

September 28, 2011

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 Amendments Revising Penalties for Voltage Service
Suppliers and making other Non-Substantive Corrections**

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 Market Administration and Control Area Services Tariff (“Services Tariff”) to revise the time frame within which Voltage Service resources must respond when called upon for voltage support and the penalties that are applied when they fail to comply. These proposed amendments would ease the unnecessarily harsh response time frame currently demanded by the Services Tariff and better relate the penalties it imposes to the severity of the poor performance.² In addition, the NYISO proposes minor non-substantive revisions to Rate Schedule 2 to clarify the rules that govern the provision of Voltage Service.³ The NYISO also proposes to correct the definition of a Qualified Non-Generator Voltage Support Resource in the Services Tariff and the NYISO’s Open Access Transmission Tariff (“OATT”) to conform it to other recently approved changes in the description of Voltage Service.⁴ These revisions have been approved by the NYISO’s Management Committee and Board of Directors.

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.

³ These are in addition to the clarifying changes proposed in *New York Independent System Operator, Inc.* ER11-4303-000.

⁴ See: *New York Independent System Operator, Inc.* ER11-1956-000, *Letter Order Accepting Tariff Revisions to the Voltage Support Service Program*, Dec. 14, 2010 wherein the Commission accepted the NYISO clarification that the Voltage Support Services program was limited to Suppliers which are electrically located within the New York Control Area and controlled by the NYISO.

The description of, and justification for, the changes proposed to the penalty provisions of Rate Schedule 2 are provided in Section II below; the description of, and justification for, the clarifications being proposed to Rate Schedule 2 and the Tariffs generally, are provided in Sections III and IV.

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 Services Tariff ("Attachment IV").

II. Description of and Justification for Proposed Revisions to the Services Tariff Rate Schedule 2 Penalty Provisions

A. Background

Generators and other Voltage Support Service providers (Voltage Suppliers) test their reactive power capability during the Summer Capability Period (May 1st – October 31st) and are compensated, as a general manner, at an annual rate of \$3,919, per MVAR of their demonstrated capability. The payment is prorated in equal twelve month installments and paid monthly to ICAP Suppliers or further prorated based on monthly hours of operation and paid to all others.⁵

In addition to the generalized voltage support supplied by Generators' Automatic Voltage Regulators ("AVRs"), and otherwise from other providers, the NYISO calls upon Voltage Suppliers to provide leading or lagging VARs when bulk transmission system conditions require it ("VSS Events"). The NYISO regularly calls upon the same ten to fifteen Voltage Suppliers to respond to VSS Events, usually because of their geographic location.⁶ VSS Event responders are

⁵ Voltage providers not selling ICAP in any month, synchronous condensers and Qualified Non-Generator Voltage Support Resources (other than Cross Sound Scheduled Line) are paid the monthly equivalent of the annual \$3919/MVAR prorated by the number of hours the resource operated that month. The Cross Sound Scheduled Line is paid the monthly equivalent of the annual \$3919/MVAR prorated by the number of hours it was energized that month. *See:* Services Tariff, Rate Schedule 2, Section 15.2.2.

⁶ There are 486 Voltage Support providers in the program, any one of which can be called by the NYISO to respond to a VSS Event if their geographic location would resolve the situation.

required to achieve the reactive power target requested of them by the NYISO or the Transmission Owner in ten minutes. In some cases, for instance when the NYISO is managing prolonged transmission outages, these Voltage Suppliers may be called as frequently as five times per day to respond to VSS Events. More typically, however, this small universe of suppliers is called once or twice a quarter.

No additional compensation, beyond the annual \$3919/MVAr payment, is provided to these VSS Event responders but the Services Tariff does expose them to penalties for failing to reach the requested reactive power target at the end of ten minutes. As Rate Schedule 2 currently provides, a facility forfeits its entire monthly Voltage Support Service compensation for a single failure and faces expulsion from the program after three failures within a thirty day period. Even when a Voltage Supplier has quickly provided substantially all the reactive power required, failures can occur because of the exacting measure of reactive power required and the tight time window within which it is demanded. Moreover, Rate Schedule 2 provides no relief from penalties if failure occurred because intrinsic conditions on the transmission system operated by the NYISO or the Transmission Owner prevented the required response.

The NYISO and its stakeholders have concluded that the tight required-response time frame, the severity of the penalties imposed, and the absence of a penalty-forgiveness opportunity if transmission system conditions caused the failure are more restrictive than reliability requires and can act as market disincentives for those Voltage Suppliers that are most necessary to ensure continued reliability. Therefore, the NYISO is proposing to modify the time frame within which a successful response is measured, to amend the financial penalties imposed when failures occur, and to allow penalty forgiveness if the failure occurred on account of transmission system conditions.

