



February 1, 2011

VIA ELECTRONIC MAIL AND FIRST CLASS MAIL

Stephen G. Whitley
President and Chief Executive Officer
New York Independent System Operator
10 Krey Boulevard
Rensselaer, NY 12144

Re: **Non-Compliance with Measurement G-M3**

Dear Steve:

I am writing to inform you of determinations made by the NYSRC Executive Committee regarding an event of non-compliance with Measurement G-M3, related to the NYSRC's Reliability Rules on System Restoration.

In a report to the NYSRC Executive Committee dated January 6, 2011, the NYSRC's Reliability Compliance Monitoring Subcommittee (RCMS) stated that the NYISO "is subject to a Non-Compliance Level 1 in accordance with the NYSRC Compliance Template for G-M3". A copy of the RCMS report is enclosed with this letter. The Compliance Template for Management G-M3 requires that the NYISO certify annually that each Blackstart Provider has provided a letter to the NYISO that satisfies the blackstart facility testing requirements. A certification by the NYISO that one Blackstart Provider has failed to provide the required letter constitutes a Non-Compliance Level 1.

Section 2.0 of the NYSRC's Policy 4-4 provides that the NYISO is responsible for compliance with all Reliability Rules, including those requiring actions by market participants, and has the responsibility of securing market participant compliance with the Reliability Rules via its procedures, tariffs and service agreements. However, Section 4.2.3 of Policy 4-4 allows the NYSRC Executive Committee discretion as to whether to issue a non-compliance letter to the NYISO when the NYISO's non-compliance is due to the action or inaction of a market participant and to make a finding that the NYISO has taken all reasonable action to secure compliance by the market participant.

The RCMS report recommended that the Executive Committee not issue a non-compliance letter to the NYISO in this instance and that it make a finding that the NYISO has taken all reasonable action to secure compliance by the market participant. At its meeting on January 7, 2011, the NYSRC Executive Committee reviewed the RCMS report and its recommendations. The Executive Committee decided to accept the recommendation of the RCMS not to issue a non-compliance letter to the NYISO

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and adopted a finding that, as of the present time, the NYISO has taken all reasonable action to secure compliance with Measurement G-M3. The Executive Committee also expressed its expectation that the NYISO will work with the market participant to ensure that the actions and tests required by Measurement G-M3 are scheduled and completed as soon as is reasonably possible.

The NYSRC appreciates the NYISO's strong commitment to its compliance with the NYSRC's Reliability Rules and the NYISO's staff's cooperation with RCMS in the performance of its oversight responsibility.

Please contact me if you have any questions or comments with respect to the contents of this letter.

Sincerely,
George C. Loehr
Chairman
New York State Reliability Council

Enclosure

cc: Rick Gonzales
Chief Operating Officer
New York Independent System Operator
10 Krey Boulevard
Rensselaer, NY 12144
104158

MEASUREMENT G-M3 NON-COMPLIANCE FINDING

INTRODUCTION

On December 9, 2010, the NYISO issued a certification form to RCMS which certified that it had determined that a Blackstart Provider (“the Provider”) was in violation of Measurement G-M3. This measurement requires blackstart generators to perform certain functions related to restoring the NYCA system following a major or total blackout. The specific compliance violation reported by the NYISO was that the Provider failed to perform a blackstart test for the 2010/2011 Capability Year as required by G-M3. Testing is essential to help ensure that blackstart generators will be available when called upon during system restoration. In accordance NYSRC Policy 4-4, if the NYISO certifies that a market participant has not taken actions required of it by the NYSRC Reliability Rules, the NYISO is subject to a finding of non-compliance. In this case, the NYISO is subject to a Non-Compliance Level 1 in accordance with the NYSRC Compliance Template for G-M3.

In accordance with Policy 4-4, the RCMS must report non-compliance of the NYISO to the Executive Committee, along with a recommendation as to whether a non-compliance letter should be issued to the NYISO, and the basis for its recommendation. The basis for the RCMS recommendation is whether or not the NYISO has taken all reasonable action to secure compliance with Measurement G-M3.

