



The NYSRC appreciates the opportunity to comment on the Commission's SMD NOPR and urges the Commission to carefully consider the comments provided herein prior to taking further action in this proceeding. In support hereof, the NYSRC states as follows:

## **I. EXECUTIVE SUMMARY**

The NYSRC agrees that a resource adequacy requirement is an appropriate element of SMD. As the SMD NOPR recognizes, however, regional flexibility is very important in this area. See SMD NOPR at P 548. The Northeast region, for example, has a long history of reliability-based resource adequacy programs both under the former tight power pools and the current Northeast ISOs. These programs appropriately reflect the particular concerns and needs of each region within the Northeast. In the NYCA, a resource adequacy program is administered jointly by the NYSRC and the NYISO, pursuant to regional reliability criteria established by the Northeast Power Coordinating Council ("NPCC"). This resource adequacy program is being effectively administered by organizations with extensive expertise and experience with reliability-based resource adequacy requirements. It is essential that the SMD not do anything that would hinder existing reliability-based resource adequacy programs.

Currently, efforts are under way within the Northeast ISOs to consider revisions to existing resource adequacy programs to make them more consistent with the needs of competitive electricity markets. A joint effort among the three Northeast ISOs also is underway to improve and better coordinate resource adequacy requirements across the entire Northeast region. These efforts to review and improve resource adequacy programs in the Northeast should be allowed to continue, and should not be superseded by a uniform, mandatory resource adequacy program. This is especially important given that the resource adequacy programs in

the Northeast are built upon extensive experience gained over decades, and the resource adequacy proposal set forth in the SMD NOPR is largely untested.

## II. COMMENTS

### **The Reasons For a Resource Adequacy Requirement [SMD NOPR at P 460-473]**

The NYSRC agrees that it is appropriate to review existing resource adequacy programs in the context of recently established competitive electricity markets and the divestiture of generation facilities by formerly vertically integrated utilities. In fact, the concerns expressed in the SMD NOPR, with respect to resource adequacy, were anticipated, to a great extent, in the design of the restructured electricity market in New York State proposed by the New York Power Pool (“NYPP”) and approved by the Commission. The NYISO market structure does not rely solely on price signals from the competitive markets to ensure the availability of the resources needed to maintain reliability in the NYCA. New York State has a long-standing and strong commitment to the maintenance of reliability, including an appropriate resource adequacy requirement, which is reflected in the NYISO market structure.

The NYSRC was created in order to ensure that the new competitive market structure, which included the divestiture of the bulk of the generation facilities of the New York investor owned utilities, did not compromise statewide system reliability. The responsibilities assigned to the NYSRC include the establishment of a statewide annual installed capacity requirement for the NYCA. This requirement is fundamentally based on reliability criteria established by the NPCC, (i.e., a loss of load expectation (“LOLE”) of no more than one day in ten years). The installed capacity requirement, however, also considers the particular circumstances in the NYCA. Each year, the NYSRC supervises, through its committee structure, an extensive study to determine the statewide installed capacity requirement (“ICR”) for the

NYCA. The annual NYSRC study is filed with the Commission and a copy of the most recent study is attached to these comments. Among other factors, the study considers the NYISO's load forecast, the quantity and type of generation and demand resources available to the NYCA, the characteristics, limitations and import capability of the transmission system in the NYCA, local reliability rules, and the availability of assistance from external sources.

The annual statewide ICR is translated into an installed reserve margin (“IRM”)<sup>4</sup> by the NYSRC, which the NYISO is then required to implement.<sup>5</sup> The NYISO establishes an IRM for each load serving entity (“LSE”) that serves load in the NYCA. The NYISO also establishes locational requirements to ensure that the capacity purchased by LSEs can effectively serve load in the NYCA. The LSEs can purchase the required installed reserves bilaterally or through a NYISO-administered auction. LSEs who do not meet their IRM are subject to a substantial deficiency charge provided in the NYISO tariff. Sellers of installed reserves are required to actually serve load in the NYCA or to bid into the NYISO’s day-ahead market.

The NYSRC agrees that a resource adequacy requirement is an appropriate element of SMD. However, the SMD NOPR states that the proposed resource adequacy requirement is intended to complement, not replace, existing state resource adequacy programs. See SMD NOPR at P 480. Consistent with that statement, the NYSRC recommends that the SMD provide for substantial regional flexibility rather than a uniform resource adequacy standard. Furthermore, the SMD order should not disrupt the reliability-based resource adequacy programs now in place which are being effectively administered by reliability organizations, including the NYSRC, with the necessary expertise to implement such programs. The current resource adequacy program in the NYCA is under review in the NYISO and the three Northeast

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<sup>4</sup> The IRM requirement relates to the installed capacity requirement through the following equation:

$$\text{ICR} = (1 + \text{IRM Requirement}) \times \text{Forecasted NYCA Peak Load.}$$

<sup>5</sup> NYISO/NYSRC Agreement, § 3.4; NYISO Agreement, § 6.05.

ISOs are engaged in a joint effort to improve and coordinate resource adequacy programs in the Northeast.<sup>6</sup> These efforts should be allowed to continue. The Commission should encourage improvements in resource adequacy programs, where warranted, and should encourage better regional coordination of resource adequacy programs. A uniform, mandatory resource adequacy requirement, however, is neither necessary nor appropriate.

