, the sensitivity cases, and other relevant factors provide the basis for the NYSRC Executive Committee determination to adopt a 18.0% NYCA IRM requirement for the 2010-2011 capability year. Definitions of certain terms in the 2010 IRM Study can be found in the NYSRC Glossary in the NYSRC Reliability Rules.

2010 IRM Study Base Case Results

The base case for 2010 IRM Study calculated the NYCA IRM requirement for the period May 1, 2010 through April 30, 2011 to be 17.9%.¹⁴ For the base case, the 2010 IRM

¹³ At its meeting August 14, 2009, the NYSRC Executive Committee approved the Assumption Matrix for the 2010 IRM Study base case. The sensitivity cases for the 2010 IRM Study were approved by the NYSRC Executive Committee at its meeting on October 9, 2009. The Assumptions Matrix set forth in Appendix D of the 2010 IRM Study.

¹⁴ There is a 99.7% probability that the base case result is within a range of 17.5% to 18.4% based on a standard error of 0.05. See Appendix A of the IRM Study, A-2.1 Error Analysis, at 24.

Study also determined MLCRs of 79.6% and 104.9% for New York City and Long Island, respectively.

The 2010 base case result is 1.7 percentage points higher than the 16.2% base case IRM requirement determined by the 2009 IRM Study. The principal reasons for the increase in the required IRM are:

(1) Improved Special Case Resource Performance Model.

The 2010 IRM Study utilized a significantly improved methodology for determining the performance of Special Case Resources (SCRs). The improved methodology consisted of a revised calculation of the forecasted amount of SCRs and the peak hour performance of these resources. The forecast of SCR resources was based on a three year historical growth rate considering the actual monthly variation of SCRs based on historic experience. The SCRs were allocated to NYISO zones based on the distribution of existing SCRs. The performance of SCRs in each NYISO zone was based upon ICAP region performance factors.

The methodology for determining SCR performance was changed based on a detailed analysis of actual peak day SCR experience considering two different baseline methods for computing peak hour effectiveness: 1) the Average Peak Monthly Demand Method (APMD) and 2) the Customer Baseline Load (CBL) Method. Previous IRM studies developed SCR performance considering only the APMD method. The detailed NYISO analysis concluded the APMD methodology overstates SCR peak hour performance while the CBL method slightly understates peak hour SCR performance observed in actual peak hour operation. Based on the NYISO analysis a performance factor based on the ratio of CBL to APMD performance was developed and used as the basis for modeling SCRs as depicted in Appendix D Attachment F of the 2010 IRM Study.

(2) Continued Decline in NYCA Generating Unit Availability.

During 2007 and 2008, NYCA generators experienced a trend towards higher forced outage rates, especially in New York City and Long Island. The higher forced outage rates during this two year period caused the five-year rolling average of the equivalent forced

outage rate on demand (EFORd) to increase by 0.3% in the 2009 IRM Study and another 0.3% in the 2010 IRM Study (graphically depicted in Figure A-6 in the 2010 IRM Study, at 39). This increase in the EFORd rolling average resulted in an IRM increase of 1.4% from the 2009 IRM Study.

Table 1 of the IRM Study (at 15), set forth below, compares the estimated IRM impacts of changing certain key study assumptions from the 2009 IRM Study.

Table 1: Parametric IRM Impact Comparison with 2009 IRM Study

Parameter	Estimated IRM Change (%)	IRM (%)
2009-10 Study – Base Case IRM		16.2
Updated Parameters Causing a Higher IRM:		
Improved SCR Performance Model	+ 1.5	
Updated Generating Unit EFORs	+ 1.4	
Updated NYCA Load Forecast	+ 0.3	
Updated EOPs	+ 0.3	
New Wind Capacity (117 MW)	+ 0.2	
New Load Forecast Uncertainty Model	+ 0.2	
Total of Other Parameters	+ 0.3	
Total IRM Increase	+ 4.2	
Updated Parameters Causing a Lower IRM:		
Updated Outside World Model	- 0.5	
Improved Process for Modeling Loop Flow	- 0.4	
New Non-Wind Units, Retirements & Reratings	- 0.4	
Updated Cable Outage Rates	- 0.2	
Capacity Purchases	- 0.2	
Capacity Sales	- 0.2	
Total of Other Parameters	- 0.6	
Total IRM Decrease	- 2.5	
Net Change From 2009-10 Study		+ 1.7
2010-11 Study – Base Case IRM		17.9

After considering the 2010 IRM Study results, the modeling and assumption changes made to simulate actual operating conditions and system performances, the numerous sensitivities evaluated, and based on its experience and expertise, on December 4, 2009 the NYSRC Executive Committee adopted a 18.0% IRM for the 2010-2011 capability year. The NYSRC resolution adopting the IRM is attached to these comments as Exhibit 2.

IV. CONCLUSION

Each year since its inception, the NYSRC has established a statewide annual IRM requirement that has been implemented by the NYISO. The IRM established by the NYSRC is used by the NYISO to establish installed capacity requirements for load serving entities in the NYCA, including locational capacity requirements. The IRM is a necessary component of the NYISO's installed capacity auctions. The NYISO installed capacity auction for the Summer capability period is scheduled for March 30, 2009. The IRM also is used to establish installed capacity prices under the NYISO installed capacity demand curves. Given the importance of the IRM to the NYISO, load serving entities, and other NYISO market participants, it is crucial that there be no ambiguity concerning its level and effectiveness. The 2010 IRM Study is a very thorough and professional analysis and provides a very sound basis for the IRM adopted by the NYSRC for the 2010-2011 capability year.

In its order issued in the proceeding concerning the IRM for the 2009-2010 Capability Year, the Commission stated that “[g]iven its experience and expertise in developing the IRM, the Commission gives considerable weight to the NYSRC’s findings, conclusions and recommendations.”¹⁵ It is respectfully submitted that the NYSRC’s IRM policies and procedures and the 2010 IRM Study warrant the Commission’s continued confidence and support.

The NYSRC respectfully recommends, therefore, that the Commission adopt the NYSRC’s determination that a 18.0% IRM is the appropriate IRM for the New York control area for the capability year of May 1, 2010 to April 30, 2011.

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¹⁵ Commission Order Adopting Installed Reserve Margin for the New York Control Area for the 2009-2010 Capability Year, Case 07-E-0088, Case 05-E-1180, February 17, 2009.

EXHIBIT 1

EXHIBIT 2