NON-COMPLIANCE LETTER TO THE BLACKSTART GENERATOR

In accordance with NYSRC Policy 4-4, in the event that the NYISO determines that a market participant has not acted in accordance with a Reliability Rule, the NYISO shall issue a non-compliance letter to that market participant, with a copy to the NYSRC. On December 9, the NYISO forwarded a copy of a non-compliance letter, dated December 7, 2010, to the Provider (redacted to delete confidential information) to RCMS (see attachment). The letter states that the NYISO has determined that the Provider did not complete a successful black start test for the Capability Year 2010-2011 and accordingly, did not comply with the NYISO Services Tariff and the NYSRC Reliability Rules for the 2010/2011 Capability Year. The letter also reviews various events and urges the Provider to complete a test for the next Capability Year, 2011/2012, as soon as possible.

ACTIONS BY THE NYISO TO SECURE COMPLIANCE WITH MEASUREMENT G-M3

RCMS' recommendation as to whether or not to issue a non-compliance letter to the NYISO depends on a number of factors as to whether the NYISO has taken all reasonable action to secure compliance with Measurement G-M3. This includes adequacy of NYISO procedures, issuance of a non-compliance letter to the market participant containing required elements described in Policy 4-4, and follow-up mitigation efforts by the NYISO for directing the market participant to come in compliance as soon as possible.

1. Measurement G-M1, which sets forth NYISO emergency restoration responsibilities, includes a requirement (G-M1.5) for the NYISO to develop procedures requiring blackstart providers to conduct tests once per Capability Year to verify that their facilities are capable of meeting the requirements of the NYISO System Restoration Plan. Compliance with G-M1 was reviewed by RCMS on December 2, 2010 – RCMS found that the NYISO was in full compliance with this measurement. The NYISO Emergency Restoration Manual includes these required procedures: Section 3.1.4 – Testing Frequency, which requires testing for each Capability Year; and Section 3.1.5 – Documentation of Testing, which requires that blackstart providers provide documentation of tests to the NYISO. Both procedures were violated by the Provider during the 2010/2011 Capability Year. The NYISO Services Tariff also requires annual blackstart testing and reporting of results to the NYISO.
2. When it became apparent during the spring of 2010 that the Provider may fail to conduct a test for the 2010/2011 Capability Year, the NYISO reminded the Provider of its obligation to complete a test. Despite this, the Provider failed to conduct a test before the end of the 2010/2011 Capability Year.
3. The attached non-compliance letter from the NYISO to the Provider states as follows relative to Provider's compliance for the 2011/2012 Capability Year: "... the NYISO urges [redacted] to schedule and complete a test for the [redacted] as soon as possible." RCMS does not consider this statement sufficiently strong concerning its obligation to direct the Provider to comply with G-M3 and NYISO procedures and tariffs for the 2011/2012 Capability Year. However, NYISO staff did inform RCMS that it intends to meet with the Provider in January 2011 to discuss required testing during the 2011/2012 Capability Year. The NYISO remains concerned about the Provider coming into compliance. The Provider plays an important role in the NYISO's Blackstart Program for ensuring NYCA reliability. Accordingly, the NYISO is working to negotiate a resolution with the Provider to comply with G-M3 and to maintain the resource as a blackstart provider.

RECOMMENDATION

Based on the above NYISO actions, RCMS concludes that the NYISO has taken all reasonable action to secure compliance with Measurement G-M3, both for the previous 2010/2011 Capability Year and the current 2011/2012 Capability Year. *Therefore, RCMS recommends that the NYSRC not issue a non-compliance letter to the NYISO.*

If the Executive Committee agrees with RCMS' recommendation, in accordance with Policy 4-4, it should issue a finding in writing that the NYISO has taken all reasonable action to secure compliance with the rules.

The RCMS requests the NYISO to notify the NYSRC (1) about any resolution the NYISO has been able to achieve with the Provider at its planned January 2011 meeting, and (2) when the Provider comes into compliance for the 2011-2012 Capability Year.

Finally, the RCMS wishes to acknowledge the NYISO staff's cooperation during its investigation of the G-M3 non-compliance event.