

October 18, 2011

ELECTRONICALLY SUBMITTED

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

Re: New York Independent System Operator, Inc.'s Supplement to Second Informational Report on Efforts to Develop Rules Addressing Compensation to Generators that Are Determined to be Needed for Reliability;
Docket No. ER10-2220-____.

Dear Secretary Bose:

On October 7, 2011 the New York Independent System Operator, Inc. ("NYISO") submitted its *Second Informational Report on Efforts to Develop Rules Addressing Compensation to Generators that Are Determined to be Needed for Reliability* ("Second Informational Report") in accordance with paragraph 54 and ordering paragraph "(C)" of the Federal Energy Regulatory Commission's ("Commission") October 12, 2010 Order On Proposed Mitigation Measures in Docket No. ER10-2220-000 ("Order").¹ Attached to the Second Informational Report were two sets of comments on the Independent Power Producers of New York's ("IPPNY's") *Reliability Compensation Proposal*. It has subsequently come to the NYISO's attention that the New York Transmission Owners, Long Island Power Authority ("LIPA") and the New York Power Authority ("NYPA") collectively submitted comments that the NYISO should have attached to its Second Information Report. The NYISO hereby submits this Supplement to the Second Information Report ("Supplement") containing the additional set of comments to be included in the Second Informational Report as Attachment C1. **In footnote 44 of its Order the Commission stated that it does not intend to issue public notices, accept comments, or issue orders on this Informational Report.**

¹New York Independent System Operator, Inc., 133 FERC ¶ 61,030.

I. Documents Submitted

1. This transmittal letter; and
2. One set of comments on the IPPNY proposal submitted by the New York Transmission Owners, LIPA and NYPA (“Attachment C1 to Second Informational Report”).

III. Service

The NYISO will send an electronic link to this Supplement to the official representative of each of its customers, to each participant on its stakeholder committees, to the New York Public Service Commission, to all parties listed on the Commission’s official service list in this Docket and to the New Jersey Board of Public Utilities. In addition, the complete filing will be posted on the NYISO’s website at www.nyiso.com.

IV. Conclusion

The NYISO respectfully submits this Supplement to the Second Informational Report in compliance with the Commission’s Order.

Respectfully submitted,

/s/ Alex M. Schnell

Rana Mukerji, Senior Vice President of Market Structures

Robert E. Fernandez, General Counsel

Shaun Johnson, Manager of Energy Market Products

Alex M. Schnell

New York Independent System Operator, Inc.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding in accordance with the requirements of Rule 2010 of the Rules of Practice and Procedure, 18 C.F.R. §385.2010.

Dated at Rensselaer, NY this 18th day of October, 2011.

/s/ Joy Zimmerlin

Joy Zimmerlin
New York Independent System Operator, Inc
10 Krey Blvd.
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Attachment C1

August 31, 2011

Comments on IPPNY Proposal on Reliability Compensation

Submitted on Behalf of the New York Transmission Owners, LIPA and NYPA

The IPPNY proposal is seriously flawed in the following respects:

1. The IPPNY proposal is fundamentally inconsistent with the rationale provided for its adoption. In support of its proposal, IPPNY describes a situation in which a generator has given notice of its intention to retire, as required by the PSC order; the generator is losing money; the generator has been found to be needed for reliability; and the generator is ordered to continue to operate at a loss during the remainder of the retirement notice period. But the specific provisions of the IPPNY proposal for out-of-market contracts are not limited to the circumstances used to justify the proposal.
2. Under the IPPNY proposal, a FERC filing for an out-of-market, cost-based contract would be based on a confidential reliability study funded by the generator, and prior to a public retirement notice. However, any study that would serve as the basis for an out-of-market contract affects the interests of all market participants and should not be conducted on a confidential basis. A study that could serve as the basis for an out-of-market contract should be conducted by the NYISO after the submission of a retirement notice, so that all market participants are aware of the pending generator retirement and that the NYISO is conducting a reliability study and may be seeking alternative reliability solutions.
3. Under the IPPNY proposal, a generator would have the right to unilaterally make a filing under Section 205 of the Federal Power Act to request an out-of-market, cost-based contract with the NYISO. However, a filing for an out-of-market contract with the NYISO should be made by the NYISO and pursuant to the relevant requirements of the NYISO's tariffs.
4. The IPPNY proposal does not explain its relationship to existing provisions in Attachment Y of the NYISO's OATT. Any procedure for an out-of-market contract with the NYISO should be integrated into the NYISO's reliability planning process, including: tariff provisions related to the determination of a reliability need by the NYISO; the process for securing a market-based, regulated backstop, and alternative regulated solutions, including transmission, generation and demand response

resources, to meet an identified reliability need; and the Gap Solution process.

5. The IPPNY proposal fails to distinguish between providing payments to ensure that a specific generating facility that is needed for reliability does not retire versus providing payments that ensures that a particular generation owner does not file for bankruptcy and/or has otherwise exhausted all of its financial options.
6. The IPPNY proposal provides for the retiring generator to seek a full cost-of-service contract prior to any determination being made as to whether a contract with the generator is the preferred Gap Solution or permanent reliability solution. A generator should not be entitled to any out-of-market payment until and unless it is determined under the NYISO's planning process to be the preferred Gap Solution or permanent solution to the reliability need.
7. The proposal fails to address the position expressed by PSC staff and other market participants that the retirement notice requirement is an obligation assumed by New York generators, subject to the PSC regulation, and that no out-of-market compensation is warranted during the retirement notice period.
8. IPPNY's proposal would create opportunities for gaming, in that a generator could submit its retirement notice in order to receive supplemental payments, only to withdraw its retirement notice once it was no longer needed for reliability. As noted, a retiring generator should not be entitled to any out-of-market compensation unless it is selected as the Gap Solution or permanent reliability solution, and if a generator that has submitted its retirement notice subsequently decides not to retire, it should be required to reimburse the NYISO for the cost of the reliability study.

Accordingly, for the reasons set forth herein, the IPPNY proposal should be rejected.