B. Penalty Revisions to Services Tariff: Rate Schedule 2

Required Response Window

Sections 15.2.3.1 and 15.2.3.2 define the Voltage Supplier's failure to perform as failure to achieve the requested reactive power target, within a certain bandwidth of the target, at the end of ten minutes.⁷ Hitting the requested target exactly at the end of the ten-minute response window is more restrictive than good utility practice or reliability requires and the NYISO proposes to revise the time frame to require the response within ten minutes. A response that hits the target within the ten minute window maintains reliability just as well as a response that hits the target at the end of ten minutes and is more a more reasonable measure of the response desired from these suppliers than the more onerous response time currently imposed.

The NYISO is also proposing to add to the definition of failure to respond, in both of these Sections of Rate Schedule 2, the caveat that such a penalty will apply unless [the Voltage

⁷ Section 15.2.3.1 describes failure when called upon to reach a specified reactive power output, in MVAr. Section 15.2.3.2 describes failure when called upon to provide maximum lead or lag reactive power output.

Supplier was] prevented from doing so by transmission system conditions.⁸ Excluding system-condition-caused failures is also a more equitable approach to evaluating Voltage Supplier responses for the purpose of imposing penalties as the Voltage provider should not be penalized for failures that were outside its control.

Penalties To Be Applied

Section 15.2.4 establishes the penalty to be imposed when a Voltage Supplier has failed to respond to the NYISO's request for Steady-State Voltage Control. As mentioned, the Services Tariff currently requires the NYISO to withhold the entire month's compensation for a single failure. This unnecessarily and unreasonably harsh penalty, which can dissuade continued participation as a Voltage Service supplier, should be revised.

As a result, the NYISO is proposing to amend Section 15.2.4 to replace the existing penalty, for failure to respond to a request for Steady-State Voltage Control, with a monthly "VSS Failure to Perform Penalty."⁹ The VSS Failure to Perform Penalty, developed once per month for any Voltage Support Service provider that has failed to respond to a request for Steady State Voltage, prorates the monthly payment otherwise available using a ratio that compares the number of failed responses in the month to all requests for a response in the month. The formula proposed is:

$$VFP = (\text{VSS payment for the month}) * (F/R)$$

where the term "F" is the number of failures in the month and the term "R" reflects the number of times the Voltage Supplier's resource was called upon for steady state voltage in the month. The monthly penalty so calculated is then subtracted from the monthly payment for Voltage Support Service otherwise payable to determine the settlement for Voltage Support for the month.

Thus, a single failure in a month in which a voltage provider was required to provide a response to a daily reactive power request would result in a penalty of 1/30th of the monthly Voltage Support payment otherwise available. As the number of failures in a month mounted, so

⁸ The NYISO has not proposed using the defined term "Transmission System" here because the conditions which may prevent compliance with the reactive power request can occur on either the NYISO-operated transmission system or that of the Transmission Owner. The NYISO will determine when transmission system conditions, rather than Voltage Supplier non-response, caused the failure by examining meter data and the system conditions at the time of the VSS Event. Challenges to the NYISO determination would be accepted as bill challenges and determined pursuant to the appropriate sections of the Services Tariff.

⁹ The NYISO's proposal amends only the penalties imposed for failure to respond to a request for Steady State Voltage Control under Section 15.2.4. The NYISO is not proposing to amend the penalties imposed for failure to provide Voltage Support when a contingency occurs on the NYS Power System under Section 15.2.5. A failure to respond under these latter circumstances warrants the more severe penalty that the Tariff currently provides since failure can have more devastating consequences to reliability than failure under Section 15.2.4.

too would the severity of the financial penalty to be imposed. This more reasonable penalty increases the financial severity of the penalty as the Supplier's non-responsiveness within the month increases.

The NYISO also proposes to replace the current criterion under which the the penalty of expulsion from the market for repeated failures to respond is imposed with a criterion that more accurately reflects the severity of multiple failures. Currently, a Supplier that fails to respond to three requests in a month faces expulsion from the voltage support program but a supplier requested to respond fewer than three times per month but which consistently fails to respond across several months may never be expelled from the market.

Thus, the NYISO proposes to revise the penalty and expel only those Voltage Suppliers that fail to respond to fifty percent (50%) or more of the NYISO's requests for steady state voltage support for two consecutive months. This revised penalty more accurately reflects regularized poor performance by allowing the NYISO to expel suppliers with repeated failures across several months while avoiding such a harsh penalty for frequently called Voltage Suppliers which may, for idiosyncratic reasons, have three failures in any single thirty-day period.

III. Clarifying Revisions to the Services Tariff

The NYISO proposes to expand upon the clarifications to this Rate Schedule that it submitted in Docket ER11-4303-000¹⁰ by amending the opening portion of Section 15.2, and Section 15.2.1.1, to clarify that both Generators and certain Qualifying Non-Generator Voltage Support Resources must have Automatic Voltage Regulators to qualify as Voltage Support Service providers.¹¹ This clarification is also proposed for Section 15.2.6 which describes the penalty for failure to maintain an AVR.

