

**STATE OF NEW YORK
PUBLIC SERVICE COMMISSION**

Proceeding on Motion of the)	
Commission Regarding a Retail)	Case 03-E-0188
Renewable Portfolio Standard)	

**INITIAL COMMENTS
OF THE
NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.**

I. INTRODUCTION

The New York Independent System Operator, Inc. (“NYISO”) appreciates the opportunity to submit these Initial Comments in the New York Public Service Commission’s (“PSC”) Proceeding on Motion of the Commission Regarding a Retail Renewable Portfolio Standard (“RPS”).

The NYISO is the not-for-profit corporation established in 1999 to facilitate the restructuring of New York State’s electric industry. The NYISO is charged with administering New York State’s wholesale energy markets and operating the State’s high voltage electric transmission system. Last year, the NYISO handled \$5.2 billion in commerce in its wholesale energy and ancillary services markets, installed capacity markets, and transmission congestion contracts markets (referred to, collectively, as “Wholesale Electric Energy Markets” or “Markets”).

II. SUMMARY OF COMMENTS

The NYISO supports the goals expressed by the Commission in its February 19, 2003, Order Instituting Proceeding (“Order”). Those specifically enumerated goals include

reducing New York's reliance on fossil fuels, diversifying the state's fuel mix, improving New York's energy security, reducing the environmental impacts of electric generation, and reducing energy price volatility.

The Commission should, however, take into account in its final RPS implementation, design and time table the likely changes in operations that a significant increase in intermittent resources will require for the NYISO to ensure that the New York State's' high voltage electric transmission system remains secure and reliable. Such changes will probably be required because intermittent generating resources, which will be the principal type of resources likely to be constructed under an RPS, have significantly different and unique operating characteristics when compared to traditional generating resources. The costs of such modifications can vary greatly, depending upon the program design and implementation choices that the Commission will be making in this proceeding.

In order to evaluate what changes in existing procedures and market rules may be necessary to accommodate the RPS, the NYISO and NYSERDA have joined forces to evaluate the reliability implications of introducing significant amounts of intermittent generation. This joint study will provide necessary and valuable empirical information on the reliability implications of intermittent resources and on the mitigation opportunities available to a system operator, and market participants including renewable energy suppliers, to respond to significant intermittency on the system.¹ Initial results should be available by December 31, 2003. These study results should assist the NYISO in determining the kinds of changes in infrastructure, operating procedures, or market rules that will be necessary to accommodate an RPS.

¹ Study the Effects of Integrating Wind Power on Transmission System Planning, Reliability and Operations ("Wind Study"), Issued by the NYISO and the New York State Energy Research and Development Authority (NYSERDA), August 2003. The proposal can be found at www.nyseda.org/825rfp.html.

The NYISO also strongly urges the Commission to adopt an RPS framework that recognizes and is consistent with the existing Wholesale Electric Energy Markets in New York. Such RPS framework should also have the flexibility to accommodate these Markets' almost continual evolution. For example, an RPS should not hinder the NYISO's extensive efforts to reduce so-called "seams" or barriers to efficient energy trading between New York and its adjacent control areas. The NYISO is also concerned that the RPS not deter the needed development of additional non-intermittent generation in New York. An RPS could hinder the development of such non-RPS resources if it creates price signals or other economic incentives that exacerbate the already significant obstacles that all generation project developers currently face. Moreover, it is vitally important to the continued growth of competitive electric energy markets that the RPS framework adopted by the Commission encourage, rather than dissuade, the participation of existing and new energy service companies ("ESCOs") in New York's Wholesale Electric Energy Markets as well as in its retail markets.

These Initial Comments will address issues in the order provided for by Administrative Law Judge Eleanor Stein on June 10, 2003.

III. COMMENTS ON REVISED WORKING OBJECTIVES

NYISO agrees that the Working Target and Working Objectives, as enumerated in Judge Stein's May 2 memorandum to the parties, are legitimate public policy objectives that the Commission should address:

"Working Target: To guarantee that by 2013 at least 25% of the electricity retailed in New York will come from renewable resources.

