

November 7, 2011

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

**Re: *New York Independent System Operator, Inc., Compliance Filing*
Docket No. ER04-449-_____**

Dear Ms. Bose:

Pursuant to the Commission's September 8, 2011 *Order on Compliance Filing* ("September Order")¹ regarding the New York Independent System Operator, Inc.'s ("NYISO") compliance filing addressing the Commission's directives in its June 30, 2009 order in this proceeding ("June 2009 Order"), the NYISO respectfully submits this compliance filing.² This filing proposes tariff revisions to the NYISO's Market Administration and Control Area Services Tariff ("Services Tariff") to comply with the *September Order's* directives. Specifically, the NYISO is modifying its Services Tariff to identify the deliverability criterion that will be used to determine whether a new capacity zone (or new capacity zones) ("New Capacity Zone" or "NCZ")³ is required, and establish related procedures. The NYISO requests an effective date of January 9, 2012 for these provisions.

I. LIST OF DOCUMENTS SUBMITTED

The NYISO respectfully submits the following documents:

1. This filing letter;
2. A blacklined version of the proposed compliance modifications to the Services Tariff ("Attachment I");

¹*New York Independent System Operator, Inc.*, 136 FERC ¶ 61,165 (2011) ("*September Order*").

²*New York Independent System Operator, Inc.*, 127 FERC ¶ 61,318 (2009) ("*June 2009 Order*").

³ The proposed definition of the term New Capacity Zone or NCZ is a "single Load Zone or group of Load Zones that is proposed as a new Locality, and for which the ISO shall establish a Demand Curve." See proposed revisions to Services Tariff Section 2.14. When used herein, the term New Capacity Zone also encompasses New Capacity Zones.

3. A clean version of the proposed compliance modifications to the Services Tariff (“Attachment II”);

II. BACKGROUND

The *June 2009 Order* directed the NYISO to work with stakeholders and develop a proposal to “address the implications and effects of a new capacity zone or zones on the tariff provisions and market rules governing Capacity Resource Interconnection Service.” On January 4, 2011, in compliance with the *June 2009 Order*, the NYISO and the New York Transmission Owners (“NYTOs”) submitted a joint filing proposing criteria and considerations to “govern the evaluation and potential creation of new Installed Capacity⁴ (“ICAP”) zones in the New York Control Area” (“*January Compliance Filing*”). The January Compliance Filing proposed two criteria (*i.e.*, the Highway Capacity Deliverability Test and Reliability Criteria) and three analytical considerations which were developed pursuant to the NYISO’s stakeholder processes.

In its September Order, the Commission accepted in part and rejected in part the NYISO’s January Compliance Filing.⁵ The Commission rejected the NYISO’s Reliability criterion and the proposed considerations but accepted the Highway Capacity Deliverability Test criterion, subject to several modifications.⁶

On October 11, 2011, the NYISO submitted a request for clarification or, in the alternative, rehearing of the *September Order*.⁷ The NYISO requested that the Commission clarify its directive that the NYISO use the test in OATT Attachment S, Section 25.7.8. Specifically, the NYISO asked for clarification that the directive was intended to require compliance tariff modifications that apply the Section 25.7.8 test to Highway facilities only and that do not apply the separate analysis contained in Section 25.7.8.2.14.⁸ The Request for Clarification is pending before the Commission.

⁴ Terms with initial capitalization not defined in this transmittal letter or in the proposed Services Tariff revisions set forth in Attachments I and II to this filing letter, have the meaning set forth in the Services Tariff, and if not defined herein, then as defined in the NYISO’s Open Access Transmission Tariff (“OATT”).

⁵ *September Order* at PP 60-61.

⁶ *Id.* at PP 52-58.

⁷ *Request for Clarification, or In the Alternative Rehearing, of the New York Independent System Operator, Inc.*, Docket No. ER04-449-023 (filed October 11, 2011) (“Request for Clarification”).

