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February 11, 2008

VIA HAND DELIVERY

Honorable Jaclyn A. Brillling
Secretary
New York State Public Service Commission
Three Empire State Plaza
Albany, New York 12223-1350

Re: Case 07-E-0088 –In the Matter of the Adoption of an Installed Reserve Margin for the New York Control Area; Case 05-E-1180 - In the Matter of the Reliability Rules of the New York State Reliability Council and the Criteria of the Northeast Power Coordinating Council

Dear Secretary Brillling:

On behalf of the New York State Reliability, enclosed please find an original and five (5) copies of comments in regard to the above-referenced cases.

If you have any questions regarding this filing, please contact me.

Respectfully submitted,

Paul L. Gioia
Counsel to the
New York State Reliability Council

Enclosure
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STATE OF NEW YORK 2008 FEB 11 PM 3: 33
PUBLIC SERVICE COMMISSION

Case 07-E-0088 - In the Matter of the Adoption)
Of an Installed Reserve Margin for the New York)
Control Area.)
)
Case 05-E-1180 - In the Matter of the Reliability)
Rules of the New York State Reliability Council)
and The Criteria of the Northeast Power)
Coordinating Council)

COMMENTS OF THE NEW YORK STATE RELIABILITY COUNCIL

George C. Loehr
Chairman
NYSRC Executive Committee
New York State Reliability Council
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Dated: February 11, 2008

**STATE OF NEW YORK
PUBLIC SERVICE COMMISSION**

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Of an Installed Reserve Margin for the New York)
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COMMENTS OF THE NEW YORK STATE RELIABILITY COUNCIL

New York State Reliability Council, LLC (“NYSRC”), through the Chairman of its Executive Committee, respectfully submits these Comments in Case 07-E-0088 and Case No. 05-E-1180. On January 15, 2008 the New York State Public Service Commission (“Commission”) solicited comments on whether the Commission should adopt the NYSRC’s Installed Reserve Margin (“IRM”) of 15.0% for the New York Control Area for the Capability year beginning on May 1, 2008 and ending on April 30, 2009. The NYSRC respectfully requests that the Commission consider these comments and that it adopt the NYSRC’s determination that a 15.0% IRM is the appropriate IRM for the New York Control Area for the Capability year of May 1, 2008 to April 30, 2009.

I. SUMMARY

On December 14, 2007 the NYSRC Executive Committee adopted an IRM of 15.0% for the New York Control Area (“NYCA”) for the Capability year beginning on May 1, 2008 and ending April 30, 2009. The Executive Committee’s decision was based on a technical study, the New York Control Area Installed Capacity Requirements for the Period May 2008 through April 2009, Technical Study Report (“2008 IRM Study” or the “IRM Study”) and other

relevant factors. The 2008 IRM Study demonstrates that the required NYCA IRM for the 2008-2009 Capability year is 15.0% under base case conditions.

Since the 15.0% IRM for the 2008-2009 Capability year adopted by the NYSRC represents a change from the 2007-2008 IRM of 16.5%, the NYSRC is required to make an appropriate filing with the Federal Energy Regulatory Commission (“FERC”) under Section 3.03 of the NYSRC Agreement. The NYSRC submitted its filing to FERC on January 4, 2008 and requested that FERC accept and approve the filing effective no later than March 1, 2008 so that the revised IRM may be in place for the installed capacity auction to be conducted by the NYISO on March 28, 2008 (“NYSRC IRM Filing”).¹ A copy of the NYSRC IRM Filing is attached to these comments as Exhibit 1. The NYSRC requests that the NYSRC IRM Filing, including the 2008 IRM Study which is Appendix A of the filing, be made part of the record in these proceedings.

II. BACKGROUND

Formation and Responsibilities of the NYSRC

The NYSRC was approved by FERC in 1998 as part of the comprehensive restructuring of the competitive wholesale electricity market in New York State.² Under the restructuring, the New York Power Pool (“NYPP”) was replaced by the NYISO as the entity with the primary responsibility for the reliable operation of the State’s bulk power system. The NYISO also assumed responsibility for administration of the newly established competitive wholesale electricity markets.