1. New York's environment: improve New York's environment, by reducing air emissions, including greenhouse gas emissions, and other adverse environmental impacts on New York State of electricity generation.
2. Generation diversity: diversify New York State's electricity generation mix and improve energy security and reliability.
3. Economic development: develop renewable resources and advance renewable resource technologies in, and attract renewable resource generators, manufacturers, and installers to New York State.
4. Equity and economic efficiency: develop an equitable and economically efficient RPS requirement that minimizes adverse impact on energy costs.
5. Competitive neutrality: develop an RPS compatible with competition in energy markets in New York State.
6. Administrative fairness and efficiency: develop an RPS that is administratively transparent, efficient, and verifiable.”

The NYISO suggests that a seventh Working Objective be added, as follow:

7. Reliably efficient: develop an RPS requirement that mitigates potentially adverse impacts on reliability in an economically efficient manner and ensures a level of system reliability at least equal to that which exists today.

The results of the NYISO/NYSERDA Wind Study reliability evaluation should inform the Commission on Working Objective Two and on the proposed Working Objective Seven by identifying the impacts of an RPS upon energy security and reliability. The NYISO discusses the Wind Study, and suggests how to incorporate its findings and recommendations into this proceeding, in Part IX, below.

With regard to the Renewable Energy Technology and Environment Coalition (RETEC) proposal, the NYISO supports that portion which discusses the trading and tracking of Renewable Energy Credits (“RECs”) and takes no position on the balance of the RETEC recommendations.

IV. ELIGIBILITY

The NYISO takes no position on the RPS Baseline, Target Levels, Target Resource Eligibility, or Tiers.

V. OVERALL RPS STRUCTURE

A. Preferred Structure - Central or Individual Procurement, with rationale

The NYISO supports an individual, or load serving entity (“LSE”)-based, procurement requirement. Individual procurement would encourage competition among RPS Suppliers and LSEs and would avoid the introduction of quasi-governmental entities that could be insulated from the market forces that today guide both LSE purchase decisions and generator operating and investment decisions.

The NYISO urges the Commission to adopt a design that does not so burden individual LSEs that they are driven out of the market altogether. The RPS should ensure that new non-utility LSEs and those LSEs that are also Providers of Last Resort with regulated retail rates are treated equally. The Commission can mitigate any financial pressures that may result from imposing the RPS as an LSE requirement by designing an efficient, broad, liquid market for renewable credits with a reasonable, phased-in timetable for achieving full compliance.

IF the Commission determines that RPS resources should be centrally procured, the NYISO respectfully advises the Commission that it cannot fulfill the role of a central procurement agency.

During the earlier collaborative discussions in this proceeding, several parties proposed that the NYISO serve as the central procurement organization for RPS resources. These parties envisioned that any above-market costs for acquiring renewable resources could be recovered on a statewide basis through the NYISO's Rate Schedule 1 charge ("RS1").²

The NYISO is charged with the reliable operation of the New York bulk power system and the efficient administration of its wholesale electricity markets. The NYISO derives its entire authority to carry out these two functions from its Federal Energy Regulatory Commission ("FERC")-approved Market Administration and Control Area Services Tariff ("Services tariff") and Open Access Transmission Tariff ("OATT"), as well as from various FERC-approved organic agreements among and with the New York Transmission Owners³ and Market Participants.⁴

The NYISO is not authorized by the FERC to fund RPS-related premiums or other costs under its tariffs, and its organic Agreements.⁵

² The NYISO's operating costs, among other costs, are recovered from NYISO Market Participants on a \$ per Megawatt basis under Rate Schedule 1 of its Open Access Transmission Tariff ("OATT") and its Market Administration and Control Area Services Tariff ("Services Tariff").

³ Agreement Between New York Independent System Operator And Transmission Owners ("ISO-TO Agreement").

⁴ Independent System Operator Agreement ("NYISO Agreement").

⁵ ISO-TO Agreement, Section 3.0: Responsibilities of the ISO, NYISO Agreement, Article 6: Duties of the ISO

⁶ NYISO Agreement, Article 19. FERC approval is based on the powers that are conferred upon it by the Federal Power Act ("FPA").

The NYISO suggests that the Commission establish the collection of RPS-related premiums through a non-bypassable local distribution company (“LDC”) distribution charge.

