

COMMENTS TO

**THE DEPARTMENT OF ENVIRONMENTAL CONSERVATION
AND
THE NEW YORK STATE ENERGY RESEARCH DEVELOPMENT
AUTHORITY**

ON

THE PROPOSED REGIONAL GREENHOUSE GAS INITIATIVE RULE

**SUBMITTED ON BEHALF OF
THE NEW YORK STATE RELIABILITY COUNCIL**

December 21, 2007

Introduction

The New York State Reliability Council (“NYSRC”) was established as part of the restructuring of the electricity industry in New York State and the formation of the New York Independent System Operator (“NYISO”). The NYSRC develops, and from time to time updates, reliability standards needed to maintain the reliability of the New York State electric power system that must be complied with by the NYISO and all entities engaging in electric power transactions.

In previous comments on the proposed Regional Greenhouse Gas Initiative (“RGGI”) program, the NYSRC urged the Department of Environmental Conservation (“DEC”), the New York State Energy Research Development Authority (“NYSERDA”) and the Department of Public Service (“PSC”) to carefully consider and address the potential impact of the proposed RGGI program on the reliability of New York’s bulk-power electric system. New York State has a long history of support for a high level of electric system reliability. That support reflects the experience of major system interruptions in the past and the extremely serious consequences of such service interruptions in New York State and especially in the New York Metropolitan Area. It is essential, therefore, that the RGGI rule adopted by DEC reflects New York State’s long-standing commitment to maintaining a high level of electric system reliability.

Comments

The RGGI rule should expressly recognize the possibility that unforeseen reliability impacts may occur following implementation of the RGGI program in New York and the rest of the RGGI region. Such impacts could occur as a result of greater than expected retirements of coal units due to the financial impact of RGGI requirements, unexpected load

growth, or the inability to develop alternative generation or demand-side resources in time or in the locations in which they are needed to meet reliability requirements.

One of the NYSRC's primary responsibilities is to establish the annual statewide installed reserve margin ("IRM"). The IRM represents the percentage of capacity above the expected peak load that is needed to meet the NYSRC's resource adequacy criterion. The NYSRC's resource adequacy criterion is that the probability of disconnecting firm load due to resource deficiencies, or loss of load expectation ("LOLE"), is not more than once in ten years. (NYSRC Reliability Rule A-R1).

The 2008 Reliability Needs Assessment ("RNA") issued by the NYISO includes a sensitivity analysis to consider the potential impact of the environmental restrictions that will be implemented under the RGGI program in the year 2010. The RNA analysis was conducted to estimate the minimum number of allowances necessary to maintain an acceptable LOLE for the electric grid in New York. To determine this minimum number, coal fired capacity was assumed to be removed from service and existing gas fired capacity was dispatched at higher production rates. The analysis found that after removing 1,248 megawatts of coal fired capacity from service, 52 million allowances per year must be made available to New York generators in order to meet reliability requirements. The RNA notes that without sufficient allowances, generators will become energy-limited resources and cannot operate to meet bulk power system electricity needs and also comply with the RGGI program.¹ The RNA further notes that any market manipulation, such as hoarding, or market power activity, intended to restrict allowance availability to New York generators may result in a failure to meet reliability criteria.²

¹ NYISO 2008 Reliability Needs Assessment, p.26.

² *id.*

The NYSRC's recently completed IRM Technical Study Report, which is the basis for its determination of the required IRM for the New York bulk power system for the 2008-2009 capability year, includes a scenario that considers the possible impact of the NYISO's RGGI analysis on the IRM. The scenario indicated that if the assumptions in the RNA RGGI analysis regarding the availability of allowances for 2010 were applied to the 2008 IRM requirement, the IRM could increase from 15.0 % to approximately 17.1%. This would mean that, in order to meet the required LOLE, load serving entities ("LSEs") would have to secure additional resources. If those resources were not available in the locations in which they are needed, the level of reliability in New York would not meet state or regional requirements. The RGGI allowances, therefore, may be viewed as a reliability resource. To the extent they leave New York State, the New York IRM must increase. At some point, an increased IRM may not be realistically achievable given the available resources.

The NYISO's 2008 RNA also included a sensitivity analysis with respect to the restrictions to be imposed under the High Electric Demand Days ("HEDD") program in 2009. This analysis suggested that approximately 2,330 megawatts may be removed from the system as a result of HEDD restrictions, increasing the need for alternative resources or load reductions. The NYSRC's IRM Technical Study Report includes a scenario in which the results of the RNA's HEDD analysis are applied to the IRM requirement for 2008. This scenario indicates that the IRM would increase from 15.0% to more than 20.0%, which would require LSEs to purchase a significant amount of additional resources in order to meet reliability criteria. If the current LOLE criteria is not met, more frequent emergency operating measures will result, which could have significant adverse consequences for New York State. Neither the NYISO nor the

NYSRC has conducted a scenario which includes the combined effects of the RGGI and HEDD programs.

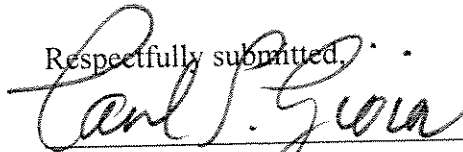
These issues have not been raised to suggest that the RGGI program necessarily will result in a deterioration in the reliability of New York's bulk power electric system. They do strongly indicate, however, that there is a potential that the RGGI program, in combination with other environmental programs, will have a significant effect on resources that currently support electric system reliability in New York, and that substantial amounts of alternative resources may be needed to replace them in the relatively near future if the required level of system reliability is to be maintained. If those resources are not developed in a timely fashion, do not perform as expected, are not developed in the locations in which they are needed, or if assumptions with respect to load growth or other relevant factors turn out to be incorrect, electric system reliability would be placed in jeopardy.

Recommendations

Given the crucial importance of electric system reliability to New York State, the NYSRC strongly recommends that the proposed RGGI rule be revised to include a provision for the monitoring of the impact of RGGI requirements on New York State electric power system reliability. Specifically, the NYSRC recommends that the RGGI rules adopted by the DEC and NYSERDA authorize the PSC to monitor the impact of the RGGI program on electric system reliability, including the results of the NYISO's RNA studies and the NYSRC's IRM Technical Study Reports, and publish its findings for consideration by the DEC and other interested parties.

The NYSRC also recommends that the RGGI rules provide that the DEC and NYSERDA, in consultation with the PSC and other state agencies, will have the authority to take appropriate measures to modify or suspend the RGGI program if necessary to maintain electric system reliability.

Respectfully submitted, . .



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