NEW YORK INDEPENDENT SYSTEM OPERATOR
10 Krey Boulevard ♦ Rensselaer, NY 12144

December 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. ER12-___-___**
Proposed Tariff Amendments to Add External Coordinated Transaction Scheduling Market Rules and Request for Waiver

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 add new real-time External Transaction bidding and scheduling rules.[2] These new real-time market rules, together known as "Coordinated Transaction Scheduling" or "CTS," are proposed for use at specifically designated Proxy Generator Buses ("CTS Enabled Proxy Generator Buses"). Dr. David Patton, President of Potomac Economics, Ltd. which is the NYISO's external Market Monitoring Unit ("MMU"), has endorsed CTS as a method for improving the efficiency of Energy trading across the external Interfaces for which it is implemented.[3]

The NYISO proposes to initially implement CTS at two Proxy Generator Buses between the NYISO and ISO New England ("ISO-NE").[4] The MMU's analysis of the financial benefits

[1] 16 U.S.C. §824d (2010).

[2] Capitalized terms not otherwise defined herein shall have the meaning specified in Section 1 of the OATT and Section 2 of the Services Tariff.

[3] *See:* 2010 State of the Market Report for the New York Market ("2010 SOM"), Potomac Economics Ltd. pp. x at: http://www.nyiso.com/public/markets_operations/documents/studies_reports/index.jsp. (Also excerpted in Appendix A.) Prior to 2010, Potomac Economics, Ltd, served as the NYISO's independent Market Monitor. It also serves as the external market monitor for ISO-NE.

[4] The ISOs intend to designate the New York North Proxy Generator Bus ("NYN Interface or NYN") and the Northport/Norwalk Proxy Generator Bus ("NYISO/ISO-NE Interface"), as CTS Enabled Proxy Generator Buses. *See also* text at footnote 25.

of implementing CTS indicates potential Energy cost savings for New York customers of $66 million/year.[5]

Implementation of CTS also requires amendments to the calculation of the real-time Locational Based Marginal Prices ("RT LBMP") at CTS Enabled Proxy Generator Buses and amendments to eliminate certain fees from Export and Import Transactions resulting from CTS Enabled Interface Bids. The NYISO is also taking this opportunity to propose minor, non-substantive clarifications to existing tariff provisions that are amended by these CTS provisions.

The Tariff amendments submitted herein, including non-substantive clean-up proposals, have been approved by the NYISO's Management Committee and the NYISO Board of Directors.

As described in Section V. below, the NYISO is requesting that the Commission issue an order making its proposed tariff revisions effective sixty days after ISO-NE makes a corresponding filing to introduce its version of CTS. If that date, however, would fall more than one hundred and twenty days after the date of this filing, the NYISO would respectfully request that the Commission act on this filing, and make its proposed revisions effective, on the one hundred and twentieth day after this filing. As is also described in Section V. below, the NYISO is proposing to make CTS-related tariff amendments operational with a subsequent tariff amendment filed two weeks in advance of the specified operational date in the second half of 2013. To the extent that a waiver of Commission regulations is necessary to allow the NYISO to make this filing more than 120 days prior to the date on which the proposed service is to commence, the NYISO also requests such a waiver.[6]

I. Documents Submitted

1. This filing letter with Appendix A;

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 OATT ("Attachment III");

5. A blacklined version of the proposed revisions to the Services Tariff ("Attachment IV");

[5] The financial benefits of CTS that are described by the MMU, and referenced in this filing letter, are derived from analyzing Transactions only at the NYN Interface. *Benefits of Coordinating the Interchange Between New York and New England;* Patton, David B., Potomac Economics, Ltd., January 21, 2011, ("Benefits Presentation") p. 9; at *http://www.nyiso.com/public/webdocs/committees/bic_miwg/meeting_materials/2011-01-21/Benefits_of_Improved_Interchange_NY-NE_(2).pdf* . ($66 million is the average of NY Consumer savings for Int Bid1 and Int Bid2 over the three years shown.)

[6] *See:* 18 CFR §*35*.3(a)(1).

6. *ISO White Paper; Inter-Regional Interchange Scheduling (IRIS) Analysis and Options*; Matthew White and Robert Pike, January 5, 2011 ("White Paper") published at: http://www.nyiso.com/public/webdocs/committees/bic_miwg/meeting_materials/2011-01-21/Agenda_05_-_IRIS_White_Paper.pdf ("Attachment V"); and

7. *Benefits of Coordinating the Interchange Between New York and New England;* Patton, David B. Potomac Economics, Ltd., January 21, 2011, ("Benefits Presentation"); published at: http://www.nyiso.com/public/webdocs/committees/bic_miwg/meeting_materials/2011-01-21/Benefits_of_Improved_Interchange_NY-NE_(2).pdf ("Attachment VI").

II. Background and Overview of CTS

A. Background

The NYISO's MMU has expressed concern that the existing inter-regional interchange scheduling process between New York and New England does not realize all of the potential benefits from trade between the regions.[7] The MMU has determined that price disparities between regions, when the Interface between them is unconstrained, imply that low-cost generation is used too little and high-cost generation is used too much in the two regions.[8]

A joint evaluation by the NYISO and ISO-NE to follow up on this concern revealed three central reasons that the current trading system does not produce all of the potential benefits that regional trading could provide to both regions.[9]

First, existing trading rules leave unused, ample transmission capacity to move additional power from the lower-cost ISO to the higher-cost ISO in most hours of the year. For example, the NYN Interface operated at half or less of its capacity approximately seventy-five percent of the time in 2009.[10] Since each region has the lower Energy price about equally often, production costs in each region would have been lower if the transmission ties between them had been scheduled more efficiently.[11]

Second, for a number of reasons, Energy trading does not always result in moving power from the low-cost to the high-cost region. One reason is that current bidding and scheduling

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[7] See the recommendations to improve inter-regional trade in several recent *State of the Market Reports*, which are found at: http://www.nyiso.com/public/markets_operations/documents/studies_reports/index.jsp. *See also:* State of the Market Report excerpts in Appendix A.

[8] Potomac Economics Ltd., *2009 State of the Market Report, New York ISO*, pp. 57-58 (also excerpted in Appendix A). *See also:* Potomac Economics, *State of the Market, ISO-NE*, p. 17.

[9] Matthew White and Robert Pike, *ISO White Paper; Inter-Regional Interchange Scheduling (IRIS) Analysis and Options*; January 5, 2011 ("White Paper"); available at: http://www.nyiso.com/public/webdocs/committees/bic_miwg/meeting_materials/2011-01-21/Agenda_05_-_IRIS_White_Paper.pdf.

[10] *Id.* p. II-2. Results were substantially identical for 2007 and 2008. *See:* White Paper p. I-2 for a description of the NYN Interface.