B. Individual Compliance Determination of Participating Entities

Any RPS program adopted by the Commission must treat all participants consistently and in a non-discriminatory fashion and, to the greatest extent possible, minimize the obligations and burdens imposed on all LSEs. Thus, the NYISO urges the Commission to require all LSEs to share in the RPS obligation comparably, either by sharing the costs of centrally- procured resources or by requiring individual procurement.

VI. CREDIT TRADING

A. Consensus Issues

1. Establishment of New York-based Credit Trading System

The Parties appear to agree that New York should develop and deploy a Generation Attribute Tracking System (“GATS”), similar to that system now administered by the Automated Power Exchange in New England.⁷ As the name suggests, this system records and tracks a variety of generation attributes for each unit of output based on settlement data provided by ISO-New England. The system can be used to verify the creation, trading, and use of Renewable Energy Credits under an RPS, as well as to support New York’s Environmental Disclosure program and possibly NO_x and SO₂ Emission Trading systems.

The NYISO supports the development of a similar system in New York and is working informally with Market Participants and vendors such as Automated Power Exchange (“APX”) to attempt to develop the scope of a GATS requirement. Such a system

⁷In New England, the system is termed a Generation Information System (“GIS”), but the function is the same. APX currently administers the New England GATS under contract to NEPOOL.

should accommodate attribute-only trading, with or without an associated deliverability requirement.

The NYISO believes that attribute-only trading should be allowed with all adjacent control areas that provide reciprocal treatment. Where an adjacent control area does not currently permit attribute-only trading, the Commission should permit trading to begin automatically once such restrictions are lifted without the need for additional approvals.

Because larger markets tend to be more efficient than smaller ones, the NYISO opposes in principle the adoption of RPS rules intended to prohibit attribute trading with neighboring control areas. As discussed in greater detail below, the NYISO encourages and will support a collaborative effort with the regulators, ISOs, and regional transmission operators (“RTOs”) in adjoining regions to develop a set of principles for designing seamless attribute-only trading practices with New York’s neighbors.

2. Establishment of An Implementation Track

The NYISO supports the implementation track proposed by Judge Stein in her June 25, 2003, Summary of Working Group Discussions and stands ready to work with Department of Public Service staff and other interested parties to develop a workplan and schedule for completing the design of an effective GATS. As noted above, NYISO staff has met and will continue to meet with representatives of vendors of such services to better understand the information system and data transfer requirements that would be necessary to support a GATS system similar to the system in New England.

B. The Deliverability Requirement

There appears to be agreement among the parties that renewable attributes should be unbundled from renewable MWhs and that the two should trade separately within New

York State. A number of parties, including DPS Staff, however, believe strongly that renewable energy and attributes should only be imported into New York State with a strict deliverability requirement. Such an approach would effectively re-bundle attributes and energy for imports. Due to the inherent difficulty in ensuring the deliverability of energy from what are likely to be largely intermittent resources, the NYISO is concerned that a deliverability requirement for imports and exports will act as a *de facto* bar on such trades. Parties involved in the New England markets have asserted that the current deliverability requirement in NEPOOL effectively precludes the import of wind and other intermittent resources.⁸ The NYISO is currently involved in a number of major collaborative efforts with neighboring ISOs and RTOs that are intended to reduce or eliminate barriers to the interstate commerce of electricity in the Northeast. Such efforts to eliminate the “seams” between the region’s control areas are a high priority for all of the regions’ ISOs and RTOs. The NYISO has a significant concern that the adoption of a strict deliverability requirement would not only hamper existing efforts, but could result in the creation of an entirely new “seam” applicable to importing and exporting intermittent renewables.

The NYISO disagrees that an attribute-only or REC market can be efficiently operated in an isolated geographic area, i.e., in New York alone. A tenet of electricity deregulation is that broadly traded, liquid markets produce more efficient resource allocation and pricing. The electricity markets in New York have not operated in isolation from those of our neighbors, and neither should a New York REC market.

