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By Electronic Delivery

Honorable Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

**Re: *New York Independent System Operator, Inc., Docket No. ER11-____-____
Proposed Tariff Clarifications Regarding the Bidding, Scheduling, and
Settlement of Ancillary Services***

Dear Ms. Bose:

Pursuant to Section 205 of the Federal Power Act,¹ the New York Independent System Operator, Inc. (“NYISO”) hereby submits proposed amendments to its Open Access Transmission Tariff (“OATT”) and Market Administration and Control Area Services Tariff (“Services Tariff”) to reorganize and clarify provisions relating to several of the Ancillary Services offered in the NYISO markets.² The proposed changes will also improve consistency between the tariffs and the NYISO’s manuals and procedures, without making any substantive changes to current practices.

¹ 16 U.S.C. §824d (2000).

² Capitalized terms not otherwise defined herein shall have the meaning specified in Section 1.0 of the OATT and Section 2 of the Services Tariff.

The modifications proposed here affect Rate Schedules 3, 3-A, 4, and 5 to the Services Tariff and Section 2.3 and Rate Schedules 3, 5, and 6 to the OATT. The NYISO recently reviewed this Section and these Rate Schedules as part of an ongoing comprehensive review aimed at identifying opportunities to improve and clarify the tariffs. The Ancillary Services covered by these changes include Regulation Service, Operating Reserves, and Black Start and System Restoration Services. The amendments described in this filing create clarity and consistency throughout the OATT and Services Tariff. The proposals also add details that are currently contained in NYISO manuals, but more appropriately belong in the NYISO Tariffs.

These tariff amendments have been approved by the NYISO's Management Committee and the Board of Directors.

I. Documents Submitted

1. This filing letter;
2. A clean version of the proposed revisions to the NYISO's OATT ("Attachment I");
3. A clean version of the proposed revisions to the NYISO's Services Tariff ("Attachment II");
4. A blacklined version of the proposed revisions to the NYISO's OATT ("Attachment III") and;
5. A blacklined version of the proposed revisions to the NYISO's Services Tariff ("Attachment IV").

II. Description and Justification of Proposed Tariff Revisions

A. Services Tariff Rate Schedule 3 – Payments for Regulation Service

Rate Schedule 3 to the Services Tariff is found at Section 15.3. In subsections 15.3.1.2 and 15.3.2.1, language is proposed to require generation Suppliers of Regulation Service to provide a regulation response rate that does not exceed the lowest normal energy response rate provided for the facility. This requirement was previously included in Attachment D to the Services Tariff and is currently described in the Ancillary Services Manual.³

At subsection 15.3.3, the NYISO proposes to clarify that it uses performance tracking data to adjust Suppliers' real-time schedules, which are one of the inputs to the payment formula

³ See: <http://www.nyiso.com/public/webdocs/documents/manuals/operations/ancserv.pdf>; *Ancillary Services Manual* p. 4-5

described in subsection 15.3.5.5, to reflect their actual performance. Basing Regulation Service payments on performance reduces a poorly-performing Supplier's compensation, as the Tariff currently contemplates. The proposed change more accurately describes the relationship between the performance tracking and the NYISO's payment calculations.

In subsection 15.3.4.1, describing the calculation of day-ahead clearing prices for Regulation Service, the NYISO proposes changes that clarify when and how the NYISO will use prices on the Regulation Service Demand Curve instead of the Day-Ahead Shadow Price in its calculations. Changes to 15.3.5.1 similarly clarify that the Shadow Price used in determining real-time prices may be the applicable price on the Regulation Service Demand Curve.

New language in subsection 15.3.5.3 clarifies that the NYISO will use a Supplier's performance-adjusted real-time schedule in the calculation of balancing payments.

Unrelated to Regulation Service, the NYISO is also proposing a minor change to Rate Schedule 3-A to correctly identify the interval term that the NYISO uses in the calculation of undergeneration and overgeneration charges.

B. Services Tariff Rate Schedule 4 – Payments for Supplying Operating Reserves

The NYISO proposes to correct a typographical error in Subsection 15.4.6.2.1.

C. Services Tariff Rate Schedule 5 – Payments and Certain Charges For Black Start and System Restoration Services

In Rate Schedule 5, one capitalization change is proposed for the phrase "load ratio share" since it is not a defined term. In Rate Schedule 5, Appendix I, two references to the Black Start testing certification form are added to specify the location of the form in Appendix II of the Rate Schedule.

D. OATT Section 2.3 – Ancillary Services

The NYISO is proposing to simplify and remove redundant language from this Section so that it will identify the Ancillary Services provided by the NYISO and cross-reference the specific schedules governing prices and compensation for those services.

E. OATT Rate Schedule 3 – Charges for Regulation Service

The NYISO proposes several changes to Rate Schedule 3, which is located at Section 6.3 of the OATT. The NYISO plans to delete the description of Regulation Service in Section 6.3 as redundant of the more comprehensive description provided in Rate Schedule 3 of the Services Tariff. Next, the NYISO proposes to amend Sections 6.3 and 6.3.1 to clarify that physical self-

supply of Regulation Service is not available. The nature of Regulation Service precludes Transmission Customer self-supply, and the contradictory language in these sections will be deleted.