The NYSRC was established to promote and preserve the reliability of the New York State power system by developing, maintaining and, from time to time, updating the

¹ New York State Reliability Council, Docket No. ERO8-414-000 (January 4, 2008).

² Central Hudson Gas & Electric Corp., et al., 83 FERC ¶ 61,352 (1998).

reliability rules (“Reliability Rules”) that govern the NYISO’s operation of the State’s bulk power system. The NYSRC develops Reliability Rules in accordance with standards, criteria and regulations of NERC, NPCC, FERC, the Commission and the Nuclear Regulatory Commission.³ The NYISO/NYSRC Agreement provides that the NYISO and all entities engaged in transactions on the New York State power system must comply with the Reliability Rules adopted by the NYSRC.⁴ Compliance with NYSRC Reliability Rules, which are incorporated into the NYISO’s procedures, are made binding on market participants through the NYISO’s tariff.⁵ The NYISO/NYSRC Agreement also assigns to the NYSRC the responsibility to monitor the NYISO’s compliance with the Reliability Rules and requires the NYISO to provide the NYSRC the data necessary for it to effectively perform its compliance monitoring responsibility.⁶ Each member of the NYSRC Executive Committee is required to have substantial knowledge and/or expertise in the reliable operation of bulk power electric systems.⁷

At its inception, the NYSRC adopted the pre-existing NYPP reliability rules. These planning and operating rules had been developed by the NYPP and the Commission based on decades of experience in the operation of the New York bulk power system. Revisions to the Reliability Rules are developed by the NYSRC in an open process with direct participation by the NYISO and the Commission. If the NYSRC and the NYISO should disagree with respect to a new or modified Reliability Rule, and cannot resolve their differences, the matter is referred to

³ NYISO/NYSRC Agreement, Section 4.1.

⁴ NYISO/NYSRC Agreement, Section 2.1, 3.1.

⁵ NYISO Market Services Tariff, Sections 5.1, 5.6.

⁶ NYISO/NYSRC Agreement, Section 3.6.

⁷ NYSRC Agreement, Section 4.03.

the Commission for resolution, unless the dispute affects not only reliability but also matters subject to FERC's jurisdiction that must be resolved directly by FERC.⁸

In addition to incorporating NERC and NPCC reliability criteria, the NYSRC Reliability Rules include standards that are more specific or more stringent than NERC and NPCC criteria that are necessary to meet the special requirements of the NYCA. These special requirements include the specific electric system characteristics and demographics of New York State, the complexities related to the maintenance of reliable transmission in New York State given the configuration of the State's bulk power system, and the severe consequences that result from power interruptions in New York City and Long Island.

PSC Support for NYSRC

As noted, the NYSRC was formed as an integral part of the restructuring of the electricity industry in New York State. It was formed, with the active support of the Commission, to ensure that the more stringent and mandatory reliability standards in New York State would be retained under the new competitive wholesale market structure. In its Supplemental Comments in the FERC proceeding in which the NYSRC Agreement and the NYISO/NYSRC Agreement were approved, the Commission stated:

PSCNY conditioned its support for the State Reliability Council upon amendments that would broaden the governance of the [NY]SRC to include more non-utility board members, and to narrow the responsibilities of the [NY]SRC. The Supplemental Filing appropriately circumscribes the authority of the SRC. As stated by the utilities, the [NY]SRC would be limited to establishing reliability rules that tailor the national North American Reliability Electric Reliability Council ("NERC") and regional Northeast Power Coordinating Council ("NPCC") standards to New York State. Consistent with NERC, NPCC, NYPP and NYPS standards, the [NY]SRC would establish a state-wide reserve margin to ensure that adequate generation is available to serve load during normal conditions and system emergencies.

⁸ NYISO/NYSRC Agreement, Article 5.

* * *

As proposed, the ISO would implement and enforce the reliability rules, not the [NY]SRC. Moreover, the ISO alone would apply the state-wide resource requirement to set the actual generation resource levels suppliers must meet on different parts of the state grid.⁹

NYSRC Establishment of Statewide IRM

One of the most important responsibilities assigned to the NYSRC is the establishment of the annual statewide installed capacity for the NYCA.¹⁰ Section 3.03 of the NYSRC Agreement reads as follows:

The NYSRC shall establish the state-wide annual installed capacity requirements for New York State consistent with NERC and NPCC standards. The NYSRC will initially adopt the installed capacity requirement as set forth in the current NYPP Agreement and currently filed with FERC. Any changes to this requirement will require an appropriate filing and FERC approval. In establishing the state-wide annual installed capacity requirements, consideration will be given to the configuration of the system, generation outage rates, assistance from neighboring systems and Local Reliability Rules.