Importantly, a deliverability requirement would increase the costs of an RPS to New York States’ energy consumers. The DPS Cost Study confirms that a regional REC

⁸Comments of Select Energy in Massachusetts Department of Telecommunication and Energy, Case D.T.E. 03-62 at 7

market will reduce the costs of complying with the RPS, just as PSC studies have shown that efficient regional power markets will reduce energy costs.⁹ Other states have recognized this fact and support the move to regional attribute-only trading systems. Discussions with officials in New England, PJM, and Ontario all indicate a preference among those regions for a vibrant and liquid regional market for RECs – without a deliverability restriction.

While New England currently requires strict deliverability of energy associated with imported RECs, the NEPOOL GIS business rules specifically call for this restriction to be revisited if and when an adjacent control area adopts a compatible GATS system. This caveat was recommended for inclusion in the NEPOOL GIS rules by Massachusetts, whose Department of Energy Resources (“DOER”) adopted a strict RPS deliverability requirement, the language of which appears verbatim in the NEPOOL rules. The NYISO has received assurances from DOER officials that the Massachusetts strict deliverability requirement (which is embodied in regulation, not legislation) would likewise be revisited if New York were to adopt a comparable system supporting REC-only trading on a reciprocal basis. The other states in New England with an RPS, Connecticut and Maine would allow REC imports from New York if the NEPOOL GIS rules were changed.¹⁰

⁹“New York Renewable Portfolio Standard Cost Study Report” (“Cost Study”), Issued July 28, 2003 by DPS Staff. The DPS Cost Study goes on to note that while the RPS premium drops by \$50.6 million, wholesale energy prices rise by \$77.5 million, resulting in a net price increase for RPS compliance of \$26.9 million. As noted below, the NYISO has concerns that the Cost Study may significantly overstate the price suppression effects of in-state RPS resources. To the extent that this concern is well-founded, the benefits of a strict deliverability standard may be similarly overstated. In other words, the No Deliverability Requirement Sensitivity may erroneously conclude that strict deliverability provides net benefits.

¹⁰“Renewable Portfolio Standards, Background and Analysis for New York State”, Bob Grace, Sustainable Energy Advantage, Ryan Wisser, Mark Bolinger, Lawrence Berkeley National Laboratory, May 2002 at 24. Indeed, even without a change in the NEPOOL GIS rules, recent regulations proposed in Connecticut would allow sales of New York RECs into that state, provided that a corresponding amount of energy was delivered from the New York Control Area to the New England Control Area (see Notice of Intent to Adopt

Similarly, the only PJM state with a significant RPS - New Jersey - treats resources located in New York on a comparable basis with PJM resources and credits generated in New York are eligible for use in New Jersey. The PJM Working Group that is developing the PJM's GATS also supports REC trading without deliverability - if New York reciprocates:

In an effort to minimize seams issues and reduce certificate transaction costs, the system will allow for the import of certificates from neighboring regions that offer reciprocal treatment of PJM certificates. A system average shall be used in the absence of such a compatible system. Certificate transactions from incompatible systems can be allowed if appropriate verification measures are in place and the transactions are bi-lateral contracts.¹¹

The Ontario Independent Electricity Market Operator ("IMO") has reached similar conclusions.¹²

Comparable systems that allow for reciprocal treatment of traded attributes do not need to include identical RPS eligibility requirements. In other words, it is not necessary for New York and its neighbors to agree on which resources are "renewable" in order to have an effective interstate REC trading system. Instead, the GATS would keep track of all the resources' attributes and automatically ensure that only those that met a given state's RPS eligibility requirements could be used in that state. As a multistate entity, NEPOOL has already confronted this issue and the NEPOOL GATS system is designed to accommodate differing state eligibility requirements.

Failure to adopt a reciprocal trading policy could effectively foreclose New York renewable resources from meeting demand in neighboring states, stifling additional

Regulations, Docket 02-14-14 – DPUC Promulgation of Regulations for Renewable Energy Portfolio Requirements, July 16, 2003 at 5)

¹¹"GATS Concept Draft", PJM GATS Working Group, June 2, 2003 at 6.

¹²Case 03-E-0188, Proceeding on Motion of the Commission Regarding a Retail Renewable Portfolio Standard, Memorandum to the Members of Working Group 4, May 14, 2003 at 1,2.

renewable construction in the state and precluding associated economic development and air quality benefits.

