STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Case 07-E-0080 - 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	)
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Coordinating Council	)

COMMENTS OF THE NEW YORK STATE RELIABILITY COUNCIL

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New York State Reliability Council, LLC ("NYSRC"), through the Chairman of its Executive Committee, respectfully submits these Comments in Case 07-E-0080 and Case No. 05-E-1180. On January 19, 2007 the New York State Public Service Commission ("Commission") solicited comments on whether the Commission should adopt the NYSRC's Installed Reserve Margin ("IRM") of 16.5% for the New York Control Area, for the capability year beginning on May 1, 2007 and ending on April 30, 2008. NYSRC respectfully requests that the Commission consider these comments and that it adopt the NYSRC's determination that a 16.5% IRM is the appropriate IRM for the New York Control Area for the capability year of May 1, 2007 to April 30, 2008.

I. SUMMARY

On January 5, 2007 the NYSRC Executive Committee, by a vote of 10 to 3, adopted an IRM of 16.5% for the New York Control Area ("NYCA") for the capability year beginning on May 1, 2007 and ending April 30, 2008. The Executive Committee's decision was based on a technical study, the New York Control Area Installed Capacity Requirements for the Period May 2007 through April 2008, Technical Study Report ("2007 IRM Study" or the "IRM

Study") and other relevant factors. The 2007 IRM Study demonstrates that the required NYCA IRM for the 2007-2008 capability year is 16.0% under base case conditions.

Since the 16.5% IRM for the 2007-2008 capability year adopted by the NYSRC represents a change from the 2006 IRM of 18.0%, the NYSRC is required to make an appropriate filing with the Federal Energy Regulatory Commission ("FERC") for approval under Section 3.03 of the NYSRC Agreement. The NYSRC submitted its filing to FERC on January 12, 2007 and requested that FERC accept and approve the filing effective no later than March 1, 2007 so that the revised IRM may be in place for the installed capacity auction to be conducted by the NYISO on March 29, 2007 ("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 2007 IRM Study which is Appendix 1 of the filing, be made part of the record in these proceedings. Also attached to these comments as Exhibit 2 is the NYSRC's response to comments submitted to FERC on the NYSRC IRM Filing ("NYSRC Response"). The NYSRC requests that the NYSRC Response also be made part of the record in these proceedings, including the affidavits of Alan M. Adamson and Curt J. Dahl attached to the NYSRC Response as Appendix 1 and Appendix 2.

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

[1] New York State Reliability Council, Docket No. ERO7-429-000 (January 12, 2007).

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

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 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

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3 NYISO/NYSRC Agreement, Section 4.1.

4 NYISO/NYSRC Agreement, Section 2.1, 3.1.

5 NYISO Services Tariff, Sections 5.1, 5.6.

6 NYISO/NYSRC Agreement, Section 3.6.

7 NYSRC Agreement, Section 4.03.

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 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 New York Control Area ("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, precisely 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 SRC to include more non-utility board members, and to narrow the responsibilities of the SRC. The Supplemental Filing appropriately circumscribes the authority of the SRC. As stated by the utilities, the 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.

[8] NYISO/NYSRC Agreement, Article 5.

> Consistent with NERC, NPCC, NYPP and NYPSC standards, the SRC would establish a state-wide reserve margin to ensure that adequate generation is available to serve load during normal conditions and system emergencies.
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> * * *
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> As proposed, the ISO would implement and enforce the reliability rules, not the 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 gird. [9]

NYSRC Establishment of Statewide IRM

One of the responsibilities assigned to the NYSRC was 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

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[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 Requirement) x Forecasted NYCA Peak Load (NYSRC Reliability Rules, A. Resource Adequacy, Introduction).

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 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 that:

> 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.

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

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 technical report prepared by ICS [Installed Capacity Subcommittee].
> - Establish 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.
> - Notify the NYISO of the NYCA IRM requirements. Meet with NYISO management as required to review 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.
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> 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 IRM For 2007-2008 Capability Year

2007 IRM Study

The 2007 IRM Study was conducted by the NYSRC to determine the statewide IRM necessary to meet the NPCC criteria within the NYCA during the period from May 1, 2007 through April 30, 2008. The 2007 IRM Study was performed by NYISO staff at the request and

under the guidance of the NYSRC. The 2007 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 2007 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 under Study Procedure. 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 2007 IRM Study, for the first time, uses the NYISO's final peak load forecast for the following summer period based on the most recent actual summer load conditions. Use of this forecast allows both the NYSRC IRM and NYISO LCR studies to use the same model.