**Basic Features of the Proposed Resource Adequacy Requirement** [SMD NOPR at P 474-508]

Demand Forecast [SMD NOPR at P 485-486]

The NYSRC agrees that an Independent Transmission Provider ("ITP") should conduct an annual demand forecast for its area. See SMD NOPR at P 485. Currently, the NYISO prepares such a forecast which is used by the NYSRC in establishing the statewide annual IRM. The SMD NOPR also proposes that the ITP make an assessment of whether the collective resource plans of LSEs in its area are adequate to meet the projected future peak need with allowance for adequate reserves. See SMD NOPR at P 486-487. The NYSRC considers an assessment by an ITP of the adequacy of projected resources to reliably serve projected load to be an appropriate part of an ITP's planning process.

Level of Resource Adequacy [SMD NOPR at P 487-493]

The SMD NOPR further proposes that, once the future level of supply and demand resources is determined, the region must assess whether this level is adequate. See SMD NOPR at P 489. The SMD NOPR proposes that the level of resource adequacy be determined by a Regional State Advisory Committee ("RSAC") comprised of representatives of states within the region. See SMD NOPR at P 490.

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<sup>6</sup> The Resource Adequacy Market ("RAM") Working Group, formerly known as the Joint Capacity Adequacy Working Group, is a joint effort by the NYISO, ISO-New England and PJM to improve and better coordinate the resource adequacy programs in the Northeast.

The NYSRC supports better regional coordination and planning to guide reliable and efficient investments in generation, demand and transmission resources, and the formation of RSACs may be useful in fostering such coordination. The Commission, however, should recognize the important role currently played by reliability organizations in establishing basic reliability standards and resource adequacy levels necessary to meet those standards. In the NYCA, for example, the NYSRC is obliged to adopt the NPCC reliability criteria of an LOLE of no more than one day in ten years. This standard is applicable to the entire NPCC region. The NYSRC develops the IRM for the NYCA based on the NPCC reliability criteria, which is then implemented by the NYISO. This process for establishing a resource adequacy requirement for the NYCA to meet regional reliability criteria is effective and should be permitted to continue under the SMD. As long as the basic reliability criteria (i.e., the LOLE) is established on a regional basis, the translation of that standard on a sub-regional basis, taking into consideration the particular characteristics of the generation and demand resources and the transmission system in the sub-region, is appropriate and will not result in the LSEs of one ITP unfairly relying on the investments made by the LSEs of another ITP in the region.

It also is important to recognize that, in establishing the level of resource adequacy necessary to meet basic reliability standards, the development of locational requirements is essential. In certain control areas, load pockets exist that may require a portion of the installed reserves to be electrically located within a zone in order to ensure that sufficient energy and capacity are available in that zone. Within the NYCA, there are two zones, New York City and Long Island, that are transmission constrained. The NYISO has the responsibility for establishing locational requirements for installed reserves in those zones in order to ensure that, in the final analysis, the NYSRC's annual statewide IRM is effectively implemented.

RSACs may be helpful in facilitating the development of resources necessary to meet reliability standards in a region and as forums for consideration of higher levels of resources that may be desirable to provide enhanced reliability or to provide more liquid and competitive electricity markets. However, the responsibility for establishing basic reliability standards for a region and for establishing installed reserve requirements necessary to meet those standards, including locational requirements, should remain with the appropriate reliability organizations working in coordination with ITPs and state representatives. In New York, the New York Department of Public Service is an active participant in NYSRC activities.

**Enforcement [SMD NOPR at P 526-541]**

The enforcement approach suggested in the SMD NOPR would penalize LSEs who have not met their resource adequacy requirements by charging them higher prices for spot market purchases or by selectively curtailing the loads they serve after a shortage has occurred. The NYSRC believes that LSEs who participate in the ITP's administered markets should be required to meet resource adequacy requirements at the time they are established, not punished after a shortage has occurred. Furthermore, the curtailment of load should not be considered an acceptable enforcement mechanism. The potential consequences of a loss of power are so severe that shedding load cannot be an acceptable part of a resource adequacy program.

**Regional Flexibility [SMD NOPR at P 542-550]**

The NYSRC supports the SMD NOPR's recognition of the need for flexibility with respect to resource adequacy programs in different regions. We are concerned, however, that the flexibility contemplated by the SMD NOPR does not go far enough. The Commission's goal of establishing a framework to encourage regional coordination in the planning and development of necessary resources is attainable without the imposition of a single, rigid

resource adequacy plan. Regions such as the Northeast, and sub-regions, including the NYCA, have extensive experience in the development and implementation of standards and procedures to ensure reliability, including resource adequacy requirements. While improvements to existing resource adequacy programs may be appropriate, they should be carefully considered and adopted incrementally, in a collaborative effort by all interested parties within the affected region or sub-region. The Commission should provide guidance and general principles, and oversee the development of resource adequacy programs in different regions, but should not attempt to mandate a uniform requirement for the entire nation.

**CONCLUSION**

WHEREFORE, in view of the foregoing, the NYSRC respectfully requests that the Commission issue a final SMD order that is consistent with the comments provided herein.

**Respectfully submitted,**

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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 10th day of January, 2003.

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