⁸ As explained in the Request for Clarification, the Section 25.7.8 test is currently applied to both Highway and Byway facilities. Further, Section 25.7.8.2.14 requires a comparative analysis designed to identify the impact of proposed projects on the transfer capability of Highway facilities.

III. DESCRIPTION OF PROPOSED COMPLIANCE TARIFF REVISIONS

A. Definitions

The NYISO is proposing to include a number of new defined terms related to the examination and possible creation of one or more “New Capacity Zone” in Section 2 of the Services Tariff. In addition, the proposed compliance revisions incorporate by reference certain defined terms that are set forth in Attachments S and X to the NYISO’s Open Access Transmission Tariff. The incorporation of existing defined terms from the OATT is described in proposed new Section 5.16.⁹

B. Establishment of the New Capacity Zone Study and Process, and Relationship to the Triennial Demand Curve Reset Process

The *September Order* accepted the *January Compliance Filing’s* proposal that the test for determining whether to create a New Capacity Zone be applied “every three years in conjunction with the ICAP demand curve reset process.”¹⁰ Accordingly, the NYISO is proposing to revise Section 5.14.1.2 of the Services Tariff, which describes the ICAP Demand Curve reset process, to provide that any New Capacity Zone will be factored into the ICAP Demand Curve reset process every three years. Thus, the economic parameters of the ICAP Demand Curve for any New Capacity Zone would be established as part of the normal ICAP Demand Curve reset procedure. Under the proposed revisions, any New Capacity Zone would have an Indicative Locational Minimum Installed Capacity Requirement established for use in the ICAP Demand Curve reset process, and the ICAP Demand Curve for the New Capacity Zone (subject to Commission acceptance of any tariff revisions to establish it) would become active at the same time that ICAP Demand Curves for existing Localities and the NYCA go into effect.¹¹

The timing and sequence of the steps required to evaluate and create a New Capacity Zone is an important component of the filing. The NYISO’s proposed revisions to Section 5.14.1.2, along with those in proposed new Section 5.16, specify the timing and sequence of the steps. The NYISO intends to commence the triennial New Capacity Zone study (as defined in

⁹ As described in Section II(G) below, the NYISO also proposes in this filing to renumber current Services Tariff Section 5.16 to 5.17.

¹⁰ *September Order* at P 68. The *September Order* also included a directive that the “NYISO, along with its stakeholders, consider the desirability and feasibility of creating new zones on an annual basis rather than only once every three years.” *See September Order* at 69. The NYISO will explore this possibility with its stakeholders and, as required by the *September Order*, will address the issue in a future compliance filing.

¹¹ Thus, under the proposed revisions to Section 5.14.1.2, the periodic review of the Demand Curves would include a review of a Demand Curve for a New Capacity Zone at the same time the review of Demand Curves for existing Localities and the NYCA is conducted.

proposed Section 5.16, the “NCZ Study”) before September 1 in the year preceding the calendar year in which the NYISO files ICAP Demand Curves.¹² Thus, it would commence in the same year in which the NYISO retained the consultant for the ICAP Demand Curve periodic review.¹³ This starting point is necessary to allow sufficient time to establish the case that will be studied and to perform the NCZ deliverability study. The proposed tariff revisions provide for the NYISO’s review of the study inputs and assumptions with stakeholders on or before October 1,¹⁴ and provide that a written report of the NCZ Study results to stakeholders no later than January 15 of the ICAP Demand Curve Reset Filing Year.¹⁵

If the NCZ Study identifies a Highway constraint, the NYISO would identify the boundary of the New Capacity Zone. Another step that would need to be completed early is a determination of the then-anticipated Locational Minimum Installed Capacity Requirement that would apply to the New Capacity Zone (proposed as the new defined term “Indicative Locational Minimum Installed Capacity Requirement”).¹⁶ That analysis would need to be conducted in order to perform the analysis of a Demand Curve for the New Capacity Zone, which will be ongoing in the months immediately following the January 15 written report on the NCZ Study. As discussed in Section F below, the NYISO would submit tariff revisions to establish a New Capacity Zone for the Commission’s review along with the report of the results of the NCZ Study by March 31 of the ICAP Demand Curve Reset Filing Year. That timing would provide an opportunity for the concurrent review of all ICAP Demand Curves for the next triennial period and other implementation action so that the New Capacity Zone could be effective at the beginning of the Capability Year after the Demand Curves are accepted.

