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July 3, 2002

Honorable Magalie R. Salas,
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Room 1-A209
Washington, D.C. 20426

Re: Docket Nos. RT01-99-000, et al. -
Regional Transmission Organizations

Dear Secretary Salas:

For filing, please find the Comments of the New York State Public Service Commission in the above-entitled proceedings. Should you have any questions, please feel free to contact me at (518) 473-8178.

Very truly yours,

David G. Drexler
Assistant Counsel

Enclosures

inefficiencies that fall outside the definition of seams issues, the Northeast ISOs should coordinate efforts to resolve them.

The Northeast ISOs' report on seams resolution evidences the need for coordination. Although it is a good starting point, the report misses several seams issues, such as through-and-out charges, and their time frame for resolution. More importantly, new seams issues may arise if each of the three ISOs makes changes to its own market design, rules or software without consulting the other ISOs.

As the Northeast ISOs move ahead with resolution of seams issues, the Commission's involvement with these issues is necessary to both encourage and guide the process and to resolve disputes if and when necessary. The Commission's upcoming rulemaking on SMD could provide a ready opportunity to begin such coordination, address market inconsistencies, and advance the ultimate goal of a single energy market.

DISCUSSION

I. The Timeline and Report on Seams Resolution Are Incomplete

The timeline and report on seams resolution, which were presented at the June 12, 2002 FERC Session, provide an excellent summary of the seams projects that have been completed and those that are in progress. However, they do not include all of the projects that are necessary to resolve the seams issues among the Northeast markets. We are meeting with the

NYISO and market participants to identify additional high priority seams issues, which will be presented to FERC on July 17. Although the final work product from that Market Structures Workgroup is not yet available, we offer two preliminary observations.

First, one of the most significant barriers to interregional transaction scheduling (i.e., "through-and-out charges," "export" or "wheel-through charges") does not appear on the list of seams issues. Eliminating through-and-out charges on individual transactions (i.e., "pancaking") will allow for more efficient trading, commitment and dispatch. The Northeast ISOs, however, lack the authority to unilaterally eliminate these charges. While SMD will likely address this issue, a large amount of time and money may be lost in the interim. We urge the Commission to initiate a process to eliminate these charges as soon as practicable, rather than await implementation of SMD.

Second, as the Northeast ISOs pursue improvements and make changes to their own market designs and rules, new seams issues may arise. The Commission should ensure that any such changes do not create new barriers or needless inefficiencies.

II. The Northeast ISOs Should Address Other Market Inefficiencies

Seams issues, as defined in the Northeast ISOs' presentation, are "barriers and inefficiencies that inhibit or preclude capacity and energy transactions across control area boundaries."¹ This definition of seams issues, and hence the report of the workgroup that will be presented to the Commission on July 17, focuses specifically on the removal of existing obstacles that inhibit interregional transaction scheduling. This definition, however, does not encompass the broader spectrum of market inefficiencies that result from the existence of different markets, rules, and designs in neighboring control areas. For example, energy pricing practices at control area boundaries, such as the NYISO's modeling of each neighboring control area as a single proxy bus, introduce inefficiencies that inhibit economic trading.

We believe that the first step in addressing such market inefficiencies is to standardize market rules to the greatest extent possible. In the process of doing so, those differences that represent barriers to trade need to be remedied. Similarly, those that should be allowed to coexist, because they represent legitimate market differences, should be identified. This analysis can be accomplished in the context of the

¹ Northeast ISOs Seams Issue Resolution Report, FERC Commission meeting on June 12, 2002.

Commission's SMD initiative. Once this initiative is complete, a more rational process for merging markets and eliminating inefficient boundary pricing regimens can proceed. We encourage the Commission to expeditiously eliminate current differences to the extent practicable and to oversee the Northeast ISOs' successful resolution of the remaining market inefficiencies.

CONCLUSION

An updated timeline and comprehensive report on seams resolution will be provided to the Commission at its July 17 session. In the long-term, the Commission's efforts to standardize markets will assist resolution of other outstanding issues and ultimately the development of larger markets that incorporate best practices and preserve local reliability rules. The Commission's guidance and oversight with respect to both seams issues and market design are an integral part of achieving this goal.

Respectfully submitted,

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of the State of New York
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Dated: July 3, 2002
Albany, New York

CERTIFICATE OF SERVICE

I, Naomi Tague, do hereby certify that I will serve on July 3, 2002 the foregoing Comments of the Public Service Commission of the State of New York by depositing a copy thereof, first class postage prepaid, in the United States mail, properly addressed to each of the parties of record, indicated on the official service list compiled by the Secretary in this proceeding.

Date: July 3, 2002
Albany, New York

Naomi Tague