[11] *Id.* at pp II-1, II-6.

processes cannot respond to the frequent arbitrage opportunities between the two regions arising from real time condition variants causing switches between the region with lower costs and the region with higher costs. Existing trading processes lock External Transactions into hourly schedules which cannot be revised even if the identity of the region with the lower-cost Energy has switched. For this reason, and others, power at the NYN Interface, has flowed sub-optimally and counter-intuitively, from the high-priced region to the low-priced region for more than 4000 hours in many years. In 2009, it flowed in a counter-intuitive fashion nearly half the time.[12]

Another reason the existing trading rules do not always result in trading from the low cost to the high-cost region is the current 60 to120 minute gap between the time the energy schedule for the hour is established and the time the power actually flows and real-time settlement prices or RT LBMPs are established This is known as latency risk. When power system conditions change dramatically between the scheduling interval and the interval in which the power actually flows, what was scheduled as an economic trade from the low-cost to the high-cost region can become uneconomic. In 2009, the ISO with the lower RT LBMP at the border switched from one hour to the next over one-third of the time.[13]

Third, other inefficiencies also result from the current External Transaction scheduling processes. External Transaction Bids are economically evaluated separately by each ISO based not on whether the Transaction makes economic sense across the Interface but whether the submitted Bid can be economically scheduled by the evaluating ISO. What was economic for one region may not be for the other and, if the transaction does not flow in real-time because it was not scheduled in both regions, the customer may be exposed to balancing obligations and/or penalties for failed transactions. To manage the financial risk of a single-ISO schedule, the customer's assumption that scheduling and settlement prices will make its proposed Transaction economic in both regions must be accurate when it is submitting its Transaction Bids. This can dampen trader enthusiasm for scheduling across the border.

The MMU estimated the economic benefits that could have been achieved had the NYN Interface been scheduled more efficiently. Comparing the status quo to an efficiently scheduled system, the MMU estimated that the production cost of meeting demand in the two regions (combined) would have been lower by an average of $17 million each year from 2008 through 2010.[14]

Scheduling the NYN Interface more efficiently would also have produced consumer savings by lowering the RT LBMPs in each region. The MMU estimated that these efficiencies would have reduced loads' energy expenditures in the two regions by an average of $196 million per year from 2008 through 2010. Each region's energy expenditures would have been significantly lower in every year examined, with magnitudes that varied by year with fuel costs and system conditions.[15]

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[12] *Id.* pp. iv and II-9. *See* also p. II-8 for a description of this and other reasons for counter-intuitive flow.

[13] *Id.* p. II-16.

[14] Benefits Presentation p. 8.

[15] *Id.* Moreover, data evaluated for the White Paper indicated that both regions' loads would experience lower costs in all years with efficient scheduling. The primary reason is that, in any particular hour, the lower-cost

The White Paper also discussed two market design options to increase efficient use of the Interface: CTS and Tie Optimization.[16] Efficiency improvements possible from each of these design solutions at the NYN Interface were then quantified by the MMU. Annual production costs savings that would have accrued, had CTS been in place from January 1, 2008 through October 31, 2010, were estimated to range from a low of $9 million to a high of $11 million across both regions.[17] The MMU's estimate of the annual consumer savings over this same time period, across both regions, ranged from a low of $129 million to a high of $139 million.[18]

B. Overview and Benefits of CTS

Under the NYISO proposal, once a Proxy Generator Bus is CTS enabled, all real-time External Transactions at the bus, other than wheel-through transactions, would use CTS bidding and scheduling rules.[19] Importing and Exporting Customers would submit a single Bid to indicate their desire to, simultaneously, buy in one Control Area and sell into the other. Every 15 minutes, the NYISO would use its Real-Time Commitment ("RTC") optimization, incorporating the ISO-NE supply curve and the submitted CTS Interface Bids, to determine cross border transaction schedules.[20]

The CTS coordinated optimization for both regions improves scheduling efficiency by: i) better ensuring that scheduling decisions take into account relative price differences between the regions; and ii) providing the scheduling decisions on a more frequent, 15-minute basis. Improved scheduling frequency significantly reduces the transacting customer's latency risk.

The scheduling process, repeated every 15 minutes, will also more fully utilize the CTS Enabled Interface when economic Transactions are proposed to move power from the low-cost to the high-cost region. In addition, higher frequency trading will increase the opportunity to use External load and generation at the NYISO/ISO-NE Interface to help balance the New York

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ISO tends to be operating on a flat portion of its supply curve, and the higher-cost ISO tends to be operating on a steeper portion of its supply curve. Sending additional megawatts from the low-cost to high-cost region tends to decease the price in the high-cost region substantially, but increase prices in the low-cost region significantly less. Because the region with lower costs can vary from day to day and often within each day, both New York and New England can be expected to experience decreases in average LMPs on an annual basis. *See:* White Paper at II-14.

[16] *See*: White Paper Section IV for a discussion of CTS and Section III for a discussion of Tie Optimization.

[17] Benefits Presentation, p. 8. The range of projected benefits relates to the assumed dollar value provided in the CST Interface Bids. These benefit values differ slightly from updated annual production cost savings the NYISO has cited in informal conversations regarding the benefits of CTS.

[18] *Id.* Separation in the regional share of consumer savings such as appeared in 2010 can result when one ISO or the other has a greater number of price spikes, operating reserve shortages, or other adverse system conditions that skew the benefits towards the ISO experiencing more adverse system conditions. During normal operating years, such as 2009, the expenditure reductions to loads are quite similar in each region. White Paper p. II-14.

[19] This includes both Transactions to buy and sell Energy from the ISOs' LMP Markets and Bilateral Transactions to schedule Transmission Service for a private Energy sale. Wheel-through Transactions at CTS Enabled Proxy Generator Buses would use Decremental Bids, as they do currently.

[20] Every 15 minutes, the NYISO runs a multi-period optimization covering the next three hours in 15-minute intervals. The coordination with ISO-NE for the CTS Enabled Proxy Bus Transactions involves ISO-NE providing its interface supply curve every 15 minutes as an input into the NYISO optimization.

Control Area's demand and intermittent resource generation on a real-time basis.[21] CTS scheduling will also avoid the financial risk of a single-ISO schedule by ensuring, if scheduled at all, the proposed Transaction will be scheduled in both ISOs.

CTS will accommodate both purchases and sales of Energy and the scheduling of Transmission Service in real-time at CTS Enabled Interfaces. No changes to the scheduling of External Transactions in the Day-Ahead Market are necessary. Market Participants will flow their Day-Ahead scheduled Transactions into the Real-Time Market by using a CTS Interface Bid much like a real-time Transaction Bid is used currently.

Several modifications to other market rules will further increase the efficiency of External Interface scheduling at CTS Enabled Interfaces. First, the NYISO proposes to ease the hurdle rate for External Transactions at the CTS Enabled Interface by eliminating Import and Export fees that would otherwise attach to injections and withdrawals resulting from CTS Interface Bids. Each fee proposed for elimination is described in Section IV. D. below. Taken as a whole, these revisions will reduce the incidental fees that encumber efficient trading across the Interface.

The NYISO is also proposing to remove two transactional revenue guarantees that otherwise would be available to Importers of Energy on the CTS Enabled Interface: the Real-Time Bid Production Cost Guarantee ("RT BPCG") and the Import Curtailment Guarantee.