Finally, the Commission should consider New York's central location in the regional market and the possible regional consequences of adopting a strict deliverability standard. If, as many trading proponents including the NYISO have proposed, REC-only trading is allowed only with electrically adjacent ISOs or RTOs, a strict deliverability standard for imports into New York could significantly reduce region-wide trading. All of our neighbors offering reciprocal REC trading with New York are electrically interconnected with one another primarily through New York. While regional interstate REC-only trading rules have not yet been defined, it is possible that New York's adoption of import standards that require deliverability could create a hole in the middle of the region and limit the availability of regional REC trading.

Rather than require a strict deliverability standard that precludes renewable imports and possibly jeopardizes regional markets, the NYISO recommends that the Commission develop criteria, similar to those proposed by RETEC (with a reciprocity requirement) under which interstate trading of RECs would be allowed. In parallel, the NYISO recommends that the regional ISOs and RTOs work together with Market Participants to design a regional trading system that meets those criteria and permits cross-border REC trades. This process could be similar to the Resource Adequacy Model ("RAM") process now ongoing to create a regional market for capacity/resource adequacy.¹³

¹³ See discussion of the RAM process at http://www.nyiso.com/services/documents/groups/mgmt_comm/09_17_03/agenda_09_ramupdate.pdf

C. Other Open Issues

1. Accounting Issues

NYISO supports the use of annual accounting periods to allow shortfalls in RPS procurements in one season to be offset by excess production in others and to generally reduce the burdens imposed on LSEs. If a shorter accounting period is adopted, the NYISO supports the banking of credits between quarters. At the end of a trading year however, all unused certificates should be returned to the residual mix to ensure that The system mix appropriately reflects the fuels actually used during the prior year.

While New England currently uses a quarterly accounting period, the NYISO understands that the issue is being revisited and that there is significant support for the move to an annual accounting period. The NYISO also understands that PJM and Ontario contemplate using annual accounting periods.

2. Administrative Issues

The NYISO is presently considering whether it could serve as the Administrator of a New York GATS system, in the same way that NEPOOL fills that role in New England. Should the NYISO serve as the GATs Administrator, GATs-related should costs be funded out of the System Benefits Charge (“SBC”) administered by NYSERDA. NYSERDA currently funds the NYISO’s participation in disclosing to retail customers the fuel-types used by their retail electric suppliers in providing them with electricity.

3. Financial Issues

The NYISO takes no position on this issue.

4. Credibility Issues

The NYISO believes that with the support of environmental organizations and appropriate marketing, the public will understand that an attribute-based, REC trading system, without strict deliverability standards, most efficiently fulfills the goals of an RPS. The Commission should not adopt restrictive trading rules solely in response to concerns that the RPS would otherwise not be a credible program. Similar concerns were raised during debates about the use of conversion transactions to strip environmental attributes from energy sales in the NYISO markets for environmental disclosure purposes. Since then, environmental supporters assert that credibility fears have largely been dispelled and former opponents among environmental groups now support the unbundling and separate trading of RECs, both inside New York, and with its neighbors.¹⁴

5. Banking and Borrowing

Absent banking, a quarterly accounting period could make it very difficult for LSEs to offer a 100% wind product, since shortfalls in one quarter could not be made up in another. As noted above, if an annual accounting period is not adopted, the RPS should allow limited banking of RECs from one quarter to the next.

6. Compatibility with Other Jurisdictions

As noted previously, New York should strive to adopt an RPS and accounting/tracking system that is compatible with adjacent control areas. Such compatibility will facilitate the trading of RECs and reduce the likelihood that the RPS will create additional barriers to regional commerce.

¹⁴ RETEC Proposal at 2.

VII. CONTRACTING STANDARDS

A. The Role of Long-Term Contracts

- 1. Necessary Duration for Developers**
- 2. Financial Risk Management for Load Serving Entities**
- 3. Proposal for Pilot or Interim Requirement for Early Long-term Contracts**

The NYISO has no comments on these issues.

