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May 2, 2011

SENT VIA ELECTRONIC FILING

Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Room 1-A209
Washington, D.C. 20426

Re: Docket Nos. RM11-7-000, AD10-11 - Frequency
Regulation Compensation in the Organized
Wholesale Power Markets

Dear Secretary Bose:

For filing, please find the Notice of Intervention and 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

Attachment

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

| | | |
|-----------------------------------|---|------------------------|
| Frequency Regulation Compensation |) | Docket Nos. RM11-7-000 |
| in the Organized Wholesale |) | AD10-11-000 |
| Power Markets |) | |

NOTICE OF INTERVENTION AND COMMENTS
OF THE NEW YORK STATE
PUBLIC SERVICE COMMISSION

BACKGROUND

On February 17, 2011, the Federal Energy Regulatory Commission (FERC or Commission) issued a Notice of Proposed Rulemaking (NOPR) that seeks to address concerns that existing forms of compensation for frequency regulation service providers are not just and reasonable. As the FERC indicates, new technologies have emerged, such as flywheels and large-scale battery systems, which are capable of providing frequency regulation services more accurately than traditional generation resources. However, the Commission points out that the existing forms of compensation in organized wholesale electricity markets "may not acknowledge the inherently greater amount of Area Correction Error (ACE) correction being provided by [these] faster-ramping resources."¹ The Commission, therefore, proposes

¹ NOPR at ¶2.

to adopt a compensation mechanism for providers of regulation service that includes a uniform price for all regulation capacity that clears the market, and a performance payment that reflects a resource's accuracy of performance.

NOTICE OF INTERVENTION

The New York State Public Service Commission (NYPSC) hereby submits its Notice of Intervention and Comments pursuant to the NOPR published in the Federal Register on March 1, 2011, and Rule 214 of the Commission's Rules of Practice and Procedure. Copies of all correspondence and pleadings should be addressed to:

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DISCUSSION

The NYPSC supports the Commission's initiative to address existing forms of compensation for frequency regulation service providers. We recognize that new technologies with faster ramping capabilities may improve operational and economic efficiency of the transmission system, and have the potential to lower costs to consumers. Moreover, this service may become

increasingly important as more variable energy resources enter the marketplace.

We recognize the potential value in the Commission's proposal to provide compensation based on the performance of a resource. Currently, the New York Independent System Operator, Inc. (NYISO) takes into account the accuracy of a frequency regulation service providers' response, for purposes of compensation, but does not recognize the speed in which a resource responds or the distance it moves in responding (referred to as "mileage").

Although we support the concept of "mileage payments," it is currently unclear how such payments would be structured and integrated with the NYISO's co-optimization algorithm. It is also uncertain what the cost and benefits of any proposed changes to the compensation mechanism would be within the NYISO. Furthermore, because different markets currently procure and compensate regulation service in unique ways, this does not appear to be a case where a "one size fits all" approach is necessarily warranted. We therefore recommend that the Commission await the outcome of stakeholder discussions before taking final action on the NOPR.

CONCLUSION

In accordance with the foregoing discussion, the Commission should provide an opportunity for the NYISO's market participants to fully vet the costs, benefits, and other implications associated with the compensation mechanism identified in the NOPR. The Commission should require the NYISO to file a compliance filing conveying the results of those stakeholder discussions in order to better inform the Commission's decision-making in this proceeding.

Respectfully submitted,



Peter McGowan
General Counsel
Public Service Commission
of the State of New York

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Dated: May 2, 2011
Albany, New York

