

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

Niagara Mohawk Power Corporation,)	Docket No. EL06-1-000
A National Grid Company)	
)	
v.)	
)	
New York State Reliability Council and)	
New York Independent System Operator, Inc.)	

Quarterly Informational Report

**Actions Taken by the
New York State Reliability Council and the
New York Independent System Operator
Concerning the Issues Raised in the Complaint Filed by
Niagara Mohawk Power Corporation, d/b/a National Grid**

I. Joint NYSRC/NYISO Quarterly Report

This quarterly informational report is submitted by the New York State Reliability Council (“NYSRC”) and the New York Independent System Operator, Inc. (“NYISO”) pursuant to the Commission’s July 26, 2006 Order Accepting Informational Report and Requiring Further Reports, 116 FERC ¶ 61,084 (2006) (“July 26 Order”).

In a complaint filed on September 30, 2005 with the Federal Energy Regulatory Commission (the “Commission”) under Section 206 of the Federal Power Act, Niagara Mohawk Power Corporation, d/b/a National Grid (“National Grid”) alleged that current practices of the NYSRC and the NYISO pertaining to the setting of the statewide installed capacity reserve margin (“IRM”) and locational capacity requirements (“LCRs”) cause electricity consumers in

upstate New York to subsidize the costs of maintaining reliability in the downstate regions.¹ National Grid requested FERC to direct the NYSRC and the NYISO to implement a lower statewide installed capacity requirement to eliminate the claimed subsidy. The National Grid complaint also alleged that the current NYSRC and NYISO procedures for setting the IRM and LCRs are inconsistent with Commission orders and policy underlying locational markets and depress price signals for increasing capacity in the downstate zones.²

The Commission dismissed the National Grid complaint, without prejudice, and required that National Grid first exhaust its methods of resolving this dispute within the NYSRC and the NYISO before filing a complaint with the Commission. Although it dismissed the complaint, the Commission directed the NYSRC and the NYISO to file a report within ninety days of the date of the order describing the progress that they and National Grid have made in resolving National Grid's concerns.³

On April 28, 2006, the NYSRC and the NYISO submitted a joint informational report ("First Joint Report") as required by the Commission's February Order. In its July 26 Order, the Commission accepted the April 28 informational report and directed the NYSRC and the NYISO to file quarterly reports, beginning September 29, 2006 describing the progress they, their task force and National Grid are making in resolving National Grid's concerns, with specification of

¹ *Niagara Mohawk Power Corporation, a National Grid Company v. New York State Reliability Council and New York Independent System Operator, Inc.*, 114 FERC ¶ 61,098, at P 1 (2006) (hereinafter cited as "February 2 Order" with paragraph references).

² February 2 Order at P 10.

³ February 2 Order at P 25.

the progress made since the previous quarterly report.⁴ This report is submitted jointly by the NYSRC and the NYISO as directed in the Commission’s July 26 Order.

II. Communications

All communications, pleadings, and orders with respect to this proceeding should be sent to the individuals listed below:

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III. Background

Under the NYISO/NYSRC Agreement, the NYSRC is assigned the responsibility for establishing the annual statewide IRM for the New York control area (“NYCA”),⁵ and the NYISO is assigned the responsibility of establishing installed capacity requirements for load serving entities (“LSEs”) including LCRs, to ensure that the statewide IRM is achieved.⁶

⁴ July 26 Order at PP 4 & 5.

⁵ NYISO/NYSRC Agreement at Section 4.5.

⁶ NYISO/NYSRC Agreement at Section 3.4.

Currently, there are two areas in the state that are subject to LCRs: New York City and Long Island.

Over the past several years, the NYSRC and the NYISO have worked cooperatively to improve the procedures for determining the IRM and LCRs. This effort resulted in two new methodologies that were subsequently adopted by the NYSRC Executive Committee (“Executive Committee”) and the NYISO Operating Committee (“Operating Committee”): the Unified Study Method and the Tan 45 anchoring method. The Unified Study Method is intended to better coordinate the development of the IRM by the Executive Committee and the LCRs by the Operating Committee.

Under the Unified Study Method, a graphical relationship between the IRM and LCRs is developed in the form of a curve, where associated IRM/LCR “point pairs” are established that would probabilistically satisfy the 0.1 day per year Loss of Load Expectation (“LOLE”) reliability criterion.