B. Establishment of Contracts

- 1. Model/Template Contracts or Individual Negotiations**
- 2. Preferable Contract Types:**
 - a) Power Purchase**
 - b) Attributes Only**
 - c) Installed Capacity**

C. Features of Bilateral Contracts

- 1. Qualification and Verification of Resource Eligibility and Attribute Tracking.**
- 2. Structure and Length**
- 3. Fixed premium or Contract for Differences**
- 4. Pricing**
- 5. Other**

NYISO takes no position on the contracting issues generally and defers to renewable suppliers and LSEs to express their respective contract needs. The NYISO does have a concern with the potential impact of certain contract structures on the incentives faced by renewable resources and the potential impact of those incentives on the reliable and efficient operation of the wholesale power markets.

Staff's Cost Study and the RETEC proposal both discuss using a form of a Contract for Differences ("CFDs"). These contracts do not appear to be the same sort of CFDs that are presently utilized for bilateral energy transactions in the NYISO markets. In traditional CFDs, suppliers have an incentive to produce when their incremental costs are below market energy prices and to purchase supplies to meet their obligation from the energy markets when their incremental costs exceed market prices. The contracts proposed so far

in this proceeding appear to be a “hybrid CFDs” or a contract that pays the resource the difference between the LBMP and the total contract amount. This results in a variable premium or subsidy that floats with changes in LBMP revenues.

This structure insulates the RPS resources from the normal incentives provided by CFDs to produce when LBMPs are higher than the resource’s incremental production costs, and to cease production when LBMPs fall below production costs. Exacerbating the NYISO’s concern about the incentives provided by some contract structures is the fact that a significant percentage of the RPS resources could be located west of the Central-East constraint, where most of New York’s lower incremental cost generating units are located. According to the NYISO’s 2003 Load and Capacity Data report, 3,008 MW of coal, 3,103 MW of nuclear, and 3,537 MW of hydropower resources are located in the western New York Zones A-D. Most of this 9,648 MW is relatively low cost, with hydro resources having essentially zero or even negative incremental costs. These resources can reasonably be expected to bid into the NYISO’s energy markets as “price takers” with very low energy bids.

The addition of another 2,000 MW of low incremental cost RPS resources in the same region will place further downward pressure on Western New York LBMPs. In an effort to get their units scheduled, however, it is possible that RPS resources might be forced to submit negative bids. While this would not affect RPS resources if their contracts provide a “floating premium” that varies with LBMPs, it could have an adverse impact on other price takers. Negative bids can send the energy price negative and require energy suppliers to pay load to take power. The NYISO encourages the Commission to avoid

contract designs that insulate RPS suppliers from routine market forces or that provide perverse operating incentives.

The Commission should also adopt an RPS procurement mechanism that reflects market forces. Such a mechanism should seek to minimize overall REC program costs rather than just the REC premium alone. Moreover, all RPS costs should be transparent to retail end use customers through, for example, a separate RPS cost line on retail billings. The NYISO also encourages the Commission to adopt mechanisms that encourage new RPS suppliers to locate in areas where additional energy is most needed and to operate when prices are highest. While structuring the contracts in this way could shift some timing and locational risks to RPS developers (since resource location and timing are often dictated by resource availability) and could result in higher RPS premiums, it would better allocate the risks between RPS developers and the owners and developers of non-RPS resources.

VIII. COST AND BENEFIT CONSIDERATIONS

The NYISO is concerned with the DPS's RPS Cost Study's ("Cost Study") assumption of robust capacity additions from non-RPS generating capacity. Overly optimistic capacity projections can understate the future cost of energy. While the Cost Study reports that its assumptions are based on the most recent (year 2002) State Energy Plan, these assumptions may overstate current capacity expansion expectations, given the recent financial setbacks in the energy markets.

While it is not clear from the Cost Study itself, the NYISO has assumed that the Cost Study uses the State Energy Plan Reference Forecast for Supply Additions. This

scenario assumes that 7,139 MW of new capacity is placed into operation between 2002 and 2006. These new resources include 5,224 MW of Article X projects, 1,000 MW of firm capacity from facilities located outside New York State, 693 MW of small scale generation under construction in New York City and on Long Island, and 222 MW of projects through the SBC program.