C. New Capacity Zone Study Methodology and Procedures

The *September Order* directed the NYISO to “use the methodology contained in the existing Attachment S Deliverability Test in Section 25.7.8 of Attachment S to the NYISO OATT in determining whether to create new zones.”¹⁷ The Commission explained that the criterion should require the creation a new zone “when the total transmission transfer capability (including any upgrades that would be required to be built to make new resources capacity-

¹² The year in which the NYISO files the proposed revised ICAP Demand Curves is defined in the enclose tariff sheets as the “ICAP Demand Curve Reset Filing Year.” *See* proposed revisions to Services Tariff Section 2.9.

¹³ *See* Services Tariff Section 5.14.1.2.2.

¹⁴ *See* proposed new Services Tariff Section 5.16.1.2.

¹⁵ *See* proposed new Services Tariff Section 5.16.

¹⁶ *See* proposed revisions to Services Tariff Section 2.9.

¹⁷ *See September Order* at P 52.

qualified) is insufficient to allow all of the capacity resources in a pre-existing zone to be deliverable throughout the pre-existing zone.”¹⁸

In compliance, the NYISO is proposing a new Section 5.16.1 of the Services Tariff to delineate the methodology by which it will determine whether to create a New Capacity Zone. Proposed new Section 5.16 specifies that the NYISO will provide a written report of the study results to its stakeholders on or before January 15 in each ICAP Demand Curve Reset Filing Year.

As described below in this Section C, and pursuant to the proposed tariff revisions, the NYISO would use the deliverability test methodology set forth in Attachment S to the NYISO OATT. Proposed Section 5.16.1.1 specifies the inputs and assumptions that would be included in the study case. This tariff section clearly describes the inputs and assumptions regarding generation, transmission, and Load that will be made for the NCZ deliverability analysis. It is necessary because the NCZ Study starts at a different time than a Class Year Deliverability Study under Attachment S, and is being performed outside the context of the Class Year Interconnection Facilities Study, of which the Class Year Deliverability Study is one component.

Specifically, proposed Section 5.16.1.1 identifies which “existing” and proposed generation and Merchant Transmission Facilities must be modeled in the NCZ Study. Further, proposed Section 5.16.1.1(vii) provides that transfers of CRIS rights not reflected in the applicable NYISO annual Load and Capacity Data report (“Gold Book”) but completed and the transferee operational prior to the NCZ Study Start Date are to be modeled. The proposed tariff revisions also identify that the NYISO is to use the Gold Book to identify the load forecast and the transmission additions and retirements that must be modeled. Thus, the data set used will be identified objectively.

Sections 5.16.1.1.4 and 5.16.1.1.5 expressly cross-reference the provisions of OATT Attachment S that describe base conditioning steps and the test methodology that will be applied to the inputs and assumptions. Proposed Section 5.16.1 therefore complies with the *September Order’s* requirement that the deliverability test criterion be “clearly defined” and “formulaic.”¹⁹

Proposed Section 5.16.1.1.4 specifies that the NCZ deliverability test will only evaluate and identify constraints on Highways interfaces. As explained in the NYISO’s Request for Clarification, while the Attachment S deliverability test is applicable to both Highways and Byways in the Class Year Deliverability Study, only Highway facilities are relevant to the evaluation of potential New Capacity Zones. Assessing Byway facilities would not provide any indication of whether the transmission system interfaces between Load Zones are constrained. Proposed Section 5.16.1.1.4 therefore specifies that the NYISO’s New Capacity Zone Study methodology will only consider Highways.

¹⁸ *Id.*

¹⁹ *Id.* at P 61.