The RT BPCG is currently paid to Importers when the revenues they receive for selling their Energy Import in the Real-Time Market do not recover the costs of the transaction as reflected in their Bid. This risk is brought about by the latency between the time the Transaction was scheduled and the time the power flowed and the settlement price or RT LBMP was established. Statewide Load currently absorbs the cost of protecting Importers from this latency risk.

As mentioned above, CTS should significantly reduce the financial risks of Energy trading, thereby reducing the need for RT BPCG in the first place. In approving CTS from among the alternative market designs that were considered, stakeholders chose to move the cost of protecting against latency risk to cross-border Transaction customers where it would be captured in the Importers' Bids rather than recover the cost of this risk from statewide Load. Eliminating the RT BPCG payments for Imports at CTS Enabled Interfaces will leave to each transacting customer the decision on how recovering the cost of latency risk fits within its bidding strategy.

The Commission has accepted similar proposals from the NYISO to impose this risk on transacting customers rather than statewide Load. These decisions related to: hourly transactions at Interfaces where Customers can elect to have their External Transactions scheduled on a 15-

[21] As renewable resources increase their output and lower LBMPs in one region relative to another, additional Export Transactions can become economic thus increasing the magnitude of those transactions. The reverse is also true; as renewable resources decrease their output and LBMPs increase in one region relative to another, additional Import Transactions can become economic thus increasing the magnitude of those transactions.

minute basis; import transactions at non-competitive proxy generator buses, and at all designated scheduled lines, when such facilities are export constrained.[22]

Similarly, the NYISO proposes to eliminate, at CTS Enabled Interfaces, the Import Curtailment Guarantee. The NYISO makes this payment, as a general matter, to keep the Importer whole to its Day-Ahead Margin if the NYISO curtails the real-time scheduled Import for reliability reasons and the Importer's balancing market obligation erodes the Day-Ahead Margin it would otherwise have earned. The risk of such a curtailment should also be incorporated in the Importer's Bid rather than be fully passed through as a guarantee payment to statewide Load. Of note – neither the RT BPCG nor the Curtailment Guarantee have ever been available to Exporters. Although Exporters face similar latency and curtailment risks they are required to structure their Bids in response to their exposure to these costs.

As stated in the *2010 State of the Market Report for the New York Markets*, the MMU supports the CTS market design as improving the efficiency of Energy Transactions across the borders at which it is authorized.[23] As noted, the MMU further expects that CTS will produce production cost savings and consumer savings for both the NYISO and ISO-NE.

Market Participants in both regions voted to support CTS.[24] ISO-NE has presented corresponding CTS tariff amendments to its Market Participants and expects a vote in support from the Participants Committee in January, 2012. ISO-NE expects to file its corresponding Tariff amendments soon thereafter. Once CTS amendments to the Tariffs of both ISOs are accepted, and the software upgrades are complete, the two ISOs intend to designate the New York North Proxy Generator Bus and the Northport/Norwalk Proxy Generator Bus as CTS enabled Proxy Generator Buses.[25] This designation is currently scheduled for 2013.[26]

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[22] *See*: *New York Independent System Operator, Inc.*134 FERC 61,186 (2011), P 6.

[23] *See:* 2010 SOM at: http://www.nyiso.com/public/markets_operations/documents/studies_reports/index.jsp. (Also excerpted in Appendix A):

> *Our analyses indicate that the potential production cost savings are roughly $17 million per year assuming optimal interchange based on perfect information. The study indicated that a large share of these potential benefits would be captured by either of the two proposed solutions (roughly 70 percent). While the Tie Optimization proposal performed slightly better in our simulations than the Coordinated Transaction Scheduling proposal, the benefits are similar. Therefore, we would support either alternative.* p. x

[24] The NYISO Business Issues Committee voted in support of CTS on June 1, 2011 and again on August 31, 2011 after the going forward concepts described in Attachment P of the Services Tariff, being proposed here, had been presented. The ISO-NE Participants Committee voted on September 9, 2011 to support CTS with the same going forward considerations incorporated.

[25] The Interface between the NYISO and ISO-NE has several Proxy Generator Buses, only one of which, the New York North Interface, has been evaluated for for CTS implementation. (*See* White Paper at p. I-2.) The NYISO is exploring the implementation of CTS at its other Proxy Generator Buses, with the exception of Proxy Generator Buses at Scheduled Lines. The NYISO expects to propose additional tariff amendments to effectuate the implementation of CTS at other Proxy Generator Buses over the next several years.

[26] This schedule is consistent with the schedule for implementing more optimal scheduling at the NYISO/ISO-NE common border that the NYISO provided in its April 13, 2011 compliance filing in ER11-2547-000 at p. 6.

As is discussed in greater detail below, Market Participants in both regions have agreed to a set of production cost savings thresholds which, if triggered, could result in pursuit of an alternate market design, including "Tie Optimization."[27] The NYISO Market Participants have agreed to a streamlined stakeholder approval process whereby Tie Optimization tariff amendments would be submitted to the Commission as a compliance filing, as directed by the NYISO Board , if, as described in Attachment P, the thresholds have triggered and the deliberations to do so have been made. This process is described in greater detail in Section III.G. of this filing letter.

III. Description and Justification of Proposed Tariff Revisions to the Services Tariff

A. Section 2: Definitions

The NYISO proposes several new defined terms:

Section 2.3:

CTS Enabled Interface: This term describes the External Interface over which the NYISO has authorized the use of CTS market rules for bidding and scheduling External Transactions. The CTS Enabled Interface will include a New York Proxy Generator Bus to be used by Market Participants as the Point of Injection or Withdrawal to support proposed Imports or Exports over this Interface. There will also be a corresponding Proxy Generator Bus represented by the neighboring Control Area to provide the corresponding Points of Withdrawal and Injection for these cross border Transactions. A CTS Enabled Interface would be defined as:

> An External Interface at which the ISO has authorized the use of Coordinated Transaction Scheduling ("CTS") market rules and which includes a CTS Enabled Proxy Generator Bus for New York and a CTS Enabled Proxy Generator Bus for the neighboring Control Area.

CTS Enabled Proxy Generator Bus: The NYISO proposes to define this term as:

> A Proxy Generator Bus at which the ISO requires the use of CTS Interface Bids for Import and Export Transactions and the use of Decremental Bids for Wheels Through in the Real-Time Market.

CTS Interface Bid: This term describes the Bid that Market Participants will use at CTS Enabled Interfaces to, in effect, simultaneously bid to buy and offer to sell Energy (or schedule Transmission Service) across the Interface in the Real-Time Market.

Wheel-through Transactions at CTS Enabled proxy Generator Buses will be scheduled hourly and will be Bid as they are today using existing External Transaction Bidding protocols rather than CTS Interface Bids. [28]

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[27] See: White Paper, Section III for a discussion of Tie Optimization.