The 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 and 2 and in Appendix B-1 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 16.5% NYCA IRM requirement for the 2007-2008 capability year.

Definitions of certain terms in the 2007 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.

2007 Study Base Case Results

The base case for 2007 IRM Study calculated the NYCA IRM requirement for the period May 1, 2007 through April 30, 2008 to be 16.0%.[13] For the base case, the IRM Study also determined MLCRs of 80% and 99% for New York City and Long Island, respectively. [14]

The 2007 base case result is 2.0 percentage points lower than the IRM requirement determined by the 2006 IRM Study. The principle reasons for this fairly large IRM reduction are: (1) the new version of the GE-MARS program used for the Study included several changes, the most significant of which corrected the treatment of emergency operating procedures ("EOPs"), (2) an updated transmission representation, including updated system operating limits and transmission cable outage rates; and (3) updated generating unit outage rates ("EFORs").

Table 2 of the Study, set forth below, compares the estimated IRM impacts of changing certain key Study assumptions from the 2006 Study.

[13] There is a 99.7% probability that the base case result is within a range of 15.2% to 16.9%. See Appendix A of the Report.

[14] These requirements result in a LOLE of 0.091. This is less then 0.1 because the locational values were rounded up to 80% and 99%.

Table 2
Parametric IRM Impact Comparison with 2006 Study*

Parameter	Estimated IRM Req. Change (%)	IRM Req. (%)
Previous 2006 Study – Base Case IRM Result		**18.0**
New Version of GE-MARS Program	- 1.2	
Updated NYS Transmission Representation & System Operating Limits	- 0.3	
Updated Generating Unit EFORs	- 0.4	
Updated SCR and EDRP Capacity & Other EOPs	- 0.2	
Other Assumption Changes	+ 0.1	
Net Change from 2006 Study		- 2.0
2007 Study Base Case IRM Result		**16.0**

***This table reconciles assumption changes between the 2006 and 2007 studies.**

After considering the 2007 IRM Study, including the sensitivity cases, the NYSRC Executive Committee adopted a 16.5 IRM for the 2007-2008 capability year. The NYSRC determined that it would be prudent to set a slightly higher IRM than the 16.0% base case results from the 2007 IRM Study to add a reasonable degree conservatism to its determination.

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

A number of parties filed comments in support or in opposition to the NYSRC IRM Filing. The NYISO submitted comments in support of the NYSRC's 16.5% IRM determination and in support of the NYSRC's request for expedited treatment of the filing.[15] The most extensive protest to the NYSRC's IRM determination was filed by Consolidated Edison Company of New York, Inc., Orange and Rockland Utilities, Inc. and Central Hudson

[15] Comments of the New York Independent System Operator, Docket No. ER07-429-000 (January 30, 2007).

Gas & Electric Corporation ("the Companies").[16] The protest filed by the Companies, and the affidavit submitted by Dr. Mayer Sasson as Exhibit A of the protest, make two basic contentions:

1. It was not prudent or reasonable for the NYSRC to accept a base case IRM of 16.0% because it has only a 50% chance of meeting the NYSRC's resource adequacy criterion of a loss of load expectation ("LOLE") of one day in ten years; and
2. The NYSRC did not adequately consider the sensitivity cases included in the IRM Study; and the NYSRC is obligated to accept the results of sensitivity studies that would result in a higher IRM and not doing so will create an imprudent and unreasonable risk that the IRM will not meet the one day in ten years LOLE criterion.

These contentions are premised on incorrect representations of the NYSRC's resource adequacy criterion, the meaning and purpose of sensitivity cases in the NYSRC's IRM Study, and well-established NYSRC and NPCC policies and practices with respect to the determination of an IRM. The affidavit submitted by Alan M. Adamson (Appendix A of the NYSRC Response) fully addresses contentions related to the NYSRC's resource adequacy criterion, and the affidavit submitted by Curt J. Dahl (Appendix B of the NYSRC Response) fully addresses contentions related to the sensitivity cases considered by the NYSRC and the IRM Study process.