D. New Capacity Zone Determinations

In compliance with the *September Order*, proposed Section 5.16.2 states that the NYISO “shall identify the boundary of a New Capacity Zone” if the NCZ Study shows that “there is a constrained Highway interface into one or more Load Zones.” The boundaries of a New Capacity Zone could include one or more existing constrained Load Zones on the constrained side of a Highway. Proposed Section 5.16.3 also establishes that when determining such boundaries, the NYISO “shall consider the extent to which incremental capacity in individual constrained Load Zones could impact the reliability and security of the adjacent constrained Load Zones, taking into account interface capability between constrained Load Zones.” To the extent that excess capacity in an individual Load Zone within the region of consideration for a New Capacity Zone can improve the reliability and security of a potential New Capacity Zone, it is a positive indicator for including that Load Zone as part of the New Capacity Zone. Conversely, Load Zones that are relatively electrically isolated from other candidate Load Zones within the potential New Capacity Zone would tend to be a negative indicator for including it in the New Capacity Zone.

E. Indicative New Capacity Zone Locational Minimum ICAP Requirements

Proposed new Section 5.16.3 of the Services Tariff provides that for “each Load Zone or group of Load Zones identified in the NCZ Study as having a constrained Highway Interface” the NYISO shall determine the “Indicative NCZ Locational Minimum ICAP Requirement” no later than March 1 of each ICAP Demand Curve Reset Filing Year. Thus, the Indicative NCZ Locational Minimum ICAP Requirement applies the concept of Locational Minimum Installed Capacity Requirement to a New Capacity Zone. The NYISO will use this value solely for the purposes of establishing the revised ICAP Demand Curves.²⁰ The proposed tariff provision states that the NYISO will provide stakeholders with an opportunity to review and comment on the proposed Indicative NCZ Locational Minimum ICAP Requirement.

F. The NCZ Report and Tariff Revisions to Establish and Recognize NCZs

Proposed new Section 5.16.4 of the Services Tariff states that the NYISO will make a filing no later than March 31 of each ICAP Demand Curve Reset Filing Year. If the NCZ Study identifies a constrained Highway interface, the March 31 filing will include proposed tariff revisions necessary to establish and recognize a New Capacity Zone for the Commission’s review. It would also include a report on the NCZ Study results. If the NCZ Study does not identify a constrained Highway interface, the NYISO’s report of the study results would be included in a filing setting forth the NYISO’s determination that the NCZ Study did not indicate that any New Capacity Zone is required pursuant to the process. The NYISO’s proposed tariff

²⁰ As is currently the case, the annual process for determining Locational Minimum Installed Capacity Requirements would also determine that requirement for any New Capacity Zone (subject to Commission acceptance of tariff revisions to establish it) prior to the start of the Capability Year in which the New Capacity Zone takes effect.

revisions specify that the independent Market Monitoring Unit (“MMU”) would have an opportunity to review and comment on the NCZ Study and any resulting proposed tariff revisions.²¹

The *January Compliance Filing* explained that there are numerous Services Tariff and OATT provisions that would need to be revised to create a New Capacity Zone. Many of these revisions cannot be proposed until the boundary of any New Capacity Zone, and whether a New Capacity Zone might be “nested,” are known. Consequently, if the NCZ Study identifies a constrained Highway interface, the NYISO contemplates that the March 31 tariff filing would address Attachment S’s CRIS provisions, and the various other issues, outlined in the *January Compliance Filing*.

The NYISO would expect to seek Commission acceptance of any proposed tariff revisions for any specific New Capacity Zone within sixty days of their submission. Acceptance would be needed within that timeframe so that the Demand Curve consultant could develop an ICAP Demand Curve for the New Capacity Zone along with the other ICAP Demand Curves. In addition, although the NYISO is presently developing software to accommodate New Capacity Zones, there will be certain development, testing, and deployment steps that are specific to the particular New Capacity Zone.