[28] Because Wheels Through are simultaneously scheduled at two NYISO Interfaces, the NYISO is constrained to use Bid-types and scheduling frequency that are common to all its Interfaces.

Bilateral Transactions, or requests for Transmission Service, will also be submitted using a CTS Interface Bid and will be included in the NYISO's economic optimization at the CTS Enabled Proxy Bus. As is the case today, the request for transmission service will be scheduled if economic although no Energy settlement will be attached to the schedule. Rather, a Transmission Usage Charge will be calculated and charged as it is today.[29]

A **CTS Interface Bid** would be defined as:

> A Real-Time Bid provided by an entity engaged in a Transaction at a CTS Enabled Interface other than a Real-Time Bid provided by an entity for a transaction to wheel Energy through New York or through the neighboring Control Area which Bid includes a MW amount, a direction indicating whether the proposed Transaction is to Import Energy to, or Export Energy from, the New York Control Area, and a Bid Price.

The following four new defined terms, described below, are necessary to complement the proposed amendment revising the term "Bid Price" (described *infra*):

> **CTS Sink Control Area:** The Control Area with which the Point of Withdrawal for a CTS Interface Bid is associated.
>
> **CTS Source Control Area:** The Control Area with which the Point of Injection for a CTS Interface Bid is associated.
>
> **CTS Sink Control Area Price:** The price at which the Sink Control Area settles CTS Interface Bids.
>
> **CTS Source Control Area Price:** The price at which the Source Control Area settles CTS Interface Bids.

The NYISO is proposing to clarify the term **Congestion Component** by adding to the definition a reference to Attachment B of the Services Tariff. The amendment is show in the underlined definition below:

Congestion Component: The component of the LBMP measured at a location or the Transmission Usage Charge between two locations that is attributable to the cost of transmission Congestion <u>as is more completely defined in Attachment B of the Services Tariff</u>.

<u>Section 2.2:</u>

The NYISO proposes revisions to this Section to both implement CTS and to provide clarifications to existing language where needed.

[29] *See*: OATT Section 2.7.2.2.

The NYISO proposes to amend the term **Bid Price** to include a description of the dollar value submitted in the CTS Interface Bid. The amendment is shown as underlined in the definition below:

> **Bid Price:** The price at which the Customer offering the Bid is willing to provide the product or service, or is willing to pay to receive such product or service, as applicable . In the case of a CTS Interface Bid, the Bid Price is a dollar value that indicates the bidder's willingness to purchase Energy in the CTS Source Control Area and sell it in the CTS Sink Control Area across the CTS Enabled Interface, if the forecasted difference at the time of scheduling between the CTS Sink Control Area Price and the CTS Source Control Area Price is greater than, or equal to, the dollar value specified in the bid.

Whether an External Transaction to buy and sell Energy across the border is economic ultimately depends on the difference in price between the Control Area from which Energy is purchased (the **CTS Source Control Area Price**) and the price in the Control Area to which Energy is sold (the **CTS Sink Control Area Price**). Therefore, the dollar value or "Bid Price" a Market Participant includes in its CTS Interface Bid is the minimum price difference at which the Market Participant wants its Transaction to be scheduled. If the forecasted **CTS Sink Control Area Price** minus the forecasted **CTS Source Control Area Price** is greater than, or equal to, the dollar value specified in the bid, the External Transaction will be scheduled.[30]

The NYISO also proposes two clarifying amendments to the term **Bid** to accurately portray the actions contemplated by the term and to indicate Ancillary Services are only bid to be sold not to be purchased:

> **Bid:** Offer to ~~purchase~~ sell or bid to ~~sell~~ purchase Energy, Demand Reductions, or Transmission Congestion Contracts and ~~/or~~ a bid to sell Ancillary Services at a specified price that is duly submitted to the ISO pursuant to ISO Procedures. Bid shall mean a mitigated Bid where appropriate.

Clarifications are also proposed to the term **Bilateral Transaction** to indicate that Bilateral Transactions for Ancillary Services are not available and that Point-to-Point Transmission Service is available only in the Energy market:

> **Bilateral Transaction:** A Transaction between two or more parties for the purchase and/or sale of Capacity~~,~~ or Energy~~, and/or Ancillary Services~~ other than those in the ISO Administered Markets. A request to schedule a Bilateral Transaction in the Energy Market shall be considered a request to schedule Point-to-Point Transmission Service.

[30] The Real-Time Commitment ("RTC") or scheduling software incorporates forecasts of expected conditions for the future interval during which the Transaction will flow, if scheduled (see description of RTC in the Services Tariff Section 4.4.4 described i*nfra),* and evaluates the economics of the submitted CTS Interface Bid based on these forecasts.

Section 2.4, 2.18 and 2.19:

As described below, the NYISO proposes to amend several terms, to clarify their relationship to CTS Interface Bids. A Real-Time Bid includes a CTS Interface Bid:

> **Real-Time Bid:** A Bid submitted into the Real-Time Commitment before the close of the Real-Time Scheduling Window. A Real-Time Bid shall also include a CTS Interface Bid.

In addition to clarifying that a **Sink Price Cap Bid** does not include a **CTS Interface Bid**, the NYISO also proposes a minor modification to indicate that the value given in a **Sink Price Cap Bid** represents the price at or below which the entity is willing to have its Transaction scheduled.

> **Sink Price Cap Bid**: A monotonically increasing Bid curve provided by an entity engaged in an Export, other than an entity submitting a CTS Interface Bid, to indicate the relevant Proxy Generator Bus LBMP at or below which that entity is willing to either purchase Energy in the LBMP Markets or, in the case of Bilateral Transactions, to accept Transmission Service, where the MW amounts on the Bid curve represent the desired increments of Energy that the entity is willing to purchase at various price points.

Similarly, the NYISO proposes clarifying amendments to the term **Decremental Bid** in addition to indicating that they do not include **CTS Interface Bids**. The clarification indicates that the value in a **Decremental Bid** represents the Congestion Component at or below which the entity is willing to have its Transaction scheduled. The NYISO also proposes to amend the described use of a **Decremental Bid** by a Customer bidding a wheel-through Transaction to eliminate the redundant word "Bilateral" since all Wheels Through are Bilateral Transactions:

> **Decremental Bid:** A monotonically increasing Bid curve provided by an entity engaged in a Bilateral Import, other than an entity submitting a CTS Interface Bid, or Internal Transaction to indicate the LBMP below which that entity is willing to reduce its Generator's output, and purchase Energy in the LBMP Markets, or by an entity engaged in a ~~Bilateral~~ Wheel Through Transaction to indicate the Congestion Component cost at or below which that entity is willing to accept Transmission Service.

Section 2.20:

The NYISO proposes to clarify the term **Transaction** to indicate that all Transactions, including purchases of Energy from and sales of Energy to the NYISO's LBMP Markets, include both a Point of Injection and a Point of Withdrawal:

> **Transaction**: The purchase and/or sale of Energy or Capacity, or the sale of Ancillary Services. A Transaction bid into the Energy market to sell or purchase

Energy or to schedule a Bilateral Transaction includes a Point of Injection and a Point of Withdrawal.