Under the Tan 45 method, the anchor point for the IRM/LCR curve is established at the “knee” of the curve, identified as the point of intersection between the curve and a line with an inclination of -45 degrees. The Unified Study Method and the Tan 45 anchoring method were adopted by the Executive Committee in setting the IRM for the 2006-2007 capability year. The Operating Committee then approved the LCRs for the 2006-2007 capability year.

In its complaint, National Grid contended that the Tan 45 anchoring method results in a higher than necessary statewide IRM to meet reliability criteria which uncouples resource adequacy needs from market signals, and results in a subsidy of installed capacity payments that

flows from upstate consumers to downstate consumers. National Grid and parties supporting its position urged that the Tan 45 anchoring method be replaced by an anchoring method described as the Free-Flowing Equivalent method.

IV. Status Report on Actions Taken by the NYSRC and the NYISO

This report will describe the current status of the actions identified in the First Joint Report that have been undertaken by the NYSRC and the NYISO to address National Grid's concerns, including the activity of the Resource Adequacy Issues Task Force ("RAITF"), a joint NYSRC/NYISO working group formed for the specific purpose of addressing National Grid's concerns.

1. 2006-2007 IRM Study Lessons Learned Review

Reconsideration of the IRM Anchoring Method and the Free-Flowing Equivalent Method

In August of 2005, the Executive Committee approved the use of the Tan 45 anchoring method for the base case in the 2006-2007 IRM study. At that time, the Executive Committee agreed to reconsider the Tan 45 method, as well as the Free-Flowing Equivalent method, for the 2007-2008 IRM study.

At the NYSRC Executive Committee meeting on July 14, 2006, presentations were made on the Tan 45 and the Free-Flowing Equivalent anchoring methods. The committee discussed the characteristics of the two methodologies.⁷

At the Executive Committee meeting on August 11, 2006, the two methodologies were again discussed. A motion was made to adopt the Tan 45 anchoring method for use in the base

⁷ The Executive Committee meeting materials are available on the NYSRC's website at: www.nysrc.org/ecschedule.asp

case of the 2007-2008 IRM study. The vote was eight in favor, three opposed and two abstentions. Since nine votes are required for Executive Committee approval, the motion was not adopted. At a special meeting of the Executive Committee on August 25, the two anchoring methods were again discussed. A motion to adopt the Tan 45 method received eight votes in favor, two votes against and three abstentions, and was not adopted. A motion to adopt the Free-Flowing Equivalent method received two votes in favor, eight votes against and three abstentions, and was not adopted. Based on the advice of the NYSRC's legal advisor, it was decided that in the absence of a subsequent determination by the Executive Committee to the contrary, the previously approved Tan 45 anchoring method would remain in effect. Thus, the Tan 45 anchoring method will again be used in the base case and associated sensitivity cases for the 2007-2008 IRM study. Completion of the IRM study is necessary for the NYSRC to make a timely determination of the IRM for the 2007-2008 capability year.

The IRM study will be considered by the Executive Committee later this year in making its final determination on the statewide IRM for the 2007-2008 capability year. The Operating Committee will determine the LCRs for the 2007-2008 capability year in early 2007.

Use of the Same GE-MARS Data for the IRM and LCR Studies

Because the NYISO Operating Committee determines LCRs after the Executive Committee determines the IRM, the NYISO previously updated the data used by the Operating Committee to develop the LCRs by including an updated load forecast. This has resulted in a different IRM/LCR curve than the one used in setting the IRM. The NYSRC's Installed Capacity Subcommittee ("ICS") has discussed this issue with the NYISO, and the NYISO has agreed to accelerate its load forecast process by several months. This will allow the Executive

Committee and the Operating Committee to use the same IRM/LCR curve in making their determinations, resulting in a more accurate relationship between the IRM and LCRs.

Policy 5.0 and NYSRC Resource Adequacy Rules Update

The NYSRC's Policy 5.0 sets forth the procedures to be followed in determining the statewide IRM. Policy 5.0 must be updated to describe the Unified Study Method agreed to by the NYSRC and the NYISO and the anchoring method used to select the anchoring point on the IRM/LCR curve to be used in the IRM study. Proposed revisions of Policy 5.0 are under review and are expected to be finalized by ICS at its October meeting. After review by ICS, the proposed revisions will be referred to the Executive Committee for review and approval.

