

October 15, 2010

VIA ELECTRONIC MAIL

Hon. Jaclyn A. Brillling, Secretary
Public Service Commission of the State of New York
Three Empire State Plaza
Albany, New York 12223-1350

Subject: Case 10-E-0285 – Proceeding on Motion of the Commission to Consider
Regulatory Policies Regarding Smart Grid Systems and the
Modernization of the Electric Grid

Case 09-M-0074 – In the Matter of Advanced Metering Infrastructure.

Dear Secretary Billing:

Enclosed for filing on behalf of the New York Independent System Operator (“NYISO”) in the above-entitled proceedings are the Reply Comments of the New York Independent System Operator on Questions for Smart Grid Policy. The NYISO will electronically serve all active parties in these proceedings with a copy of this letter and its reply comments.

Should you have any questions, I can be reached at the above address, by phone at (518) 356-6220, or by e-mail at cpatka@nyiso.com.

Very truly yours,

/s/ Carl F. Patka

Carl F. Patka
Assistant General Counsel
New York Independent System Operator, Inc.

cc: Active Party Lists in Case 10-E-0285 and Case 09-M-0074.

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 10-E-0285 — Proceeding on Motion of the Commission to Consider Regulatory Policies Regarding Smart Grid Systems and the Modernization of the Electric Grid.

CASE 09-M-0074 — In the Matter of Advanced Metering Infrastructure.

**Reply Comments of the New York Independent System Operator
on Questions for Smart Grid Policy**

The New York Independent System Operator (“NYISO”) respectfully submits these reply comments in the above-captioned proceedings.

I. Background

On July 16, 2010, the Public Service Commission of the State of New York (“Commission”) commenced a proceeding on smart grid issues through its Order Instituting Inquiry into Smart Grid (“Order”).¹ In this Order, the Commission indicated that the Commission, electric utilities and other stakeholders across New York State are looking to realize the promise of the smart grid to improve electric service for ratepayers in a manner that maximizes value to consumers without incurring unnecessary costs.² The Commission stated that before significant further investments are made in smart grid technologies, the Commission wishes to establish appropriate regulatory policies that will encourage electric utilities to develop smart grid systems and integrate new technologies while making efficient use of existing facilities and resources, “and producing equitable rates for electric consumers.”³ The

¹ *Order Instituting Inquiry Into Smart Grid*, Case 10-E-0285 & Case 09-M-0074 (July 16, 2010) (“Order”).

² *See id.* at pp. 1-2.

³ *Id.* at p. 2.

Commission posed a series of questions regarding the development of the smart grid in nine subject areas and requested that interested parties provide comments.⁴

On September 17, 2010, the NYISO submitted initial comments in this proceeding, along with a whitepaper entitled “Envisioning a Smarter Grid for New York Consumers.”⁵ In its initial comments and whitepaper, the NYISO expressed its support of the Commission’s process and set forth its vision for the implementation of the smart grid in New York State.⁶ The NYISO indicated that it envisions the implementation of the smart grid as a collaborative effort by the Commission, policy makers, industry, and academia to develop and integrate smart grid technologies and programs in New York State: (i) to provide consumers with more control over their energy use and opportunities for energy costs savings, (ii) to enhance grid reliability, security, and efficiency, and (iii) to improve the management of intermittent resources and other non-traditional resources within the grid. The NYISO recommended that the smart grid should be implemented in a methodical manner that is sensitive to the fact that consumers will bear many of the implementation costs, that provides clear benefits to consumers, that assists in the accomplishment of key state goals (e.g., lower energy costs; reduced carbon emissions), and that provides for, but does not mandate, consumer participation in dynamic electricity pricing programs. Moreover, the NYISO recommended that the development and implementation of smart grid technologies and programs that aim to provide consumers with more control over their energy use should be driven, to the maximum extent possible, by private investment that reacts to market price signals. Markets will send the right price signals to consumers to install the

⁴ See *id.* at pp. 8 -15.

⁵ *Initial Comments of the New York Independent System Operator on Questions for Smart Grid Policy*, Case 10-E-0285 & Case 09-M-0074 (September 17, 2010) (“NYISO Initial Comments”).