B. Section 4: Real-Time Markets and Schedules

The NYISO proposes only minor changes to this Section which describes, among other things, the bidding and scheduling rules for real-time Transactions. A clarification is added to the title of Section 4.4.1.2.1 to indicate the section is not discussing External Transaction bidding. Section 4.4.1.2.2 is clarified to indicate that the NYISO can vary External Transaction schedules at CTS Enabled Proxy Generator Buses. Unlike other Proxy Generator Buses that offer 15-minute scheduling, Market Participants cannot choose to use either 15-minute or hourly scheduling at CTS Enabled Proxy Generator Buses. Transactions resulting from CTS Interface Bids will be evaluated and scheduled on a 15 minute basis; Wheels-Through will be evaluated and scheduled once each hour.

The NYISO proposes amendments to Section 4.4.1.4 to reflect the fact that the Real-Time Commitment ("RTC") software will schedule External Transactions at CTS Enabled Proxy Generator Buses every 15 minutes. For instance, RTC_{15} [31] will schedule 15-minute External Transactions at the CTS Enabled Proxy Generator Bus for the quarter hour that begins 30 minutes after the top of the hour although it schedules 15-minute Transactions at Variably Scheduled Proxy Generator Buses for the quarter hour that begins 45 minutes after the top of the hour. Each of the four RTC evaluations that establish schedules at Variably Scheduled Proxy Generator Buses throughout each hour, and which would establish schedules at the CTS Enabled Proxy Generator Bus, are currently defined in Section 2.18 of Services Tariff as the "Rolling RTC."

A new column is being added to the table in Section 4.4.4 to indicate which characteristics apply to specific Proxy Generator Buses. These characteristics include available scheduling frequencies, whether non-competitive pricing rules apply and whether the Designated Scheduled Lines classification is used. The proposed amendment would add the opportunity to designate Proxy Generator Buses as CTS Enabled although no Proxy Generator Buses are designated as CTS Enabled in this filing.

As noted, the NYISO expects to implement CTS in the second half of 2013. The NYISO would make a filing subsequent to an order accepting this filing to amend the table in Section 4.4.4 for the purpose of establishing a specific implementation date and designating appropriate Proxy Generator Buses as CTS Enabled.[32] As mentioned, the NYISO currently plans to designate the New York North and the Northport/Norwalk Line Proxy Generator Buses as CTS Enabled although the development/design process necessary to add the Northport/Norwalk Line Proxy Generator Bus is not yet complete. If this Bus cannot be implemented at the same time that the NYN Interface would become CTS Enabled, the NYISO will provide information

[31] RTC_{15} posts 15 minutes after the top of the hour.

[32] This subsequent filing would mirror the NYISO's July 1, 2011 filing in Docket ER11-2547-000 to indicate that the NYISO and Hydro-Quebec were ready to schedule Transactions at their border every 15 minutes rather than once an hour.

regarding the status of that effort at the same time that it makes its subsequent filing to specify a proposed effective date.

C. Section 17, Attachment B

The NYISO proposes several amendments to Attachment B, which contains the formulae specifying the calculation of LBMPs. Several of the proposals would only clarify, and would not substantively modify, the existing formulae.

CTS-Related Amendments:

The first CTS related amendment appears in the definitions section of Section 17.6.1 where the NYISO proposes to add a new defined term **Proxy Generator Bus Constraint Cost** or **PConstraint**. The term **PConstraint** is intended to represent that portion of the Rolling RTC congestion component that is associated with the Proxy Generator Bus Constraint, which cost is proposed to be added to the RT LBMP in certain situations. The term would be defined as follows:

> **PConstraint:** The product of: i) that portion of the Congestion Component that is associated with a Proxy Generator Bus Constraint and ii) a factor, between zero and 1, calculated pursuant to ISO Procedures.

The NYISO also proposes a new table in Section 17.1.6.2.4, similar to the others appearing in Section 17.1.6, to describe the Real-Time LBMP calculation for Proxy Generator Buses which have been designated as CTS Enabled.

The proposed new table shows the Real-Time LBMP formula in the third column for the three possible situations at the CTS Enabled Proxy Generator Bus. First, there may be no constraint in the Rolling RTC outcome in which case the real-time LBMP at the CTS Enabled Proxy Generator Bus is the LBMP produced by RTD.[33] The other two situations provide the formulae for calculating the LBMP when there is a constraint in the Rolling RTC outcome either in the import or the export direction.

Accurately setting the RT LBMPs at CTS Enabled Proxy Generator Buses for each 15-minute interval requires the NYISO to include a portion of the Congestion Component associated with the CTS Enabled Proxy Generator Bus Constraint, identified in the Rolling RTC evaluation, in the RT LBMP. When a Proxy Generator Bus Constraint either into or out of the NYCA appears in the Rolling RTC evaluation, proposed Rules 51 and 52 indicate the RT LBMP will be the RT LBMP calculated at that location by RTD plus the **PConstraint** from the Rolling RTC evaluation.

The NYISO and ISO-NE have agreed to share any congestion costs associated with the CTS Enabled Proxy Generator Bus in their RT LBMPs. Thus, only a portion of the congestion component associated with a CTS Enabled Proxy Generator Bus Constraint should appear in the NYISO RT LBMP for the CTS Enabled Proxy Generator Bus. The mechanism for sharing real-

[33] The manner in which RTD calculates LBMP is set forth in the Services Tariff Section 17.1.2.1.

time congestion associated with the CTS Enabled Proxy Generator Bus(s) will be developed in conjunction with design specifications and operational coordination procedures between the two ISOs. Although the manner in which this congestion sharing has yet to be determined, together the regions' share will equal one. The factor, between zero and one and established pursuant to ISO Procedures, would be multiplied by the RTC congestion component associated with the Proxy Generator Bus Constraint to calculate the **PConstraint** or the amount of RTC congestion to be added to the RT LBMP.

Additional Clarifying Amendments:

The NYISO proposes to clarify Section 17.1 to more directly indicate that LBMPs (calculated for both the Day-Ahead and Real-Time Markets) reflect the effect of meeting an increment of load given the need to trade-off products when scheduling providers for Energy (or Demand Reduction) or scheduling them to provide Regulation Service or Operating Reserves. The NYISO also proposes a clarification for Section 17.1.5 to correctly indicate in the text describing the Zonal LBMP calculation that the Load Bus LBMPs, the weighted average for which is used for this calculation, are those in each Load Zone not those NYCA-wide.

In response to a concern from Commission staff that the calculation of zonal LBMPs, posted on the NYISO website for the four External Zones, does not appear in Section 17.1.5, the NYISO also proposes for this section an explanation that zonal LBMPS for the four External Zones are equal to the Proxy Generator Bus LBMPs associated with each External Zone. The NYISO also proposes to provide a cross reference table. With this clarification, the NYISO now includes in this section the derivation for all Zonal LBMPs it posts.[34]

The NYISO also proposes to clarify the text that opens Section 17.1.6.2 to make it more readily comprehensible. For the same purpose, the NYISO proposes setting apart each of the existing ten tables that appear in Section 17.1.6 with a subsection number and title. Minor clarifications are also proposed for similar reasons to Sections 17.1.6.5 and 17.1.6.6 – none of which change the meaning of the provisions.