The installed capacity requirement is described generally in terms of an installed reserve margin or IRM.¹¹ The NYISO was assigned the responsibility to determine the installed capacity obligations of load serving entities ("LSEs") and to establish locational capacity requirements needed to ensure that the statewide IRM is met.¹² The responsibilities assigned by the NYSRC Agreement and the NYISO/NYSRC Agreement are implemented in the NYSRC's Reliability Rules, the NYSRC's Policy No. 5-1, and the NYISO's Market Administration and

⁹ Supplemental Comments, State of New York Department of Public Service, Docket Nos. ER 97-1523, et al, (filed May 23, 1997), at 2.

¹⁰ NYSRC Agreement, § 3.03; NYISO/NYSRC Agreement, § 4.5.

¹¹ The annual statewide ICR is established by implementing Reliability Rules for providing the corresponding statewide installed reserve margin ("IRM") requirements. The IRM requirements relates to ICR through the following equation: $ICR = (1 + IRM \text{ Requirement}) \times \text{Forecasted NYCA Peak Load}$ (NYSRC Reliability Rules, A. Resource Adequacy, Introduction).

¹² NYISO/NYSRC Agreement, § 3.4; NYISO Market Services Tariff, §§ 5.10 and 5.11.4.

Control Area Services Tariff (“Market Services Tariff”). The following is a brief description of the relevant portions of those documents.

The Introduction to Section A, Resource Adequacy, of the NYSRC Reliability Rules provides that among the factors to be considered by the NYSRC in setting the annual statewide IRM are the characteristics of the loads, uncertainty in the load forecast, outages and deratings of generating units, the effects of interconnections to other control areas, and transfer capabilities within the NYCA.

Reliability Rule A-R1, NYCA Installed Reserve Margin Requirement, provides as follows:

The NYSRC shall establish the IRM requirement for the NYCA such that the probability (or risk) of disconnecting any firm load due to resource deficiencies shall be, on average, not more than once in ten years. Compliance with this criterion shall be evaluated probabilistically, such that the loss of load expectation (LOLE) of disconnecting firm load due to resource deficiencies shall be on average, no more than 0.1 day per year. This evaluation shall make due allowance for demand uncertainty, scheduled outages and deratings, forced outages and deratings, assistance over interconnections with neighboring control areas, NYS Transmission System transfer capability and capacity and/or load relief from available operating procedures.

Reliability Rule A-R2, Load Serving Entity Installed Capacity, provides that:

LSEs shall be required to procure sufficient resource capacity for the entire NYISO defined obligation procurement period so as to meet the statewide IRM requirement determined from A-R1. Further, this LSE capacity obligation shall be distributed so as to meet locational ICAP requirements, considering the availability and capability of the NYS Transmission System to maintain A-R1 reliability requirements.

NYSRC Policy No. 5-1, Procedure for Establishing New York Control Area Installed Capacity Requirements

The last paragraph of Section 1.0 of NYSRC Policy No. 5-1 provides that:

The final NYCA IRM requirement, as approved by the NYSRC Executive Committee, is the basis for various installed capacity analyses conducted by the NYISO. These NYISO analyses

include the determination of the capacity obligation of each Load Serving Entity (LSE) on a Transmission District basis, as well as Locational Installed Capacity Requirements, for the following capability year. These NYISO analyses are conducted in accordance with NYSRC Reliability Rules and Procedures.

Section 2.2 of NYSRC Policy No. 5-1 provides a timeline for establishing the statewide IRM. This timeline is based on the NYSRC's providing the NYISO with next year's NYCA IRM requirement by January, when the NYISO, under its installed capacity and procurement process, is required to begin its studies for determining the following summer's LSE capacity obligations.