⁶ See *id.* at p. 2; see also *Envisioning a Smarter Grid for New York Consumers* (attachment to NYISO Initial Comments) at pp. 1-9.

equipment and participate in the programs that assist consumers in using energy more efficiently and cost effectively. In this manner, certain implementation costs and risks will be borne by private investors and interested consumers, rather than ratepayers generally.

II. Reply Comments

The NYISO has reviewed the initial comments of the other parties in this proceeding and notes that the Commission's questions have provoked a great deal of initial thoughts and ideas on how to address smart grid implementation. The comments reflect a general consensus in support of moving forward with the development and incorporation of smart grid technologies and programs in New York State. The NYISO notes, however, that the initial comments evidence divergent opinions regarding the best approach and timeframe for developing and incorporating certain smart grid technologies and programs in New York State and notable differences of opinion exist as to the appropriate technologies, programs, and standards that should be applied.

As indicated in its initial comments, the NYISO suggests that the best approach for resolving these divergent opinions is the creation of a more extensive stakeholder proceeding that would further explore the issues raised in the Order and in stakeholders' comments.⁷ Given the breadth and scope of the questions and their implications for rate making, bulk power system operations, retail level program implementation, research and development, market design, public outreach, and education, among other areas, the NYISO believes that the Commission's questions and stakeholders' comments should be the beginning of a larger process, rather than the completion of a record that will lead directly to the issuance of a policy statement. A more extensive stakeholder process would enable the Commission to formulate a consistent, informed

⁷ See NYISO Initial Comments at pp. 5, 9-11.

policy going forward and would aid the Commission in avoiding costly false starts and missteps that may arise through the implementation of inappropriate or outdated smart grid technologies and programs.

The NYISO suggests, therefore, that following the receipt of reply comments in this proceeding, the Commission issue a procedural order to commence a stakeholder proceeding to fully explore the issues raised in the Order and in stakeholders' comments. These complex issues warrant a full exposition in a generic proceeding overseen by a settlement judge. The process of determining the scope and form for the proceeding would alone require the work of a skilled neutral.

Although the details would have to be worked out by the Commission and a settlement judge, the NYISO envisions a series of procedural conferences, followed by technical conferences that include experts on smart grid to provide the best thinking on these evolving issues. As with other policy proceedings, a logical step would be to establish working groups composed of subject matter experts and stakeholders. The working groups would produce work papers and proposals, which would lead to a series of joint proposals and recommendations by the judge to the Commission. The Commission's nine categories of questions already provide a good starting point for the delineation of these working groups. Finally, a round of briefing to the Commission regarding the proposals, in support and on exception, and opposing exceptions, will likely be needed to complete the record in this proceeding.

The time and effort associated with a more extensive proceeding will not prejudice the implementation of the smart grid in New York State. Rather, it will enable the Commission and stakeholders to fully consider the highly complex issues related to the implementation of the smart grid and to formulate a detailed, informed approach going forward, while avoiding costly

false starts and missteps. As the Order points out, smart grid projects are already proceeding under the aegis of the Smart Grid Investment Grant Program and the PSC's orders approving matching funds and establishing conditions for those projects.⁸ Proceeding with the stakeholder proceeding in parallel with these projects will allow the Commission and stakeholders to learn from the successes and challenges presented by these projects, as well as smart grid initiatives unfolding elsewhere in the U.S. and internationally. For its own part, the NYISO will continue to develop market design enhancements that enable smart grid technologies, such as energy storage facilities, and that send the right price signals for private investment in such technologies. Moreover, the introduction of a more extensive stakeholder proceeding should not prevent the Commission from moving ahead with smart grid investments and pilot programs that it determines are prudent and that could inform the statewide policies ultimately adopted by the Commission.

III. Conclusion

The NYISO respectfully requests that the Commission consider these comments as it makes its determinations in this proceeding.

Respectfully submitted,

/s/ Carl F. Patka

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October 15, 2010

⁸ See Order at pp. 2-5.

CERTIFICATE OF SERVICE

I hereby certify that I am over the age of eighteen years and that pursuant to the rules for service in the above captioned proceedings established by the Secretary of the Commission, I served on October 15, 2010, the Reply Comments of the New York Independent System Operator on Questions for Smart Grid Policy upon the parties on the service list established for the above-captioned proceedings by electronic mail.

/s/ Joy A. Zimmerlin

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