D. Section 18, Attachment C: Formulas For Determining Bid Production Cost Guarantee Payments

The NYISO proposes to amend Section 18.6.1.2, the Section in Attachment C that describes the situations under which Customers are not eligible for an RT BPCG to add, as a new Section 18.6.1.2.5, an exclusion from RT BPCG eligibility for Customers that schedule real-time Import Transactions at CTS Enabled Proxy Generator Buses.

The NYISO proposes a minor clarification in Sections 18.6.1.2.1 and 18.6.1.2.4 to replace the informal reference to a "shortfall payment" with the defined term "Bid Production Cost Guarantee."

[34] External Zone LBMPs are for information only and do not provide any data used in settlements.

E. Section 21, Attachment F – Bid Restrictions

The NYISO proposes amendments to Section 21, Attachment F which describes the $1000 Bid cap in place in New York to ensure that this limitation applies to CTS Interface Bids. Several clarification amendments are also proposed. To cover CTS Interface Bids, the NYISO proposes to amend Section 21.5.1 to indicate that the $1000 Bid cap applies to CTS Interface Bids. The NYISO also proposes to clarify the language in this section by including Sink Price Cap Bids as Bids to which the $1000 Bid cap also applies and eliminating the explanatory language concerning Decremental Bids as redundant. Any Transaction using these Section 21.5.1 Bid types is covered under the amended language now proposed and the material proposed for deletion is no longer necessary.

The NYISO also proposes to remove the reference to Section 21.6 that appears throughout this Attachment F as there is no longer a Section 21.6. The failure to eliminate the reference was an oversight when the section itself was eliminated.

F. Section 25, Attachment J – Determination of Day-Ahead Margin Assurance Payments and Import Curtailment Guarantee Payments

The NYISO proposes to amend Attachment J, Section 25.6.1, to indicate that no Import Curtailment Guarantee is available for Imports at CTS Enabled Proxy Generator Buses.

G. Section 31, Attachment P: Coordinated Transaction Scheduling Actions, Thresholds and Triggers

The NYISO proposes to add a new Attachment P to describe: i) the review that the NYISO stakeholders have requested be used to evaluate the success of CTS in improving the efficiency of Transactions across the NYN and Northport Norwalk Interfaces after they become CTS Enabled; and ii) the thresholds and triggers which will be presented and evaluated in deciding whether to pursue the alternate market design known as Tie Optimization, or other alternative replacement rules (a "superior alternative") that might emerge, for use on the CTS Enabled Interface.[35] Attachment P's provisions are limited in their applicability only to the NYN Interface, and the Northport/Norwalk Line if it is implemented in conjunction with the NYN Interface.

As previously noted, the NYISO and ISO-NE developed two market design proposals in response to the MMU's evaluation that trading across the border was inefficient and in need of improvement. After a series of seven joint meetings between NYISO and ISO-NE stakeholders to discuss why efficiency improvements were needed, the two market designs, and the

[35] Tie Optimization is described at Section III of the White Paper and is similar to CTS in several ways. It would also utilize15-minute scheduling, and would include the elimination of fees that deter trade at the border. Tie Optimization differs from CTS in that it would not utilize External Transaction offers to help determine real-time interface schedules between the two regions. Rather, the ISOs would optimize their external transmission links in the same way, or as closely as possible, as they optimize the use of their internal transmission system.

production cost savings potentially available from each – the NYISO Market Participants voted to pursue CTS while ISO-NE's Market Participants voted in favor of Tie Optimization.[36]

To bring the Market Participants together on a going-forward strategy, the ISOs developed the procedure memorialized in Attachment P. It provides for a series of future reviews and analyses whereby market rules to replace CTS could be pursued. The proposed streamlined stakeholder process, described as a compliance filing, avoids the possibility that a subsequent committee vote could prevent the NYISO from filing tariff amendments under Section 205 of the Federal Power Act to introduce Tie Optimization if the agreed upon conditions that would trigger a Tie Optimization filing were met.

Attachment P is designed to balance the preferences of stakeholders in ISO-NE and the NYISO and to allow the Commission to consider the CTS proposal, which is expected to bring substantial improvements to the efficiency of Energy trading, sooner than would otherwise be possible.

Broadly, Attachment P would require a review of production costs savings by the NYISO MMU after CTS market rules had been in effect on the NYISO/ISO-NE Interface for two years ("two-year review"). A threshold and trigger would be applied to the results of this two-year review to determine whether the production costs savings being achieved from CTS meet the defined production cost savings thresholds. The production cost savings thresholds and triggers to be applied are set out in Section 31.1.1. The analysis provided in Section 31.1.1 was developed by the MMU and described to the August 31, 2011 Business Issues Committee.[37]

If the two-year review and trigger indicate that the thresholds established in Section 31.1.1 had not been met, potential CTS improvements would be identified and deployed as appropriate. One year after these CTS improvements have been in place, another review ("one-year review") would be conducted and a comparison, again using the MMU's thresholds and triggers, would be performed. If the second comparison indicates that the thresholds provided in Section 33.3.3 (which match those provided in Section 31.1.1) had not been met, Section 31.3.7 directs the NYISO to proceed to develop proposed tariff revisions to implement Tie Optimization. Section 31.3.6 provides that a "superior alternative," should one appear, could substitute for the development of the tariff revisions describing Tie Optimization.[38]

In Section 31.4, the NYISO proposes that any tariff amendments required to implement CTS improvements, and any tariff amendments required to implement Tie Optimization, as

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[36] *See:* Minutes of the June 1, 2011 NYISO Business Issues Committee meeting at http://www.nyiso.com/public/webdocs/committees/bic/meeting_materials/2011-06-01/Final_BIC_Minutes_060111.pdf.

[37] *See:* Minutes of the meeting and MMU presentation at: http://www.nyiso.com/public/markets_operations/committees/meeting_materials/index.jsp?com=bic.

[38] Attachment P provides that any tariff revisions necessary to effectuate a "superior alternative," a term that was purposefully left undefined, would follow the process set forth in Article 19 of the *ISO Agreement* , *i.e.*, a Section 205 filing proposing such an alternative could only be made with the concurrence of the stakeholder Management Committee.

appropriate, be made with the Commission as "compliance filings" at the direction of the NYISO Board of Directors.[39]

Attachment P has been structured to provide ample opportunity for Market Participants to be fully involved in these reviews and analyses and in reaching final decisions. Opportunities for stakeholder review and comment in the evaluation analyses and potential tariff improvements undertaken pursuant to Attachment P include: i) MMU presentation of its two-year review; ii) the development of CTS improvements, if any; iii) MMU presentation of its one-year review following CTS improvements, if any; iv) NYISO's consideration of whether a "superior alternative" has emerged from stakeholder discussion; and v) development of tariff amendments describing Tie Optimization including comments to aid the Board in its evaluation of these proposed tariff amendments.