While this assumes only about half of the plants that have filed for Article X certificates will be developed, even this level of new development may be optimistic given the financial considerations in the energy market today. As indicated in its most recent Power Alert III Report, the NYISO is not optimistic that much of this development will occur without significant actions by New York State, not the least of which is the reenactment of the now-lapsed Article X siting law:

“The future outlook for adequate, efficient and environmentally friendly generation is bleak. After the current construction “bubble” of 2,500 - 3,500 MW is completed, there is little evidence that serious consideration is being given to additional new generation in New York State, New York City, or on Long Island. This dim outlook is due to a confluence of factors, which combine to produce market uncertainty and paralysis. The major negative drivers are:

- The expiration of New York’s Article X Siting Law.
- Market rule uncertainty (typical of evolving wholesale markets) does inhibit investment. Opposition to the Federal Energy Regulatory Commission (FERC) Standard Market Design (SMD) Order and pending federal energy legislation is adding considerably to market uncertainty.
- The ENRON disclosures and the subsequent severe financial problems of merchant generation companies, effectively eliminating near-term financing of new merchant projects, including those that hold siting permits.
- Problems in New York (and the region’s) wholesale capacity markets and the institutional difficulties of entering into long-term power supply contracts further restrict generation developers’ and end use suppliers’ options.
- Up until now, the New York wholesale electricity markets, in particular, the real-time wholesale energy markets, have not

provided adequate or consistent price signals during periods of scarcity when short supply should be accompanied by appropriately higher prices.

- New state emissions standards may cause the retirement of existing generating facilities.”¹⁵

The addition of significant RPS capacity may exacerbate this bleak outlook for fossil-fuel-fired units if new RPS capacity further reduces Western New York State LBMPs. While RPS resources may receive revenue stream guarantees sufficient to remain profitable, non-RPS resources are not similarly assured. The risk, if not the actuality, of additional renewable resources lowering market prices for all generators will add yet another negative driver to those noted above.

The Cost Study also assumes additional generation will be added after 2006, as necessary, to maintain required reserve levels. The Cost Study indicates, “moderate changes to (sic) non-renewable capacity expansion mix are reflected in the MAPS runs to address the proportionately higher operating reserve requirements of a high-renewables mix.” (Cost Study at 13.) These and other modeling changes made to accommodate RPS resources, such as “upstream transmission upgrades”, should be detailed and the Cost Study should indicate what assumptions have been made with regard to increased reserve requirements.

The Cost Study could also provide valuable additional information if it examined the potential for the retirement and/or delay of fossil-fired capacity and the potential impacts that this could produce in the energy, capacity, and ancillary services markets.

¹⁵ NYISO Power Alert III at page 11.

IX. OTHER ISSUES - RELIABILITY

As mentioned earlier, NYSERDA and the NYISO are jointly conducting an evaluation of the effects of intermittent resources on system operation and reliability. This evaluation will model wind-fueled generation with the expectation that wind will be the single largest source of RPS-eligible new generation. The study is in two phases. In the first phase, the study will assess whether the New York power system has adequate resources to reliably incorporate and deliver a large amount of wind-generated power. This assessment is scheduled to be completed by December 31, 2003.

Phase II is a more detailed system performance evaluation of the impact of large-scale wind generation on the New York transmission system. Phase II research will indicate what modifications to existing procedures are necessary to reliably accommodate new wind generation on the New York transmission system. Reliable accommodation includes maintaining NYISO compliance with Northeast Electric Reliability Council (“NERC”), Northeast Power Coordinating Council (“NPCC”), and New York State Reliability Council (“NYSRC”) reliability standards, criteria and rules for planning and operation of the New York Power System. The NYISO and NYSERDA will also be evaluating the extent to which the addition of significant intermittent resources may require changes to market design rules and procedures. Phase II results will not be available until October 1, 2004.

The initial phase of the evaluation will highlight the reliability implications of intermittent generation, and identify any potential need to mitigate those implications. This information, together with the initial Recommended Decision in this case, will provide an opportunity for the parties to better frame and comment upon the remaining issues.

X. CONCLUSION

For the foregoing reasons, the NYISO urges the Administrative Law Judge to adopt the recommendations for an RPS program described in these Initial Comments.

Respectfully submitted,

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