2. Upstate-Downstate Study

General Electric Power Systems Energy Consulting (“GE”) has been retained to perform an Upstate-Downstate study to evaluate the reliability parameters and inter-zonal assistance between the two NYCA “Super Zones” identified as Upstate (Zones A through I) and Downstate (Zones J & K). The objective of the study is to quantify all reliability benefits that the Upstate and Downstate Super Zones provide to each other. The study results will be considered in relation to contentions that current procedures for establishing the IRM and LCRs result in an unwarranted subsidy flowing from upstate consumers to downstate consumers. The ICS plans to meet with GE in early October to finalize the data base. Preliminary study results are expected to be reviewed by ICS and the RAITF in November 2006, with the final study report expected in December. The final study results will be considered by RAITF and the ICS and will then be forwarded, with any comments and recommendations, to the Executive Committee and the Operating Committee in the first quarter of 2007.

3. **Resource Adequacy Issues Task Force (RAITF)**

The RAITF is a joint task force chaired by the chairs of the ICS and the NYISO's Installed Capacity Working Group (“ICAPWG”). The RAITF was formed for the express purpose of addressing the issues raised in the National Grid complaint. The RAITF has held three meetings since the First Joint Report was filed.

- At its June 7 meeting, the RAITF discussed the characteristics of the Tan 45 and Free-Flowing Equivalent anchoring methods and was briefed on the lessons learned review being conducted by ICS.⁸
- At its meeting on August 3, the RAITF considered written and oral presentations on the Free-Flowing Equivalent method by National Grid and New York State Electric & Gas Corporation/Rochester Gas and Electric Company (“NYSEG-RGE”) and on the Tan 45 method by Consolidated Edison Company of New York (“Con Ed”) and LIPA. The Con Ed-LIPA presentation included an estimate of total state ICAP costs that would result from the use of the Tan 45 and Free Flowing Equivalent methods. The RAITF discussed the range of potential options for addressing concerns related to the establishment of the IRM and LCRs. The RAITF also was briefed on the assumptions and methodology to be used in the Upstate-Downstate study.
- At its meeting on August 24, the RAITF considered a presentation developed by NYSEG-RGE that sought to quantify and compare the total state ICAP costs that would result from use of the Tan 45 and the Free-Flowing Equivalent methods.⁹

The RAITF also further discussed the schedule for addressing the issues raised in

⁸ The RAITF meeting materials are available on the NYISO’s website at: www.nyiso.com/public/committees/documents.jsp?com=bic_icapwg_raitf&directory=2006-08-24.

⁹ This presentation also was made to the NYISO's Business Issues Committee (“BIC”) at its September meeting.

the National Grid complaint. Given the current timetable, it was generally agreed that the RAITF would wait for the final Upstate-Downstate study results before establishing a firm schedule for addressing the issues raised by National Grid. It is expected that a definitive schedule will be included in the next NYSRC/NYISO quarterly report to the Commission.

Summary

Since the filing of the First Joint Report, the NYSRC and the NYISO, through their relevant committees, have sought to address the issues raised in the National Grid complaint, including the relative merits of the Tan 45 and Free-Flowing Equivalent anchoring methods. The Upstate-Downstate study is intended to provide information that would be useful in analyzing the reliability benefits provided by the upstate and downstate regions to each other and to the NYCA as a whole, and study results will be considered in relation to contentions that current procedures for establishing the IRM and LCRs result in a subsidy flowing from upstate consumers to downstate consumers. The current expectation is that the Upstate-Downstate study will be completed by the end of the year, and that its results will be considered by the ICS and the RAITF, and then the Executive Committee and Operating Committee, in the first quarter of 2007. Upon completion of the study, the RAITF and the Executive Committee should be in a position to establish a firm schedule for addressing the issues raised in the National Grid complaint.

Conclusion

WHEREFORE, the New York State Reliability Council and the New York Independent System Operator, Inc. request that the Commission accept this quarterly report in compliance with the July 26 Order in this proceeding.

Respectfully submitted,

For the NYSRC

/s/ Bruce B. Ellsworth

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list in this proceeding in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure.

Dated at Washington, D.C. this 29th day of September 2006.

/s/ Claire Brennan

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