Section 4.4 of NYSRC Policy No. 5-1 sets forth the process for approval of the annual statewide IRM by the NYSRC Executive Committee.

4.4 NYSRC Executive Committee

The NYSRC Executive Committee has the responsibility of approving the final IRM requirements for the next capability year.

- Review and approve data and modeling assumptions for use in IRM studies.
- Review and approve final IRM Study prepared by ICS [Installed Capacity Subcommittee].
- Establish and approve NYCA IRM requirement for the next capability year. This decision should consider base case and sensitivity case results shown in the technical IRM report, as well as considering other issues that may impact NYCA IRM requirements.
- To the extent practicable, ensure that the schedule for the above approvals allows that the timeline requirements in Section 2.2 are met.

- Notify the NYISO of the NYCA IRM requirements and meet with NYISO management as required to review IRM Study results.
- Make IRM requirement study results available to state and federal regulatory agencies and to the general public.

NYISO Market Services Tariff

The first and fourth paragraphs of Section 5.10 of the NYISO's Market Services Tariff, NYCA Minimum Installed Capacity Requirement, read as follows:

The NYCA Minimum Installed Capacity Requirement is derived from the NYCA Installed Reserve Margin, which is established each year by the NYSRC. The NYCA Minimum Installed Capacity Requirement for the Capability Year beginning each May 1 will be established by multiplying the NYCA peak Load forecasted by the ISO by the quantity of one plus the NYCA Installed Reserve Margin. The ISO shall translate the NYCA Installed Reserve Margin, and thus the NYCA Minimum Installed Capacity Requirement, into a NYCA Minimum Unforced Capacity Requirement, in accordance with the ISO Procedures.

* * *

The ISO shall determine the amount of Unforced Capacity that must be sited within the NYCA, and within each Locality, and the amount of Unforced Capacity that may be procured from areas External to the NYCA, in a manner consistent with the Reliability Rules.

The first paragraph of Section 5.11.4 of the Market Services Tariff, LSE Locational Minimum Installed Capacity Requirements, reads as follows:

The ISO will determine the Locational Minimum Installed Capacity Requirements, stated as a percentage of the Locality's forecasted Capability Year peak Load and expressed in Unforced Capacity terms, that shall be uniformly applicable to each LSE serving Load within a Locality. In establishing Locational Minimum Installed Capacity Requirements, the ISO will take into account all relevant considerations, including the total NYCA Minimum Installed Capacity Requirement, the NYS Power System transmission Interface Transfer Capability, the Reliability Rules and any other FERC-approved Locational Minimum Installed Capacity Requirements.

III. Adoption of the IRM For 2008-2009 Capability Year

2008 IRM Study

The 2008 IRM Study was conducted by the NYSRC to determine the statewide IRM necessary to meet NYSRC and NPCC criteria within the NYCA during the period from

May 1, 2008 through April 30, 2009. The 2008 IRM Study was performed by NYISO staff at the request and under the guidance of the NYSRC. The 2008 IRM Study uses a state-of-the art computer model called the General Electric Multi-Area Reliability Simulation Program (“GE-MARS”). The GE-MARS model includes a detailed load, generation and transmission representation of the 11 NYCA zones as well as the four external control areas (“Outside World Areas”) interconnected to the NYCA. The GE-MARS model calculates the probability of outages of generating units, coupled with a model of daily peak-hour loads, thus determining the number of days per year of expected capacity shortages. The resulting measure, termed the “loss-of-load expectation” (“LOLE”) index, provides a measure of generation system reliability. This technique is commonly used in the electric power industry for determining installed reserve requirements.

This 2008 IRM Study continues to implement two study methodologies that were utilized for the first time in the 2006 IRM Study, the *Unified* and the *IRM Anchoring Methodologies*. These methodologies are discussed in the Study (at 4) under IRM Study Procedures. In addition to calculating NYCA IRM requirement, these methodologies identify corresponding Minimum Locational Capacity Requirements (“MLCRs”). In its role of setting the appropriate Locational Capacity Requirements (“LCRs”), the NYISO considers the MLCR determined in the IRM Study.

The 2008 IRM Study uses the NYISO’s peak load forecast for the following summer period based on the most recent actual summer load conditions. Use of this forecast allows the NYSRC IRM and NYISO LCR studies to use comparable data.