[16] *See* Protest of Consolidated Edison Company of New York, Inc., Orange and Rockland Utilities, Inc. and Central Hudson Gas and Electric Corporation, Docket No. ER07-429-000 (Feb. 2, 2007) (**"**Companies' Protest"). The NYSRC Response, including the attached affidavits, addresses issues raised by the Companies as well as issued raised in protests by the Independent Power Producers of New York, Inc. ("IPPNY") and the Mirant Parties.

The criterion set forth in Reliability Rule A-R1 is consistent with the criterion used by the NYPP prior to the formation of the NYISO and with the criterion used by the Northeast Power Coordinating Council ("NPCC"). *See* Adamson Affidavit at 5. Its application by the NYSRC has been consistent since the NYSRC's inception, and is consistent with the NPCC's application of its similar criterion. As Reliability Rule A-R1 states, the resource adequacy criterion is that the probability of disconnecting firm load due to resource deficiencies shall be on average, not more than once in ten years. The Reliability Rule goes on to state that compliance with this criterion shall be evaluated probabilistically, such that the loss of load expectation shall be on average, no more than 0.1 day per year (emphasis added). It is apparent from the clear wording of the Reliability Rule that the criterion does not require near 100% certainty that load will not be disconnected more than once every ten years, but that the probability of such an event occurring, on average, is not more than once every ten years. *See* Adamson Affidavit at 5-10. The IRM Study found that the IRM for the upcoming capability year that satisfies this criterion is 16.0%. That means that with a 16.0%, IRM, on average, the expectation of a disconnection of load would be once every ten years. It also means that with a 16.0% IRM there is an equal probability that the disconnection of load would be higher or lower than once in ten years.

The Companies' Protest misstates the NYSRC's reliability criterion by suggesting that it requires an IRM that provides close to a 100% confidence level of meeting an LOLE of one day in ten years, and that an IRM that, on average, (*i.e.*, a 50% confidence level) results in an LOLE of one day in ten years does not meet the criterion. *See* Companies' Protest at 6 and Sasson Affidavit at paragraph 10. As is clearly demonstrated by the affidavit of Mr. Adamson, the Companies' contentions are incorrect, and are inconsistent with the clear language of Reliability

Rules A-R1 and NYSRC Policy 5.1, which describes the procedures to be used in the development of the IRM.[17] *See* Adamson Affidavit at 6-10.

The IRM Study refers to the range of IRMs around the 16.0% of IRM, from 15.2% to 16.9%, and states that there is a 99.9% confidence level that the LOLE of one day in ten years will be within that range. The Companies incorrectly contend that the NYSRC was obligated to adopt as the base case IRM the 16.9% IRM that as the high end of the 15.2 to 16.9 range. There is no basis for this contention. As explained in Mr. Adamson's Affidavit, the establishment of confidence bounds provide useful information, but it is clear that the resource adequacy criterion is not set at either end of the bounds. *See* Adamson Affidavit at 5, 7. It is important to note that the IRM Study, including the finding that a 16.0% IRM satisfies the NYSRC's resource adequacy criterion, was adopted by the NYSRC's Executive Committee by a unanimous vote, including the representatives of the Companies.[18]

Statements in the Companies' Protest to the effect that a 16.0% IRM has a 50% chance of being "wrong" are incorrect and misleading. *See* Companies' Protest at 6 and Sasson Affidavit at paragraph 10. The fact that a 16.0% IRM results in a probability that the loss of load expectation, on average, will result in a disconnection of not more than once in ten years satisfies the criterion. The Companies' contention that a 16.0 IRM has a 50% chance of being "wrong", therefore, is clearly incorrect.

Neither the NYSRC nor NPCC have interpreted their criterion as requiring a near 100% confidence level. *See* Adamson Affidavit at 5, 8-10. In fact, such a requirement would be

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[17] NYSRC Policy 5.1 is attached to the NYSRC Response as Appendix C and is available on the NYSRC website at http://www.nysrc.org.

