

**NEW YORK INDEPENDENT SYSTEM
OPERATOR, INC.**

10 KREY BOULEVARD
RENSSELAER, NY 12144

**NEW YORK STATE RELIABILITY
COUNCIL, LLC**

14 THORNWOOD LANE
FAYETTEVILLE, NY 13066

June 29, 2007

The Honorable Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

EL06-1-000: Quarterly Informational Report

Dear Ms. Bose:

Attached please find a *Quarterly Informational Report on Actions Taken by the New York State Reliability Council and the New York Independent System Operator Concerning the Issues Raised in the Complaint Filed by Niagara Mohawk Power Corporation, d/b/a National Grid* being filed jointly by the New York Independent System Operator and the New York State Reliability Council.

Respectfully submitted,

/s/ Mollie Lampi

cc: Shelton Cannon
Larry Gasteiger
Michael Bardee
Connie Caldwell
Kathleen Nieman
Dean Wight
Lance Hinrichs

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

Niagara Mohawk Power Corporation,)	Docket No. EL06-1-000
A National Grid Company)	
)	
v.)	
)	
New York State Reliability Council and)	
New York Independent System Operator, Inc.)	

Quarterly Informational Report

**Actions Taken by the
New York State Reliability Council and the
New York Independent System Operator, Inc.
Concerning the Issues Raised in the Complaint Filed by
Niagara Mohawk Power Corporation, d/b/a National Grid.**

I. Joint NYSRC/NYISO Quarterly Report

This quarterly informational report is submitted by the New York State Reliability Council ("NYSRC") and the New York Independent System Operator, Inc. ("NYISO") pursuant to the Commission's July 26, 2006 Order Accepting Informational Report and Requiring Further Reports, 116 FERC ¶ 61,084 (2006) ("July 26 Order").

In a complaint filed on September 30, 2005 with the Federal Energy Regulatory Commission (the "Commission") under Section 206 of the Federal Power Act, Niagara Mohawk Power Corporation, d/b/a National Grid ("National Grid") alleged that current practices of the NYSRC and the NYISO pertaining to the setting of the statewide installed reserve margin ("IRM") and locational capacity requirements ("LCRs") cause electricity consumers in upstate New York to subsidize the costs of maintaining reliability in the downstate regions.¹ National Grid requested FERC to direct the NYSRC and the NYISO to implement a lower statewide installed capacity requirement to eliminate the claimed subsidy. The National Grid complaint

¹ *Niagara Mohawk Power Corporation, a National Grid Company v. New York State Reliability Council and New York Independent System Operator, Inc.*, 114 FERC ¶ 61,098, at P 1 (2006) (hereinafter cited as "February 2 Order" with paragraph references).

also alleged that the current NYSRC and NYISO procedures for setting the IRM and LCRs are inconsistent with Commission orders and policy underlying locational markets and depress price signals for increasing capacity in the downstate zones.²

The Commission dismissed the National Grid complaint, without prejudice, and required that National Grid first exhaust its methods of resolving this dispute within the NYSRC and the NYISO before filing a complaint with the Commission. Although it dismissed the complaint, the Commission directed the NYSRC and the NYISO to file a report within ninety days of the date of the order describing the progress that they and National Grid have made in resolving National Grid's concerns.³

On April 28, 2006, NYSRC and the NYISO submitted a joint informational report ("First Joint Report") as required by the Commission's February 2 Order. In its July 26 order, the Commission accepted the First Joint Report and directed the NYSRC and the NYISO to file quarterly reports, beginning September 29, 2006 describing the progress they, their task force, and National Grid are making in resolving National Grid's concerns, with specification of the progress made since the previous quarterly report.⁴ This report is submitted jointly by the NYSRC and the NYISO as directed in the Commission's July 26 Order.

II. Communications

All communications, pleadings, and orders with respect to this proceeding should be sent to the individuals listed below:

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² February 2 Order at P 10.

³ February 2 Order at P 25.

⁴ July 26 Order at P 4 & 5.

