

**UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON ENERGY AND RESOURCES**

Oversight Hearing: “Can the US Electric Grid Take Another Hot Summer?”

Testimony of Mark S. Lynch

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Introduction

Good afternoon, ladies and gentlemen. My name is Mark S. Lynch, and I am the President and Chief Executive Officer of the New York Independent System Operator, or the NYISO. I appreciate this opportunity to appear before the Subcommittee on Energy and Resources in connection with this hearing regarding the reliability of the US electric grid and the issues highlighted in the Federal Energy Regulatory Commission's "Summer Energy Market Assessment 2006," ("Summer Assessment") issued on May 18 of this year.

Immediately prior to coming to the NYISO, I was Vice President of the Atlanta-based Mirant Corporation where I served as President of Mirant New York and Mirant New England. My experience at Mirant included various aspects of electric generation and transmission. I also served as Vice President of Power Generation and Delivery for Mississippi Power Company, and Vice President of Southern Energy. Before becoming Vice President, I held domestic and international Project Director positions with Southern Energy. I am a graduate of Villanova University with a B.E.E. in Electrical Engineering.

NYISO Background

The NYISO is a not-for-profit organization formed in 1998 as part of the restructuring of New York State's electric power industry. Our mission is to ensure the reliable, safe, and efficient operation of the State's major transmission system and to administer an open, competitive, and nondiscriminatory wholesale market for electricity in New York State. In 2005, the NYISO administered over \$11 billion in wholesale electric market transactions. As you know, we are pervasively regulated by the Federal Energy Regulatory Commission ("FERC"). As provided in the Federal Power Act, we are also regulated by the New York State Public Service Commission with respect to certain financings.

The fundamental importance of system reliability is highlighted in New York State as home to one of the world's most important financial and communication centers. Accordingly, it is appropriate for an inquiry into electric system reliability in New York State to focus in particular on the metropolitan area that includes New York City and Long Island, as the Summer Assessment does. Furthermore, given the long lead time required to develop generation and transmission resources, a clear understanding of the reliability concerns of New York requires consideration of both the near-term and longer-term issues confronted by the State.

On a related note, I would like to take this opportunity to express our gratitude for how quickly FERC, under Chairman Kelliher, has responded to the Energy Policy Act of 2005 and moved toward mandatory reliability rules for the electric utility industry.

2006 Summer Assessment

As you know, the Summer Assessment deals with those geographic areas and issues of particular interest to the FERC's Office of Enforcement for the summer of 2006. After reviewing the report, we generally agree with the Office of Enforcement's findings as they pertain to New York and the potential risks to be addressed this summer.

It is important to note that the NYISO and its predecessor in operating the New York State bulk electric system, the New York Power Pool, have a long history of interregional coordination and mutual assistance through operational coordination agreements with our neighboring control areas--which include ISO-NE, PJM, and the Canadian provinces of Ontario and Quebec. These agreements are fundamental to the overall reliability of the region and have proven very effective in allowing control area operators to manage system contingencies and respond promptly to system emergencies. By way of example, there were 11 instances between

2004 and 2006 in which the NYISO provided emergency assistance to a neighboring control area.

New York State's generation resources currently meet all applicable standards. These standards specify the amount of generating capacity that must be available to New York State. From these requirements, the NYISO also calculates locational requirements for the State's most transmission-constrained areas, New York City and Long Island. Sufficient generation resources exist in both of these locations to satisfy the locational requirements determined by the NYISO for summer of 2006.

In fact, the outlook for both New York City and Long Island is improved for this summer as compared to last year. As identified in the Summer Assessment, the recent addition of 1000MW of new generating capacity in New York City has helped to alleviate reliability and pricing concerns, though high fuel costs and high demand could still yield relatively high energy prices there this summer. Long Island has benefited from the operation of its submarine cable interconnection with New England, and we are grateful for the assistance of the US Department of Energy in facilitating the operation of that facility. Additional benefits will be achieved when the planned Neptune cable between PJM and New York is completed.

It is important to note that, notwithstanding an overall positive outlook for the summer, recent unplanned outages on two major subterranean transmission cables into New York City occurred following the issuance of the Summer Assessment. These outages, which are expected to continue until early to mid-August, have added to the challenges of dealing with summer demand in New York City. The NYISO has worked with Con Edison, the local utility that owns the cables, to implement plans to address this situation, including coordination with neighboring PJM to address various operating contingencies. The new generating capacity that has been

brought online in New York City has been helpful in dealing with this situation and the city continues to meet all applicable reliability criteria. However, the possibility for voltage reductions or controlled, localized load shedding remains somewhat elevated under extreme weather or the loss of additional facilities.

