

**STATE OF NEW YORK DEPARTMENT OF PUBLIC SERVICE
THREE EMPIRE STATE PLAZA, ALBANY, NY 12223-1350**

Internet Address: <http://www.dps.state.ny.us>

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November 4, 2005

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

Re: Docket No. ER03-836-004 – New York Independent Systems Operator, Inc.

Dear Secretary Salas:

For filing, please find the New York State Public Service Commission's Comments in Support, supporting a compliance filing made by the New York Independent System Operator on October 14, 2005. Should you have any questions about the enclosed, please feel free to contact me at (518) 474-4536.

Very truly yours,

/Dakin Lecakes

Dakin Lecakes
Assistant Counsel

Attachment

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

New York Independent System Operator, Inc.) Docket No. ER03-836-004

**COMMENTS OF THE NEW YORK STATE DEPARTMENT OF PUBLIC
SERVICE IN SUPPORT OF THE NEW YORK STATE INDEPENDENT
SYSTEM OPERATOR'S COMPLIANCE FILING**

On October 14, 2005, the New York Independent System Operator, Inc. (NYISO) submitted to the Commission a compliance filing (Compliance Filing) in the above-captioned matter. The New York State Department of Public Service (NYDPS) submits the following Comments in Support of the NYISO's Compliance Filing. Copies of all correspondence concerning this filing should be addressed to:

Dakin D. Lecakes
Assistant Counsel
New York State Department of
Public Service
Three Empire State Plaza
Albany, New York 12223-1350

William Heinrich
Supervisor, Utility Accounting & Finance
New York State Department of
Public Service
Three Empire State Plaza
Albany, New York 12223-1350

INTRODUCTION AND SUMMARY

The Commission should approve the NYISO's Compliance Filing containing a revised schedule for the completion of its implementation of the self-supply option for operating reserves. The Compliance Filing addresses the Commission's concerns in a practical, and expedient, manner given the work accomplished by the NYISO in its efforts to implement its Real-Time System (RTS) software and markets. The NYISO's proposed time frame gives its market participants the opportunity to evaluate the type of

enhanced self-supply mechanism that would best serve the needs of the NYISO-administered markets. Additionally, the Commission should approve the NYISO's proposal that favors financial, rather than physical, mechanisms for self-supply of reserves, because a physical self-supply mechanism could produce an impractical result.

DISCUSSION

The NYISO's Revised Schedule Appropriately Allots The Time Necessary To Implement A Self-Supply Mechanism.

The Commission directed the NYISO, in an Order dated March 15, 2005,¹ to submit a filing containing either (i) a revised schedule showing that work on the self supply option has resumed with a new in service date for reserve self supply, or (ii) a plan to implement a self-supply option in the NYISO-administered markets, including an updated timetable for full implementation of a self-supply option for operating reserves, in compliance with Commission Orders from July 2004. In 2004, the Commission directed the NYISO to provide its market participants with an option by which they could self-supply all or a portion of their operating reserves requirements from qualified units without being required to bid into the NYISO markets.² In the Commission's view, Market Participants should be able to self-supply a given level of operating reserves without bidding, so long as they bear the costs of that decision, even if it is likely to be economically unattractive.³

¹ *Order Conditionally Accepting Compliance Filing And Granting Motion For Deferred Implementation Of A Self-Supply Option For Operating Reserves*, New York Independent System Operator, Inc., 110 FERC ¶ 61,287 (2005).

² *New York Independent System Operator, Inc.*, 107 FERC ¶ 61,129 (2004), at p.10.

³ Id.

The Commission also directed the NYISO to report on stakeholder discussions concerning the possible development of a method for optimizing the transmission system for energy and reserves prior to establishing any new financial hedging mechanisms. The Compliance Filing addresses both of the foregoing issues in a practical, and expedient, manner given the work accomplished by the NYISO in its efforts to implement its Real-Time System (RTS) software and markets.

The NYISO notes that its RTS software has only recently been made effective, and that the data it has received regarding the cost differences between Eastern and Western Reserves is insufficient to allow for any conclusions. The NYDPS agrees that the NYISO must be given time to collect enough data to complete the analysis of those cost differences between the Eastern and Western Reserves under RTS conditions before the NYISO and market participants may complete the design of an appropriate self-supply option for operating reserves. Taking into consideration the time necessary to collect enough data on which to proceed to design such an option, the NYISO sets forth the following schedule for consideration by the Commission:

December 2005 to March 31, 2006:	Discussions on the price differences between Eastern and Western Reserves.
Fourth Quarter 2006:	Market Participant final determination on a self-supply design.
Mid-year 2007:	Completion of preliminary work on design document.
End-2007 – first quarter 2008:	Implementation

The foregoing schedule is practical in view of the necessary work that the NYISO and stakeholders must do prior to implementation of any self-supply design. As

indicated, the NYISO needs time to collect additional data for cost differences between Eastern and Western Reserves under RTS conditions. Thereafter, the NYISO and stakeholders need time to analyze the data and develop an appropriate operational reserve self-supply mechanism. Once developed and approved, the NYISO and market participants must be given a reasonable amount of time to implement the mechanism chosen.

In sum, the NYISO's proposed time frame gives its market participants an opportunity to evaluate the type of enhanced self-supply mechanism that would best serve the needs of the NYISO-administered markets.

The NYISO's Proposal Favoring A Financial Over A Physical Self-Supply Option Is Worthy Of Consideration.

The NYISO also notes that the use of financial self-supply mechanisms, rather than physical ones, has been endorsed unanimously by the market participants, and proposes that the Commission accept a new tariff filing that excludes, for the present, physical self-supply of reserves. The NYISO states that physical self-supply solutions would involve a major undertaking by the market participants and is not well-suited to its current reserves procurement and cost recovery approach.

The NYDPS agrees that physical self-supply of operating reserves could produce an impractical result. The NYDPS shares the NYISO's concerns that requiring physical self-supply of operating reserves would involve substantial costs to the market participants related to developing and implementing any physical self-supply mechanism. Moreover, should the Commission require physical self-supply of operating reserves, the market in New York for both spinning and non-synchronous reserves would need to be

revamped. Finally, physical self-supply could have the undesirable result of increasing the costs of statewide reserves resulting from the loss of current resources from the NYISO's current procurement process.

CONCLUSION

For all the foregoing reasons, the New York State Department of Public Service respectfully requests that the Commission accept the New York Independent System Operator's Compliance Filing of October 14, 2005 in its entirety.

Respectfully submitted,

/Dawn Jablonski Ryman

Dawn Jablonski Ryman
General Counsel
Dakin D. Lecakes
Assistant Counsel
Public Service Commission
of the State of New York
Three Empire State Plaza
Albany, New York 12223-1350

Dated: November 4, 2005
Albany, New York

CERTIFICATE OF SERVICE

I, Jacquelynn R. Nash, do hereby certify that on November 4, 2005 I will serve the foregoing Comments of the New York State Department of Public Service in Support of the New York Independent System Operator's Compliance Filing on each of the parties of record, indicated on the official service list compiled by the Secretary in this proceeding.

Dated: November 4, 2004
Albany, New York

/Jacquelynn R. Nash

Jacquelynn R. Nash