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III. Background

Under the NYISO/NYSRC Agreement, the NYSRC is assigned the responsibility for establishing the annual statewide IRM for the New York Control Area (“NYCA”),⁵ and the NYISO is assigned the responsibility of establishing installed capacity requirements for load serving entities (“LSEs”) including LCRs, to ensure that the statewide IRM is achieved.⁶ Currently, there are two areas in the state that are subject to LCRs: New York City and Long Island.

Over the past several years, the NYSRC and the NYISO have worked cooperatively to improve the procedures for determining the IRM and LCRs. A description of the procedures used to determine the IRM and LCRs, including the Unified Study Method and the Tan 45 anchoring method are included in the previous Quarterly Report submitted in this Docket by the NYSRC and the NYISO on September 29, 2006.

In its complaint, National Grid contended that the Tan 45 anchoring method results in a higher statewide IRM to meet reliability criteria, uncouples resource adequacy needs from market signals, and results in a subsidy of installed capacity payments that flows from upstate consumers to downstate consumers. National Grid and parties supporting its position urged that the Tan 45 anchoring method be replaced by an anchoring method described as the Free-Flowing Equivalent method.

⁵ NYISO/NYSRC Agreement at Section 4.5.

⁶ NYISO/NYSRC Agreement at Section 3.4.

IV. Status Report on Actions Taken by the NYSRC and the NYISO

This report will describe the current status of the actions, first identified in the First Joint Report and updated in the September 29, 2006, December 29, 2006, and March 29, 2007 Quarterly Reports, that have been undertaken by the NYSRC and the NYISO to address National Grid's concerns. These include the activity of the Resource Adequacy Issues Task Force ("RAITF"), a joint NYSRC/NYISO working group formed for the specific purpose of addressing National Grid's concerns.

As described in further detail below, the Upstate-Downstate study results indicate that a reserve margin of 16.0% -- as determined by the Tan 45 anchoring method -- does not produce a subsidy of downstate consumers by upstate consumers or *vice versa*. In view of these results, and with an agreement to proceed, over at least the next three years, with an annual examination of whether there appears to be a significant and consistent subsidy between Upstate and Downstate consumers, the NYSRC and the NYISO believe they have satisfactorily addressed the issues presented by National Grid in its September 30, 2005 complaint.

1. 2006-2007 IRM Study Lessons Learned Review

This action has been completed. As described in the March 29, 2007 Quarterly Report, the Tan 45 anchoring method was used in the 2007-2008 IRM study producing a 16.0 % basecase reserve margin. The NYSRC Executive Committee, at its January 5, 2007 meeting, approved a final IRM of 16.5% for the 2007-2008 Capability Year.

2. GE-MARS Modeling

This action has been completed. As discussed in previous Quarterly Reports, the use, in the 2007-2008 IRM and LCR determinations, of: 1) identical IRM/LCR curves and base case assumptions; and 2) a more accurate reflection of the transmission corridor connecting Upstate and Downstate result in a more accurate relationship between the IRM and LCRs.

3. Upstate-Downstate “Super Zone” Study

General Electric (“GE”) has now produced an Upstate-Downstate “Super Zone” study evaluating the reliability parameters and inter-zonal assistance between the two NYCA “Super Zones” identified as Upstate (Zones A through I) and Downstate (Zones J and K). The body of the study, including an overview by the NYISO, is available on the NYISO’s website.⁷ The Upstate-Downstate Study has identified the emergency assistance benefits that the Upstate and Downstate Super Zones provide to each other and has concluded that the current IRM and market design have not been demonstrated to be inequitable or discriminatory. The final study results were considered by the June 13, 2007 meeting of the RAITF, as discussed in the next section.