The 2008 IRM Study also evaluated IRM requirement impacts caused by the updating of key study assumptions and various sensitivity cases. These results are depicted in Tables 1, 2, 3 and Table B-2 in of the IRM Study. The base case results, the sensitivity cases and

other relevant factors provide the basis for the NYSRC Executive Committee determination to adopt a 15.0% NYCA IRM requirement for the 2008-2009 Capability year.

Definitions of certain terms in the 2008 IRM Study can be found in the NYSRC Glossary in the *NYSRC Reliability Rules for Planning and Operating the New York State Power System*, <http://www.nysrc.org/documents.html>.

2008 Study Base Case Results

The base case for 2008 IRM Study calculated the NYCA IRM requirement for the period May 1, 2008 through April 30, 2009 to be 15.0%.¹³ For the base case, the 2008 IRM Study also determined MLCRs of 79% and 94% for New York City and Long Island, respectively.

The 2008 base case result is 1.0 percentage point lower than the 16.0% base case IRM requirement determined by the 2007 IRM Study. The principal reasons for this reduction in the required IRM are:

- (1) the continued improvement of NYCA generating unit availability (Updated Generating Unit EFORs);
- (2) updated NYCA transmission topology which includes improvements to the Dunwoodie-South Interface and inclusion of the 660 MW Neptune HVDC facilities (Updated Transmission Topology);
- (3) improved emergency assistance benefits from interconnection to neighboring control areas, primarily due to transmission reinforcements within these Areas (see Updated Outside World Model); and

¹³ There is a 99.7% probability that the base case result is within a range of 14.3% to 15.8% based on a standard error of 0.05. See Appendix A of the Study, A-2.1 Error Analysis.

(4) a reduction of transmission cable outage rates (see Updated Cable Outage Rates).

Table 2 of the Study, set forth below, compares the estimated IRM impacts of changing certain key Study assumptions from the 2007 Study.

**Table 2
Parametric IRM Impact Comparison with 2007 Study***

Parameter	Estimated IRM Change (%)	IRM (%)
Previous 2007 Study – Base Case IRM Result		16.0
Updated EOPs including SCRs and EDRP	+0.3	
New Units and Retirements	0.0	
Updated Load Model	0.0	
Updated Maintenance Schedule	0.0	
Updated GT Capacity Temperature Correction Model	0.0	
Updated Outside World Model	-0.2	
Updated Generating Unit EFORs	-0.3	
Updated Cable Outage Rates	-0.3	
Updated NYS Transmission Topology	-0.5	
Net Change from 2007 Study		- 1.0
2008 Study Base Case IRM Result		15.0

*This table reconciles assumption changes between the 2007 and 2008 studies.

After considering the 2008 IRM Study, including the sensitivity cases, the NYSRC Executive Committee adopted a 15.0 IRM for the 2008-2009 Capability year.

IV. COMMENTS FILED IN RESPONSE TO THE NYSRC IRM FILING AT FERC

Several parties submitted comments in support of the NYSRC IRM Filing¹⁴ and one party, the Independent Power Producers of New York (“IPPNY”) submitted a protest. In anticipation that contentions similar to those set forth in the IPPNY protest will be made in this proceeding, we will respond to those contentions.

¹⁴ Comments in support of the NYSRC’s IRM determination were submitted by the NYISO, Multiple Intervenors, the New York Municipal Power Agency, and jointly by New York State Electric & Gas Corporation, Rochester Gas and Electric Corporation and Central Hudson Gas & Electric Corporation.

Protest by the Independent Power Producers of New York (“IPPNY”)

In its protest,¹⁵ IPPNY does not take issue with the technical study upon which the NYSRC’s IRM determination was based, nor does IPPNY contend that the 15.0% IRM approved by the NYSRC for the 2008-2009 Capability Year is not adequately supported by the 2008 IRM Study. IPPNY’s protest is based on the contention that because two sensitivity studies indicate that environmental initiatives to be implemented sometime subsequent to the 2008-2009 Capability Year may require higher IRMs in future years, the NYSRC was obligated to ignore the results of the 2008 IRM Study and retain the current 16.5% IRM in order to avoid the potential need to increase the IRM in future years. This contention does not provide a sufficient basis for the adoption by the Commission of an IRM different from the IRM adopted by the NYSRC and supported by the 2008 IRM Study.