The NYISO is also clarifying the terminology used in Rate Schedule 2 by amending the opening portion of Section 15.2, and Section 15.2.1.1, to avoid the use of the term *Resource* in this Rate Schedule for any purpose other than its defined meaning as provided in Section 2.18 of the Services Tariff. Thus the stand-alone term *Resource* is replaced with either the term *Generator* or the terms *Generator*, *synchronous condenser* or *Qualified Non-Generator Voltage Support Resource*, as context requires, throughout the Rate Schedule. The NYISO also amends the opening portion of this Rate Schedule to clarify that the Voltage Support Service rate is applied on a technology-specific rather than a provider-specific basis and that payments are made monthly rather than by Billing Period. The later amendment is made necessary by the

¹⁰ See: *New York Independent System Operator, Inc.* ER11-4303-000, submissions by the NYISO dated August 12, 2011 and September 13, 2011.

¹¹ The unique technology of the Cross Sound Scheduled Line's interconnection with the New York Control Area allows it to provide Voltage Support Service without use of an AVR.

NYISO's move to weekly invoicing and the change in the use of the term *Billing Period* that is related to those changes.

The NYISO also proposes to clarify in Section 15.2.2 that an ICAP supplier providing voltage support receives one-twelfth of the annual Voltage Support Service payment of \$3919/MVAr, a payment ratio that is constant rather than repeatedly calculated as a *pro rata* share of an annual payment. The NYISO also proposes to amend Section 15.2.2 to indicate that the *pro rata* reductions applied to non-ICAP suppliers occur monthly rather than by Billing Period for the same reason the term Billing Period is deleted from the opening portion of this Rate Schedule.

The NYISO proposes to revise the text in Section 15.2.2.2 to clarify that only Generators receive Lost Opportunity Costs.

The NYISO also proposes to clarify in Sections 15.2.4.2, 15.2.5.2 and 15.2.6(3) that only the provider-specific payments for Voltage Support Service and Lost Opportunity Costs otherwise due a provider which is requalifying to provide Voltage Support Service, pursuant to any one of these sections, are withheld and not payments due to the Supplier for any other voltage providers in its portfolio.

Finally, the NYISO proposes to amend the definition of the term *Qualifying Non-Generator Voltage Support Resource* in Section 2 of the Services Tariff to indicate that only those resources which are under the control of the NYISO or a Transmission Owner are eligible for Voltage Support Service. This amendment was inadvertently overlooked when the NYISO amended its Tariffs to delete the eligibility of externally-situated Voltage Service providers from compensation under its program and is proposed now to complete the changes approved by the Commission in that docket.¹²

IV. Amendments to the OATT

The NYISO proposes to amend the definition of the term *Qualifying Non-Generator Voltage Support Resource* in Section 1.17 of the OATT in the same manner it proposed this amendment to the Services Tariff – that is to indicate that only those resources which are under the control of the NYISO are eligible.

V. Effective Date

The NYISO requests an effective date of November 27, 2011, 60 days from the date of this filing.

¹² See: *New York Independent System Operator, Inc. ER11-1956-000, Letter Order Accepting Tariff Revisions to the Voltage Support Service Program*, Dec. 14, 2010.

VI. Requisite Stakeholder Approval

The NYISO's Management Committee approved the Rate Schedule 2 revisions described herein at its July 27, 2011 meeting.¹³ The NYISO Board of Directors approved these Rate Schedule 2 revisions on August 16, 2011. The NYISO's Management Committee approved revisions necessary to exclude from the Voltage Service program suppliers under the control of an external Control Area operator on August 25, 2010 and the Board of Directors approved those revisions September 20, 2010.

VII. Communications and Correspondence

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

Robert E. Fernandez, General Counsel
Ray Stalter, Director, Regulatory Affairs
*Mollie Lampi, Assistant General Counsel
New York Independent System Operator, Inc.
10 Krey Boulevard
Rensselaer, NY 12144
Tel: (518) 356-8875
Fax: (518) 356-7678
rfernandez@nyiso.com
rstalter@nyiso.com
mlampi@nyiso.com

* Designated to receive service.

VIII. 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 the New Jersey Board of Public Utilities. In addition, the complete filing will be posted on the NYISO's website at www.nyiso.com.

¹³ This approval vote was taken before the amendments to this Rate Schedule were filed in Docket ER11-4303-000. Thus, the supporting materials for that vote included these changes on an earlier version of the tariff that, among other elements, used different numbering. All amendments approved at the July Management Committee meeting have been placed on base tariff sections appropriate for this filing.

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IX. Conclusion

Wherefore, for the foregoing reasons, the New York Independent System Operator, Inc. respectfully requests that the Commission accept this filing to be effective November 27, 2011.

Respectfully submitted,

/s/ Mollie Lampi

Mollie Lampi
Assistant General Counsel
New York Independent System Operator, Inc.
10 Krey Blvd.
Rensselaer, New York 12144
(518) 356 7530
mlampi@nyiso.com

cc: Michael A. Bardee
Gregory Berson
Connie Caldwell
Anna Cochrane
Jignasa Gadani
Lance Hinrichs
Jeffrey Honeycutt
Michael Mc Laughlin
Kathleen E. Nieman
Daniel Nowak
Rachel Spiker