Longer-Term Outlook

While responsibility for the reliable operation of the New York State bulk electric system is of primary importance on a day-to-day basis, the NYISO is equally concerned with providing the appropriate market signals to attract investment in energy infrastructure improvements needed to meet the future demand for electricity.

In addition to the operational coordination agreements noted above, the NYISO also has in place a number of standing agreements with neighboring control areas to address various longer-term issues such as inter-regional planning issues and so-called “market seams” issues. Significant progress has been made under these agreements in harmonizing market rules and practices, improving communications, and facilitating cross-border transactions which have improved both reliability and market efficiency throughout the Northeast.

In 2005, the NYISO conducted the first in a series of annual studies as part of its Comprehensive Reliability Planning Process. This is a collaborative and transparent process, involving all stakeholder sectors and open to all resources, including demand-side resources, to meet the future reliability needs of New York State. Through this Comprehensive Reliability Planning Process, the NYISO has developed a ten-year plan, to be updated annually, which addresses the long-term reliability needs of the New York State bulk power system. The first draft report recently issued by the NYISO identifies future reliability needs and finds that the

resources needed to address them are either planned or under development. The draft report also identifies issues and potential risks and provides an action plan to address those issues.

Electric Markets and Reliability

Of course, an important question to be considered is whether the wholesale electric markets in New York State support and encourage investment in new generation facilities where they are needed most. While the NYISO-administered markets have only been in operation for a relatively short time, the answer so far is a resounding “yes.”

The location-based approach to pricing energy and capacity in the NYISO markets provides detailed price signals about where additional generation is needed and the likely economic value of that generation. This has proven very effective in attracting developers proposing new generation projects in New York. Since the inception of the NYISO, there has been nearly 5000MW of new capacity added to the system, with the majority of that capacity located in the New York City/Long Island region.

Furthermore, the NYISO markets have proven to enhance system reliability beyond the addition of new generating capacity. Since the beginning of NYISO market operations, generator availability rates have improved by over 10%, which is mainly due to the application of the NYISO’s capacity market rules that reward high unit availability. In addition, the NYISO’s demand-side programs have been very successful, improving system reliability and helping to lower costs. The NYISO’s various Demand Side Resource programs have grown over time to include over 1800MW of resources.

The New York electricity markets have been in operation for only six years, but one study of their effectiveness has already been published. The Staff of the New York State Public Service Commission recently released a Report on the State of Competitive Energy Markets in

New York. That Report was consistent with this testimony and found that the wholesale electric markets operated by the NYISO “are among the most advanced in the nation and that wholesale competition has led to significant efficiencies.”

Other Reliability Considerations

Notwithstanding the success of the NYISO markets in sending economic signals to incent development, longstanding institutional barriers continue to impact the development of needed infrastructure.

New York State’s generation siting law, referred to as “Article X,” expired in 2003 and has not yet been replaced. This is an issue that urgently requires legislative action. Until the State Legislature acts to pass a new generation siting law, the State is dependent on the vagaries of local zoning for the licensing of facilities needed to secure the State’s electricity supply.

But longer-term reliability and economic needs cannot be met through the addition of new generation alone. Further growth of the NYISO’s demand-side management programs and improved transmission facilities are also very important to satisfying continued load growth. While nearly 1000MW of transmission capacity has been added, or is in the process of being added between New York and other control areas, in recent years overall investments in transmission have been modest.

Transmission affects many miles of urban, suburban, and rural real estate, and licensing it has long been a challenging impediment to transmission investment. The “backstop” provisions that Congress included in last year’s Energy Policy Act will partially alleviate that particular uncertainty, but both federal and state regulators must also find ways to assure regulated investors of adequate returns if substantial transmission reinforcement is to take place. Merchant investment will depend, in part, on the ability of developers to obtain long term contracts from

load serving entities, and regulators can help in that regard by encouraging regulated LSEs to enter into such contracts.

Conclusion

In conclusion, the paramount responsibility of the NYISO is assuring the reliability of the New York State bulk electric system. Since it began operations in 1999, the NYISO has fulfilled this mission without compromise. The markets administered by the NYISO have proven to be not only compatible with system reliability, but have in fact enhanced system reliability in New York State by providing the price signals necessary to attract additional generating capacity, by providing financial incentives for generating units to maintain a high rate of unit availability, and by introducing innovative demand-side programs that increased system reliability and market efficiency. As we move forward to address the important challenges that I have touched upon today, I am confident in the NYISO's ability to continue meeting the reliability needs of New York State while administering fair, open, and competitive electric markets.

I want to thank the members of the subcommittee for the opportunity to be here. I would be happy to answer any questions you may have.

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