The Assumptions Matrix for the 2008 IRM Study base case was approved by the NYSRC Executive Committee on November 9, 2007. (See 2008 IRM Study, Table A-5). In addition to a base case that uses assumptions approved by the NYSRC, the 2008 IRM Study includes a number of sensitivity studies to illustrate how the IRM would be affected if different assumptions were used. The sensitivity studies also provide a mechanism for illustrating “cause and effect” of how certain performances and/or operating parameters can impact reliability (see NYSRC Policy 5-1, Section 3.4.3).

In the 2008 IRM Study, 19 sensitivity studies were performed (see 2008 IRM Study, Table B-2). These sensitivities used assumptions different from those adopted for the base case with respect to various factors, including transmission assistance from Outside World Areas, generation unit availability, load growth, emergency operating procedures, environmental initiatives, and miscellaneous considerations. The sensitivity studies produced a wide range of

¹⁵ “Motion to Intervene and Protest of the Independent Power Producers of New York, Inc.,” Docket No. ER08-414 (January 24, 2008).

results, with IRMs both higher and lower than the base case 15.0% IRM adopted by the NYSRC. It should be noted that 17 of the 19 sensitivities considered in the 2008 IRM Study involved varied assumptions with respect to the conditions in effect during the 2008-2009 Capability Year, while the two environmental sensitivities addressed conditions that may occur in future years.

Furthermore, the two environmental sensitivities that IPPNY contends should have caused the NYSRC to disregard the results of the careful and extensive analysis in the 2008 IRM Study cannot provide a reasonable basis for establishing the IRM for the 2008-2009 Capability Year. The environmental sensitivities considered in the 2008 IRM Study were adopted from the New York Independent System Operator's ("NYISO") 2008 Reliability Needs Assessment ("RNA").¹⁶ As the RNA states, the purpose of the sensitivities was to determine to what extent the potential impact of the environmental initiatives on reliability can be quantified, and the resulting information is intended to assist in "developing compliance strategies that achieve the goals of these environmental initiatives while maintaining reliability" (RNA at I-22). State regulations have not been adopted for the CO₂ or Regional Greenhouse Gas Initiative ("RGGI") and regulations have not been drafted for the NO_x or High Electric Demand Day ("HEDD") initiative. Compliance with the HEDD and RGGI initiatives is not anticipated until 2009 and 2012, respectively.¹⁷

It should be noted that the sensitivity studies conducted by the NYISO and considered in the 2008 IRM Study did not assume any compliance strategies or control measures

¹⁶ The RNA is available on the NYISO's website: http://www.nyiso.com/public/webdocs/newsroom/press_releases/2007/RNA_and_Supporting_FINAL_REPORT_12-12-07.pdf.

¹⁷ While the RGGI initiative is expected to begin in 2009, the proposed program will have a three year compliance timeline. The initial compliance period will be from 2009 to 2011, and it is our understanding that affected parties will be required to have the necessary allowances by 2012.

to offset the potential reliability impacts of these environmental initiatives. For example, the NYISO's environmental sensitivity study of the HEDD initiative did not consider the possible replacement of the affected generating units with new, clean multi-fueled and operationally flexible generation in load pocket areas (RNA at I-25), nor the possible installation of emissions reduction technology on affected resources. The assumption that no compliance strategies or control measures are undertaken represents a worse case planning scenario.

With respect to the sensitivity study of the RGGI program, the NYISO analysis was undertaken to estimate the minimum level of allowances that New York State would need under the proposed CO₂ cap and trade program for the generation of sufficient electricity to meet NYCA requirements. The NYISO estimated that in 2010 the state would need allowances for 52 million tons of CO₂ to meet reliability standards, unless that number were decreased by renewable resources produced under the state's Renewable Portfolio Standard program (RNA at I-26). The sensitivity study did not presume to measure the actual impact of the RGGI program on the state's power system, but only to indicate to policymakers a level of allowances needed by resources providing energy to the NYCA below which reliability would be affected. The level of allowances that would be available to resources supplying the NYCA is not known at this time.