4. Resource Adequacy Issues Task Force

The RAITF, a joint task force chaired by the chairs of the ICS and the NYISO’s Installed Capacity Working Group was formed for the express purpose of addressing the issues raised in the National Grid complaint. It reviewed the Upstate-Downstate Study at its June 13, 2007 meeting and accepted the report’s findings that:

1. The Upstate and Downstate Super Zones derive significant reliability benefits from being interconnected.
2. A reliability subsidy does not currently exist in either direction.
3. The 2007 statewide IRM and associated LCRs that occur at the “Tan 45” point result in an apparent balancing of risks between the Upstate and Downstate Super Zones when the reserve margins are equal. The methodology therefore appears to address the issue of a subsidy between the Super Zones.
4. The development of the NYCA system over the last forty years involves the use of many joint facilities that have been mutually developed by transmission and

⁷See: http://www.nyiso.com/public/services/planning/resource_adequacy_planning.jsp

generator owners who have operations in both the Upstate and Downstate Super Zones.⁸

As a result of these findings, the RAITF accepted the NYISO's determination that a reliability subsidy does not currently exist between the Upstate and Downstate regions. For 2007, at a reserve margin of 16.0%, the unified IRM and capacity market design are equitable and nondiscriminatory.

It should be noted as the statewide IRM requirement is reduced from the 16.0% base case reserve margin with a higher percentage of statewide capacity located in the Downstate Super Zone, a reliability subsidy will flow from the Downstate Super Zone to the Upstate Super Zone. Likewise, as the statewide IRM is increased from the base case with a smaller percentage of the statewide capacity located in the Downstate Super Zone, the reliability subsidy will begin to flow from the Upstate Super Zone to the Downstate Super Zone. It is important to recognize, however, that these results do not necessarily mean that there is a reliability subsidy if a future year base case IRM is higher or lower than this year's base case 16.0% reserve margin.

The RAITF supported the NYISO recommendation that the analytical methods developed as part of the Upstate-Downstate Study be applied in a supplement to the annual IRM study, using base case and results from the IRM study, for the next three years. The NYISO and the NYSRC will review the results of this analysis to determine whether there appears to be any significant and consistent reliability subsidy between the Upstate and Downstate Super Zones and, if so, to consider the appropriate action to be taken in response to that determination. Based on the results, the NYISO and the NYSRC will decide if continuing the supplemental analysis beyond three years is warranted.

⁸ See: *Upstate – Downstate Study with Findings and Recommendations*, General Electric International Inc, NYISO and NYSRC, June 19, 2007, p. 19

V. Summary

The Upstate-Downstate Study has addressed the issue, presented by National Grid in its September 30, 2005 complaint, that the statewide IRM and LCRs established by the NYSRC and the NYISO cause electricity consumers in upstate New York to subsidize the costs of maintaining reliability in the downstate regions. The Study determined that, with a base case reserve margin of 16.0 % and LCRs of 80% for New York City (Zone J) and 99% for Long Island (Zone K), no reliability subsidy exists between the Upstate and Downstate Super Zones.

The RAITF accepted this conclusion and recommended this supplemental evaluation be continued for the next three years. Should a reliability subsidy appear, appropriate responsive actions can be undertaken at that point.

National Grid has utilized the NYISO stakeholder process to pursue its complaint that an unreasonable subsidy existed between upstate and downstate consumers, as the Commission requested. The effort to address the issues raised in National Grid's complaint within the NYISO stakeholder process involved several actions which have been detailed in four previous informational reports filed by the NYISO and the NYSRC in this docket. The issuance of the Upstate-Downstate Study, the acceptance of its findings by the RAITF, and NYISO's and NYSRC's agreement to evaluate the existence of a reliability subsidy in the future with a supplemental analysis based on the annual IRM study, conclude the evaluation in the NYISO stakeholder process of the issues raised in National Grid's complaint. The NYISO and the NYSRC believe their efforts to address the issues that National Grid raised in this docket are now concluded.

VI. Conclusion

WHEREFORE, the New York State Reliability Council and the New York Independent System Operator, Inc. request that the Commission accept this as the final quarterly report in compliance with the July 26 Order in this proceeding.

Respectfully submitted,

For the NYISO

/s/ Mollie Lampi

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For the NYSRC

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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 Rensselaer, NY this 29th day of June 2007.

/s/ Mollie Lampi