G. Renumbering of Existing Services Tariff Section 5.16 and Related Cross-References

In order to efficiently sequence the New Capacity Zone tariff sections within the Services Tariff, the NYISO also proposes to renumber current Section 5.16 – Expedited Dispute Resolution Procedures, to be new Section 5.17. The NYISO therefore proposes to revise cross references to current Section 5.16 to read 5.17 in Services Tariff Sections 2.4, 2.5, 5.9, 5.10 and 5.11.

IV. MARKET POWER MITIGATION MEASURES FOR NEW CAPACITY ZONES

The *September Order* confirmed that “additional market power mitigation measures may be needed for an established new capacity zone.”²² The NYISO has discussed this issue with the MMU for the NYISO, and the NYISO and the MMU agree that a consistent set of supplier-side and buyer-side market power mitigation measures applicable to all New Capacity Zones should be included in the NYISO’s tariffs. The NYISO envisions that these measures would be imposed only on suppliers including, with respect to buyer-side mitigation, new market entrants in New Capacity Zones that trigger clear and objective market power screens. The specific parameters and thresholds under the generally applicable screen might vary from one New Capacity Zone to another.

²¹ See proposed new Section 5.16.4 of the Services Tariff and proposed new Section 30.4.6.3.2 of Attachment O to the Services Tariff.

²² See *September Order* at P 64.

Given the inherent complexity of designing such measures it was not possible to develop a market power mitigation proposal by the deadline for making this filing. The NYISO expects that there will be substantial stakeholder interest in the design of these measures. It plans to have discussions with stakeholders regarding potential mitigation measures. Accordingly, the NYISO intends to make a further compliance filing, no later than June 30, 2012, that would propose new market power mitigation tariff provisions that would apply to any future New Capacity Zone.

To the extent that the Commission deems necessary, the NYISO respectfully requests that it grant an extension of time to make this further compliance filing. There would be good cause for granting such an extension because of the complexity of the market power mitigation issues and the likely intensity of stakeholder interest. In addition, no interests would be prejudiced by such an extension because the NYISO would make its further compliance filing almost two years before any New Capacity Zone would be activated.

V. STAKEHOLDER AND MARKET MONITORING UNIT REVIEW

The NYISO made presentations summarizing the expected content of this compliance filing at two meetings of its Installed Capacity Working Group in October. Written comments on the presentations were solicited and considered by the NYISO. The NYISO also circulated a draft of a near final version of its proposed compliance tariff revisions for stakeholder comment on November 3, 2011 and reviewed stakeholder comments on them.

In addition, the MMU was given an opportunity to review and comment on the proposed compliance tariff revisions. The NYISO carefully considered and incorporated recommendations of the MMU in this compliance filing.

VI. REQUESTED EFFECTIVE DATE

The NYISO requests that the Commission accept these proposed modifications effective January 9, 2012. The NYISO is presently developing internal processes to accommodate the New Capacity Zone deliverability test, and for making corresponding changes to provisions in numerous sections of its Services Tariff and ICAP Manual that would be needed to accommodate and recognize one or more new Localities (*i.e.*, a New Capacity Zone after it is established and effective). In addition, the NYISO is developing software to accommodate New Capacity Zones. In Spring 2012, the NYISO will initiate the process for its next triennial Demand Curve reset process. It would be beneficial at the early stage of the process – including determining the content of a request for proposals from potential consultants – to have the tariff revisions effective.

VII. SERVICE

This filing will be posted on the NYISO's website at www.nyiso.com. In addition, the NYISO will e-mail an electronic link to this filing to the official representative of each party to

this proceeding, to 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.

VII. CONCLUSION

Wherefore, for the foregoing reasons, the New York Independent System Operator, Inc. respectfully requests that the Commission accept this compliance filing to become effective on January 9, 2012.

Respectfully submitted,
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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding in accordance with the requirements of Rule 2010 of the Rules of Practice and Procedure, 18 C.F.R. §385.2010.

Dated at Rensselaer, NY this 7th day of November, 2011.

/s/ Joy Kimberlin

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