The RNA also included a sensitivity study to analyze the potential reliability impacts of New York's energy efficiency initiative which is intended to achieve a 15 percent reduction in energy use by 2015 (the "15x15" program). This sensitivity study found that the successful implementation of the 15 x 15 program "will assist in realizing the goals of both environmental initiatives ... in a manner that augments, rather than degrades, reliability." (RNA at I-22). IPPNY does not explain why the sensitivity study of the state's demand reduction initiative, which could offset the reliability impacts of the environmental initiatives, should not

be accorded comparable consideration with that accorded the environmental sensitivity studies. It is important to note that the NYISO's RNA did not include in its base case either of the two environmental sensitivities relied upon by IPPNY. This was true despite the fact that the RNA is an assessment of reliability needs over a 10 year period, as compared to the 2008 IRM Study which is limited to one year.

While it is appropriate for both the NYISO and the NYSRC to monitor the development of environmental initiatives and their potential impact on reliability, they also must be careful not to base their conclusions on premature assessments of their reliability impacts. At this point, final state regulations have not been adopted with respect to either of the environmental initiatives. The NYISO and NYSRC sensitivities were intended, in part, to provide useful information to state policymakers for their consideration in development of the final environmental programs. Furthermore, it is not currently clear what control technology or other mitigating actions may be available to offset the potential reliability impacts of these initiatives, including the installation of emissions reduction technologies on those resources that will be most affected. In addition, the state is actively pursuing initiatives to reduce energy demand and increase the use of renewable resources which have the potential to offset the reliability impacts of the environmental initiatives.

The IRM adopted by the NYSRC is for the 2008-2009 Capability Year during which neither of these environmental initiatives will be in effect. Currently, their net effect on system reliability in future years is uncertain and the environmental sensitivities included in the 2008 IRM Study do not provide a sound basis on which to establish the IRM for the 2008-2009 Capability Year.

V. CONCLUSION

Each year since its inception, the NYSRC has established a statewide annual IRM requirement that has been implemented by the NYISO. The IRM established by the NYSRC is used by the NYISO to establish installed capacity requirements for load serving entities in the New York Control Area, including locational capacity requirements. The IRM is a necessary component of the NYISO's ICAP auctions. The NYISO ICAP auction for the Summer Capability Period is scheduled for March 28, 2008. The IRM also is used to establish ICAP prices under the NYISO ICAP demand curves. Given the important consequences of the IRM for the NYISO, LSEs and NYISO market participants, it is crucial that there be no ambiguity concerning its level and effectiveness. Furthermore, the objection that has been raised to the NYSRC's IRM determination in the FERC IRM proceeding does not provide a sufficient basis for an adoption by the Commission of an IRM different from the IRM adopted by the NYSRC and supported by its very thorough and professional technical analysis.

It is respectfully submitted that the NYSRC's IRM policies and procedures, and the 2008 IRM Study, warrant the Commission's continued confidence and support. In its order issued in the proceeding concerning the IRM for the 2007-2008 Capability Year, the Commission made the following statement:

First, the NYSRC is the entity responsible for establishing the IRM for the NYCA. The NYSRC's Reliability Rules, which we have adopted, are based on decades of experience in these matters. The NYSRC's process for evaluating the IRM on a yearly basis is well-established, comprehensive, detailed, and open and transparent. The NYSRC, industry markets, NYISO, market participants, and Department Staff all participate in the annual IRM Study. Second the adoption of an IRM which differs from that adopted by the NYSRC at this late date would potentially undermine the NYSRC's process and may disrupt or interfere with the operation of the markets serving the NYCA. For these reasons, we will give

considerable weight to the NYSRC's findings, conclusions, and recommendations. (Footnote omitted)¹⁸

The NYSRC respectfully requests, therefore, that the Commission adopt the NYSRC's determination that a 15.0% IRM is the appropriate IRM for the New York Control Area for the Capability year of May 1, 2008 to April 30, 2009.

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¹⁸ Order Adopting an Installed Reserve Margin for the New York Control Area, Case 07-E-0088, Case 05-I-1180, Issued March 8, 2007.