

Montreal, August 13, 2009

Mr. George C. Loehr
Chairman, Executive Committee of the New York State Reliability Council

Object: Comments of H.Q. Energy Services (U.S.) Inc. regarding the IRM 2010-2011 Assumption Matrix

Dear Mr. Loehr,

H.Q. Energy Services (U.S.) Inc. (“HQUS”) is the power marketing subsidiary of Hydro-Québec in the United States and as such, is heavily involved in the trading of power in New York State and the Northeast. HQUS has deep reservations about a particular practice that has been approved as part of the 2009-2010 IRM study regarding wheels-through of capacity from Québec through New York to other control areas. HQUS believes that the Executive Committee should be made aware of those reservations, so it can act appropriately.

The Province of Québec is interconnected with New York State through a large direct current, 735-kV tie (the “Chateauguay Tie”).¹ For reliability purposes, the Chateauguay Tie is limited to real time energy flows of no more than 1500 MW, with no more than 1200 MW permitted to sink in the NYCA (the rest being allowed for wheels through New York to other control areas). These two limits were set many years ago: the 1200 MW import limit was set to satisfy the NYCA’s reserve requirements, whereas the 1500 MW aggregate limit was set to not affect the stability of the NYCA’s transmission system. In turn, for the purpose of selling installed capacity (“ICAP”), ICAP imports in the NYCA were historically limited to 1200 MW, while the additional 300 MW (the “Additional 300 MW”) could be wheeled to other control areas (namely, New England and PJM).

In approving the 2009-2010 IRM study, the New York State Reliability Council reviewed these rules with respect to ICAP imports and wheels-through.² For the sake of calculating the amount of emergency assistance acting as an offset on the IRM, it was decided that the Chateauguay Tie’s entire 1500 MW capacity would be assumed available for imports into the NYCA. By making this assumption, the Reliability Council effectively disallowed the wheel as ICAP of the Additional 300 MW from Québec to other control areas. It is HQUS’ understanding that the ICS supports continuing this practice for the 2010-2011 capability year.

HQUS has deep reservations regarding the current treatment of the Additional

¹ The Québec and New York control areas are also connected through the smaller Dennison direct current tie, with a summer rating of 166 MW.

² The two limits remain unaffected in the energy market.

300 MW on the Chateauguay Tie. The decision to take the Additional 300 MW as emergency assistance was, and remains, wrong. Assuming that the Additional 300 MW is available for emergency assistance in the NYCA completely disregards the reality of the operation of the system with respect to wheels of energy. Current NYISO real time energy scheduling procedures provide that energy wheels, even non-ICAP-related wheels, are treated as firm transactions which cannot be curtailed by the NYISO for NYCA adequacy purposes, but only for transmission security purposes. **In other words, emergency assistance cannot displace economic energy wheel through transactions.** This treatment is appropriate under FERC open access principles.

Therefore, regardless of the NYSRC's treatment of the Additional 300 MW in the 2009-2010 IRM study, so long as, in response to market signals, HQUS or other market participants in Québec schedule energy transactions in the real time market that fill the entire 1500 MW capability of the Chateauguay Tie (as HQUS did in the past and will continue to do so in the future), emergency assistance may in fact never come from Québec. It therefore seems, to HQUS, that prudent planning practices would dictate that the IRM study not assume that the Additional 300 MW will be there for the NYCA, as the practice established in the 2009-2010 IRM study would result in an understated IRM, and the NYCA would in reality have access to less emergency assistance than planned for in times of great need.³

In turn, if the NYSRC rules that the NYCA should take the Additional 300 MW as emergency assistance but cannot use it in reality, and so doing the NYSRC prevents otherwise economic ICAP transactions from being entered into in other control areas, then the NYSRC's rules would arguably amount to transmission withholding. HQUS is of the view that FERC would likely be gravely concerned about such a practice. For HQUS, it would just be simpler to recognize the reality of the operation of the system, allow ICAP wheels beyond 1200 MW on the Chateauguay Tie, and adjust the IRM accordingly.

As regards the adjustment to the IRM, HQUS would like to note that resuming wheels of ICAP beyond the 1200 MW limit need not affect emergency assistance and the IRM, due to additional resources that have not yet been considered. In this regard, HQUS would like to bring to the Executive Committee's attention that a new 1250 MW tie line between Ontario and Québec has been in operations since June 2009. The new line will be beneficial to the NYCA by improving the NYCA's access to Québec energy (whether ICAP-related or not) through Ontario in times of need. In other words, Ontario (and the whole Northeast) just gained access to that much more generating capacity. However, it is unclear to HQUS whether the modelling of emergency assistance will fully take this change into account. HQUS understands that this is the basis for the NYISO's proposal to review the NYCA's ability to wheel ICAP to

³ A similar argument could be made that no emergency assistance or tie benefits should be assumed on the Chateauguay and Dennison ties at all, reducing by as much the amount of ICAP that can be sold on those ties. Market signals in the NYCA just prior to an emergency will likely be sufficiently good for external market participants situated in the Québec control area, where large amounts of excess seasonal capacity are available, to pre-empt the need to call emergency assistance on the Chateauguay and Dennison ties.

external control areas as part of the import rights study, a proposal which HQUS supports.

In summary, HQUS respectfully submits that the Reliability Council should explicitly allow the resumption of ICAP wheels beyond 1200 MW on the Chateauguay Tie, and direct the ICS to prepare the 2010-2011 IRM study accordingly.

Representatives of HQUS, including the undersigned, will be available at the next meeting of the Executive Committee to answer any question that the members of the Executive Committee may have regarding HQUS' comments.

Sincerely yours,

Yannick Vennes

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