[18] *See* Executive Committee Meeting Minutes for Jan. 5, 2007, which are available at the NYSRC website at http://www.nysrc.org.

fundamentally inconsistent with the clear wording of the NYSRC criterion in Reliability Rule A-R1. Furthermore, the Companies have not provided any evidence to demonstrate that the consistent interpretation and application of the NYSRC criterion is incorrect or that a different criterion should be adopted.

NYSRC Consideration of Sensitivity Cases

The 2007 IRM Study includes a number of sensitivity cases. The sensitivity cases are intended to illustrate the potential impact on the IRM if actual events differ from the assumptions included in the base case. The base case, however, represents the NYSRC's best estimate of the various inputs based on experience, advice from NYISO, and the NYSRC's policies for the development of the IRM set forth in Policy 5.1. *See* Dahl Affidavit at 5-6, 8, 10-13. The assumptions upon which the sensitivity cases are based are, by definition, not the assumptions adopted by the NSYRC. Prior to the running of the base case, the Executive Committee approves the specific assumptions that will be used in the base case. Those assumptions were adopted by the Executive Committee at its meetings on August 11, 2006 and October 13, 2006 without opposition, and with the support of the representatives of the Companies.[19]

In their protest, the Companies suggest that the NYSRC is compelled to accept the results of certain sensitivity cases, despite the fact that they are based on assumptions that were not adopted by the NYSRC. *See* Companies' Protest at 7-8 and Sasson Affidavit at paragraph 11. Furthermore, the Companies contend that the NYSRC is obligated to adopt the results of only those sensitivity cases that would increase the IRM, but not the results of sensitivity cases that would reduce the IRM. *See* Sasson Affidavit at paragraph 11. These contentions misrepresent

[19] *See* Executive Committee meeting minutes available at the NYSRC website at http://www.nysrc.org.

the intended purpose of sensitivity cases, which is to provide the Executive Committee members of an understanding of the potential impact on the IRM if actual experience differs from assumptions adopted in the base case. *See* Dahl Affidavit at 13. Further, the contention that the NYSRC is obligated to adopt the results of any sensitivity case, and to adopt the results of only those sensitivity cases that would increase the IRM, are without any support in NYSRC's IRM policies and practices, or in basic logic or common sense. The NYSRC has never adopted the results of a specific sensitivity case, as such, and there is no support in NYSRC policies or practices for the contention that the NYSRC must or should adopt the results of any particular sensitivity case.

Sensitivity cases, however, may be used by the Executive Committee members in determining whether the IRM should be set at a level above the IRM determined by the IRM Study to meet the resource adequacy criterion. The extent to which the results of the sensitivity cases have an impact on the final IRM, however, is a matter of judgment to be exercised by the Executive Committee members, based on their consideration of all sensitivity cases, including those that would reduce, as well as increase, the IRM, and other relevant factors.[20] In making its IRM determination the Executive Committee expressly considered "the Technical Study Report results, the modeling and assumption changes made to simulate actual operating conditions and system performance, and the numerous sensitivity studies evaluated."[21] As a result of its consideration of all relevant factors, the NYSRC Executive Committee increased the IRM by 0.5% from the 16.0% base case to 16.5%.

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[20] It should be noted that all the members of the Executive Committee have substantial knowledge and/or experience in the reliable operation of bulk power electric systems, as required by Section 4.03 of the NYSRC Agreement, including four members unaffiliated with any NYISO market participant.

[21] NYSRC IRM Resolution, attached to the NYSRC IRM Filing as Appendix B.