The NYISO also proposes to amend the description in the first paragraph of this Section of those Customers to whom the NYISO must offer Regulation Service; complementary changes are proposed for subsection 6.3.2.1 defining those responsible for paying for this service. Read together, these amendments clarify that the NYISO offers Regulation Service not only to LSEs using Transmission Service to serve their Load but also to LSEs buying LBMP energy, and that LSEs, whether they schedule Transmission Service or buy Energy from the LBMP Markets, are responsible for paying Regulation Service charges. The proposed changes also clarify that these charges are applied only to LSEs serving internal load. An additional correction in subsection 6.3.2 replaces the term “Regulation and Frequency Response Service” with the defined term “Regulation Service.”

F. OATT Rate Schedule 5 – Charges for Operating Reserve Service

The NYISO proposes to delete the reference to a customer’s opportunity to self-supply Operating Reserves in the second sentence of Section 6.5 as Operating Reserves cannot be physically self-supplied in the NYCA.⁴ In addition, the NYISO is deleting the general summary description of Operating Reserves requirements in the first paragraph of Section 6.5 as redundant of the more comprehensive description in the Services Tariff Rate Schedule 4. Similarly, the NYISO proposes to delete the opening sentence of subsection 6.5.1 as this language is also redundant of material included in Rate Schedule 4 of the Services Tariff.

The NYISO’s proposals will clarify the definition of Customers responsible for paying Operating Reserves charges to include Transmission Customers engaged in Export Bilaterals, as well as those making Exports from the LBMP Market.

In Section 6.5.2, which describes the Operating Reserves responsibility of customers taking service under Section 5 of the OATT to supply Station Power, the NYISO proposes to replace the term “Transmission Customers” with the term “LSEs” as the latter term is more accurate. Operating Reserves’ cost responsibility rests with Customers supplying station power bilaterally (Transmission Customers) as well as with LBMP energy. The term LSE encompasses both transaction types.

The NYISO’s changes include a minor clarification to the formula for the charge to these customers, which appears in the second paragraph of this Section. The NYISO proposes deleting the existing direction to reduce the costs to the NYISO of providing Operating Reserves

⁴ See generally: New York Independent System Operator, Inc. Docket No. ER03-836, including the NYISO’s *Motion to Terminate Proceedings*, filed Dec. 22, 2010 on which the Commission has not yet taken action.

with penalty revenue (“revenues from penalties collected during the day”) before applying a load ratio share allocation, as it is too vague to be accurately applied. Because of this lack of clarity, the NYISO has never reduced Operating Costs before allocating them. The revised description of the charge to LSEs supplying Station Power correctly identifies the current formula.

In addition, the NYISO proposes clarifications of the financial self-supply options in Section 6.5.3. These options allow LSEs to offer Operating Reserves Resources into the Market and to receive the market value of the Operating Reserves services provided by the Resources. Operating Reserves may be provided by generation facilities and Demand Side Resources. The proposed term “Resources” more accurately describes the options available to Customers under this Section. The NYISO also proposes to ensure that the Resources meet the standards set forth in Rate Schedule 4 of the Services Tariff.

G. OATT Rate Schedule 6 – Black Start and System Restoration Services

In Rate Schedule 6, subsection 6.6.1, the NYISO proposes to add a clarifying reference that “Customers” as well as “Transmission Customers” shall pay for Black Start and System Restoration Service. Also in this subsection, an inaccurate reference to Internal Wheels and Import Transaction will be deleted.

The NYISO further proposes to clarify how it currently collects charges for Black Start and System Restoration Services from third-party Station Power providers. The NYISO proposes to add a paragraph in subsection 6.6.1 specifying that Transmission Customers or LSEs that supply Station Power as third-party providers are required to pay a Black Start and System Restoration Services charge and describing how that charge will be calculated. Further, the proposed paragraph specifies that these daily charges are credited back to the NYCA Load for the day on a Load Ratio Share basis. This is the same approach the NYISO’s OATT directs be used to charge station power load for the costs of Regulation Service.⁵

III. Effective Date

The NYISO requests an effective date of October 7, 2011, which is 60 days from the date of this filing.

IV. Stakeholder Approval

The NYISO’s Management Committee approved the revisions described herein on November 17, 2010. The NYISO Board of Directors approved these proposals on December 20, 2010.

⁵ See: OATT Section 6.3.2.4.

V. Communications and Correspondence

All communications and service in this proceeding should be directed to:

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VI. Service

The NYISO will send an electronic link to this filing to the official representative of each of its customers, to each participant on its stakeholder committees, to the New York Public Service Commission, 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.

VII. Conclusion

Wherefore, for the foregoing reasons, the NYISO respectfully requests that the Commission accept this filing to be effective October 7, 2011.

Respectfully submitted,

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