While individual stakeholders may have concerns over any one or more elements of Attachment P, all of its elements stand together as a package, acceptable to most stakeholders, that will bridge the gap between the opposing views of the stakeholders in New York and ISO-NE. All of Attachment P's elements should therefore be accepted as presented.

IV. Description and Justification of Proposed OATT Revisions

A. Section 1: Definitions

All definitions proposed to be amended or added to the Services Tariff will be added and amended in the same manner in the OATT. In addition to including the CTS-related new terms added to the Services Tariff, the following terms were amended to conform to the definitions in the Services Tariff:

Bid Price
Bid
Bilateral Transaction
Congestion Component
Export
Proxy Generator Bus
Real-Time Bid
Sink Price Cap Bid
Decremental Bid
Transaction

[39] Section 31.4 also provides that the NYISO's Board be provided with the Market Participants' perspectives on pursuing CTS improvements or Tie Optimization for use as it deliberates making a subsequent filing with the Commission.

The NYISO understands that the Commission is not bound by the direction in Attachment P that subsequent tariff filings (to implement CTS improvements or Tie Optimization) are to be submitted as compliance filings. The NYISO submits that should the Commission not direct these subsequent filings be made as compliance filings it could conclude, nonetheless, that a filing to introduce Tie Optimization made pursuant to the process described in proposed Attachment P would be a valid Section 205 filing under the NYISO's governing agreements, since the NYISO's Management Committee has voted in advance to authorize the NYISO to propose tariff revisions in one or more subsequent Section 205 filing(s) if certain conditions are met.

In addition, the term "Scheduled Energy Withdrawal" is added to the OATT and defined as follows:

Energy Withdrawals which are scheduled on a real-time basis by RTC.

B. Section 3: Point-To-Point Transmission Service

The NYISO proposes a minor clarification to Section 3.1.8.2 which describes Firm Point to Point Service in the Real-Time Market to indicate the NYISO will furnish schedules rather than hour-to-hour schedules for Transmission Service requested between a Point of Receipt (or injection) to a Point of Delivery (or withdrawal) at a Proxy Generator Bus. The amendment adjusts the language to also cover the 15-minute Transmission Service schedules that the NYISO provides at Variably Scheduled Proxy Generator Buses.

C. Section 16, Attachment J

The NYISO proposes to amend Section 16.2.2.3, the calculation of real-time transmission losses, to eliminate a redundant reference to RTC_{15}. Existing Section 16.2.2.3(iii) accurately describes the only situation under which marginal losses are calculated by in RTC_{15}. For all other situations the marginal losses in the real-time LBMP are calculated by RTD.

The NYISO proposes to amend Section 16.2.2.6 to expand the settlement calculations described in the first paragraph to include Energy purchases in the Real-Time Market by Transmission Customers. These amendments will explicitly indicate that charges for Transmission Customers exporting Energy from the NYISO LBMP Market are calculated pursuant to the first paragraph in this Section.

The NYISO proposes to amend Section 16.3.1, the Section that describes requests for Bilateral Transaction Schedules, to include requests for Bilateral Transactions contained in CTS Interface Bids and to indicate only Firm Transmission Service is available at CTS Enabled Proxy Generator Buses. The NYISO also proposes to amend the description of intra-hour scheduling. Schedules established as a result of a CTS Interface Bid will be provided every 15 minutes. Wheel-through Transactions at CTS Enabled Proxy Generator Buses will not be submitted using a CTS Interface Bid and will be established hourly.

The NYISO proposes to amend Section 16.3.3.1 to add the scheduling of CST Interface Bids to ISO responsibilities and to make conforming changes throughout this section to indicate its provisions, as amended, cover CTS Interface Bids as well.

D. Section 6: Rate Schedules

Section 6.1, Rate Schedule 1: ISO Annual Budget Charge and Other Non-Budget Charges and Payments

The NYISO proposes to amend the Sections of Rate Schedule 1 listed below to eliminate the imposition of the fees therein described on Transactions that result from CTS Interface

Bids.[40] As a general matter, individual sections of Rate Schedule 1 impose fees based on each Customer's load ratio share of Withdrawal Billing Units, an element of which, for Exports, is a Customer's Scheduled Energy Withdrawals. Load ratio shares are developed by defining the withdrawals to which the fee attaches ('WithdrawalUnits') and the universe of all withdrawals against which individual load ratio shares are calculated ('TotalEstWithdrawalUnits'). Certain fee calculations include a credit back to Customers on which the fee has been imposed, based on their load ratio shares similarly calculated.

The ISO Annual Budget Charge is the single charge that is also based on a Customer's load ratio share of Injection Billing Units which, for Importing Customers, includes their Scheduled Energy Injections. A Customer's load ratio share of Injection Billing Units is calculated in a parallel fashion to the calculation of Withdrawal Billing Units.

The amendments proposed in Rate Schedule 1 exclude from the terms 'WithdrawalUnits' and 'TotEstWithdrawalUnits' in the selected Sections listed below, the phrase "Scheduled Energy Withdrawals resulting from CTS Interface Bids." When a particular fee includes a credit back provision, the NYISO-proposed amendment is also applied to the credit back calculation. The proposed amendment of the ISO Annual Budget Charge also excludes from the term 'InjectionUnits' and 'TotalInjectionUnits' and "Scheduled Energy Injections resulting from CTS Interface Bids."

The affected Sections are:

6.1.2.2 :	recovery of the ISO Annual Budget Charge
6.1.2.5:	credit back to Customers paying the ISO Annual Charge
6.1.6.1.1:	recovery of the Non-ISO Facilities Payment Charge
6.1.8.1.1:	recovery of the Residual Costs Payment/Charge
6.1.10.2.1:	recovery of the costs of remaining Day-Ahead Margin Assurance Payments
6.1.11.1:	recovery of Import Curtailment Guarantee payment costs
6.1.12.6.1:	recovery of the cost of remaining Bid Production Cost Guarantees
6.1.13.1:	recovery of Dispute Resolution Payment/Charge
6.1.14:	payment of recovered financial penalties

Section 6.2, Rate Schedule 2: Voltage Support Service

The NYISO proposes similar amendments to the recovery of the costs of Voltage Support Service to exclude scheduled withdrawals resulting from CST Interface Bids. Voltage Support Service is currently recovered from all Customers' Withdrawal Billing Units which include Scheduled Energy Withdrawals at Proxy Generator Buses.

[40] These fees recover certain costs the NYISO's Services Tariff or OATT require be paid. In certain situations, these costs may actually be negative, wherein the entity routinely entitled to a reimbursement is, instead, expected to pay a charge. In such cases, the fee described herein may, instead, be a payment which is distributed based on load ratio shares.