Specific Sensitivity Cases Referred to in the Companies' Protest

The Companies refer to several specific sensitivity cases that they contend the NYSRC was obligated to adopt including: (1) a possible degradation in the performance in generation forced outages; (2) a possible extended outage of the Indian Point 2 nuclear plant; and (3) a possible degradation in the effectiveness of the NYISO's Emergency Operating Procedures ("EOPs"). *See* Companies' Protest at 7-11 and Sasson Affidavit at paragraph 12. Each of these sensitivity cases is addressed in Mr. Dahl's Affidavit. As Mr. Dahl demonstrates in his Affidavit, the assumptions included in the IRM Study base case represent the NYSRC's best judgment as to what is most likely to occur. The base case assumptions are balanced and take into consideration actual experience with respect to the factors addressed in the sensitivity cases such as generator forced outage rates and the effectiveness of EOPs. There is no basis for the contention that the NYSRC was obligated to adopt the results of sensitivity cases which used assumptions that were not approved by the NYSRC, and to set aside its best judgment as to what is most likely to occur, based on experience and careful analysis. Further, there is no basis for the contention that the NYSRC should ignore the results of sensitivity cases that indicate that a lower IRM may be appropriate, which may be as or more likely to occur than other sensitivity cases. *See* Dahl Affidavit at 42-43.

The NYSRC IRM Decision is Consistent with Its Past Practice

The Companies contend that the NYSRC IRM decision is not consistent with its past practice because: (1) in the past the NYSRC has given due consideration to the fact that the existing IRM was 18.0%; and (2) in the past the NYSRC has expressed the need to take a

conservative approach to setting the IRM. *See* Companies' Protest at 13 and Sasson Affidavit at paragraph 18.

With respect to the first contention, the NYSRC has, in the past, referred to the 18.0% IRM when the IRM Study indicated a base case IRM of between 17.1% and 17.6% and the NYSRC decided to retain the IRM at 18.0%. The NYSRC, however, is not committed to an 18.0% IRM regardless of the results that are developed in the IRM Study. The whole purpose of the IRM Study is to determine the IRM at which the NYSRC's resource adequacy criterion is met. The NYSRC would be failing in its responsibilities if it ignored the results of the IRM Study in either direction. Contrary to the implication in the Companies' Protest, there is nothing sacred about an 18.0% IRM. It was established, and continued, by the NYSRC based on its consideration of the results of the IRM Study and other relevant factors, which often resulted in an adder to the base case IRM. The NYSRC followed a similar practice in its determination to adopt a 16.5% IRM for the 2007-2008 capability year.

In paragraph 18 of his affidavit, Dr. Sasson refers to the NYSRC IRM resolution in 2000 in which the Executive Committee refers to the IRM Study results and other factors and states "which argue for a conservative approach". It should be noted that the statement referred to by Dr. Sasson was in the context of a reduction in the IRM of 4.0%, from 22.0% to 18.0%, and that the IRM Study indicated that a further reduction in the IRM for the 2000 to 2001 capability year was justified. In that context, the Executive Committee was stating that a 4.0% reduction in one year was sufficient. However, the Companies seem to be suggesting that taking a conservative approach means never changing the 18.0% IRM, regardless of the results of the IRM Study.

The Companies also state that "the NYSRC has not presented evidence that shows that there are clear and convincing reasons to move the IRM up or down from 18.0%." *See* Companies Protest at 13 and Sasson Affidavit at paragraph 20. The "clear and convincing" evidence standard proposed by the Companies does not exist in NYSRC Reliability Rules, policies or practices. Furthermore, it would, in effect, establish an unjustified presumption in favor of the 18.0% IRM. The NYSRC is obligated to establish an IRM that, based on its technical analysis and expert judgment, will satisfy its resource adequacy criterion. There is nothing in the NYSRC Reliability Rules or its IRM policies that establishes a presumption in favor of the 18.0% IRM, or any other specific IRM. In fact, doing so would be in direct conflict with the NYSRC resource adequacy criterion and the carefully defined IRM Study process.

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 29, 2007. 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.

It is respectfully submitted that the NYSRC's IRM policies and procedures, and the 2007 IRM Study, warrant the Commission's confidence and support. The members of the NYSRC Executive Committee and the experts who assist the NYSC in setting the IRM have the

highest level of competence and experience (See the affidavits of Alan M. Adamson and Curt J. Dahl attached to the NYSRC Response). Furthermore, the objections that were raised to the NYSRC's IRM determination in the FERC IRM proceeding (and which we assume will also be raised in these proceedings) are without merit, as is clearly demonstrated by the NYSRC Response and the attached affidavits.

The NYSRC respectfully requests, therefore, that the Commission adopt the NYSRC's determination that a 16.5% IRM is the appropriate IRM for the New York Control Area for the capability year of May 1, 2007 to April 30, 2008.

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