The NYISO is proposing to exclude Scheduled Energy Withdrawals resulting from CTS Interface Bids from this recovery by amending Sections 6.2.1.1 and 6.2.2.1 to specifically exclude application of the Voltage Support Service Rate to Customers and Transmission Customers engaged in Export Transactions resulting from CTS Interface Bids.

Section 6.5, Rate Schedule 5: Operating Reserves

The NYISO proposes similar amendments to the recovery of the costs of Operating Reserves to exclude scheduled withdrawals resulting from CTS Interface Bids. Operating Reserves is currently recovered from all Customers' Withdrawal Billing Units which include Scheduled Energy Withdrawals at Proxy Generator Buses.

The NYISO is proposing to exclude Scheduled Energy Withdrawals resulting from CTS Interface Bids from this recovery by amending Sections 6.5.1 to specifically exclude Scheduled Energy Withdrawals from Customers and Transmission Customers engaged in Export Transactions resulting from CTS Interface Bids from a charge for Operating Reserves costs.

V. Requested Effective Date and Request Regarding the Timing of Commission Action and Request for Waiver, if Necessary

The NYISO respectfully requests that the Commission issue an order, and provide an effective date for the tariff amendments included in this filing, within the sixty day period after ISO-NE files its conforming CTS tariff revisions unless such date would be more than one hundred twenty days after the date of this filing. Because ISO-NE is expected to make its filing early in 2012 it is unlikely that the one hundred and twenty day deadline would be reached. In the unforeseen event that ISO-NE's filing is materially delayed, however, the NYISO respectfully requests that the Commission issue an order accepting this filing, and provide an effective date for the tariff amendments included in this filing, within one hundred and twenty days after the date that this filing is made.

Linking the effective dates of this filing and the subsequent ISO-NE filing on the same subject would facilitate a concurrent Commission review of both filings. The Commission's review of the proposals in tandem should help to ensure that the rules that are ultimately accepted will work together to bring improved efficiencies and reduced consumer costs to both ISOs.

As noted above, the CTS-related tariff amendments proposed herein are not expected to be implemented and operational until late 2013. The NYISO is proposing to make a subsequent compliance filing, amending Section 4.4.4 of the Services Tariff, providing the specific date on which CTS will become operational and identifying the Proxy Generator Buses that will be subject to it. The NYISO commits to making this filing two weeks in advance of the implementation date. Consistent with Commission precedent, this will provide adequate notice to Market Participants and the Commission of the NYISO's implementation date for CTS.

Each of the proposed CTS-related tariff amendments is drafted in a manner that makes it clear they will become operational only upon the submission of CTS Interface Bids. This should

eliminate any possibility of confusion for Market Participants between the effective date and the implementation date for each provision. The CTS software design is nearing completion and a Commission order between 60 and 120 days of the date of this filing will provide certainty to the software coding team, and the Market Participants, on improved transaction coordination over this Interface.

To the extent that a waiver of Commission regulations is necessary to allow the NYISO to make this filing more than 120 days prior to the date on which the proposed service is to commence and become operational, the NYISO also requests such a waiver.[41] No Market Participant will be prejudiced by NYISO's request because the proposed implementation timetable was developed in consultation with New York Market Participants. They have known, for some time, that the NYISO would be prepared to implement CTS software and new market rules no sooner than the second half of 2013 and would do so on two weeks' notice.

VI. Requisite Stakeholder Approval

The NYISO's Management Committee approved all revisions described herein on November 29th, 2011 and the NYISO Board of Directors on December 20, 2011.

VII. Communications and Correspondence

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

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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 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.

[41] *See:* 18 CFR §35.3(a)(1). The NYISO is requesting an effective date, however, within the 120 period established by this requirement.

IX. Conclusion

Wherefore, for the foregoing reasons, the New York Independent System Operator, Inc. respectfully requests that the Commission accept this filing, recognize that subsequent filings as described herein may be made, establish an effective date and issue an order, in conjunction with an order issued on the corresponding filing to be made by ISO-NE in January, 2012, within 60 days of the ISO-NE filing but no later than 120 days from the date of this filing.

Respectfully submitted,

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Appendix A

EXCERPTS FROM NYISO STATE OF THE MARKET REPORTS

2010 State of the Market Report for the New York Markets[42]
Work with adjacent ISOs to implement rules that will better utilize the transfer capability between regions, ideally by directly coordinating the physical interchange and congestion management. The NYISO is working with neighboring control areas on several proposals to improve the inefficient use of the interfaces, which should be the highest priority initiatives because they promise the largest economic benefit. p. xxi.

To improve interchange, New York ISO and ISO New England commenced a joint effort known as the Inter-Regional Interchange Scheduling project in July 2010 to address the issue of inefficient scheduling between the two markets. We estimated the benefits of optimal scheduling to the benefits that would result from two proposals developed by the RTOs: 1) Tie Optimization; and 2) Coordinated Transaction Scheduling. Our analyses indicate that the potential production cost savings are roughly $17 million per year assuming optimal interchange based on perfect information. The study indicated that a large share of these potential benefits would be captured by either of the two proposed solutions (roughly 70 percent). While the Tie Optimization proposal performed slightly better in our simulations than the Coordinated Transaction Scheduling proposal, the benefits are similar. Therefore, we would support either alternative. p. x.

2009 State of the Market Report, New York ISO:
Our evaluation of external transactions between New York and three adjacent markets indicates that scheduling by market participants did not fully utilize the external interfaces or achieve all of the potential benefits available from inter-regional trading. Improving the efficiency of flows between regions is particularly important during shortages or very high-priced periods when modest adjustments to the physical interchange can reduce prices significantly. We find that the external transaction scheduling process was functioning properly and that scheduling by market participants tended to improve convergence. p. ix.

When an interface is used efficiently, prices in adjacent areas should be consistent unless the interface is constrained. For example, when prices are higher in New York than in PJM, imports from PJM should continue until prices have converged or until the interface is fully scheduled. A lack of price convergence indicates that resources are being used inefficiently, because higher-cost resources are operating in the high priced region that could have been supplanted by increased output from lower-cost resources in the low-priced region. p. 57.

[42] The State of the Market Report is produced each year by Potomac Economics, Ltd. the NYISO's Market Monitoring Unit and, until 2010, the NYISO's external market Monitor. These are found in chronological order at: http://www.nyiso.com/public/markets_operations/documents/studies_reports/index.jsp.

2008 State of the Market Report, New York ISO:
[The NYISO should]Continue its work with neighboring control areas to better utilize the transfer capability between regions, ideally by directly coordinating the physical interchange and management of congestion. This would help ensure that power is efficiently transmitted to the highest-value locations. In addition to the substantial economic savings for customers, optimizing the use of the interface would improve the efficiency of the markets' price signals and reliability. p. xviii.

2007 State of the Market Report, New York ISO; *Continue the work with neighboring control areas to better utilize the transfer capability between regions, ideally by directly coordinating the physical interchange. This recommendation would assure that power is efficiently transmitted to the highest-value locations. In addition to the substantial economic savings for customers in both markets and the improvement in the price signals, optimizing the use of the interface will improve reliability.* p. xviii.