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

October 1, 2013

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.*'s Proposed Tariff Revisions to Allow Longer Term Long Island Transmission Congestion Contracts to be Offered in the NYISO Centralized TCC Auctions; Docket No. ER13- ___-___

Dear Secretary Bose:

Pursuant to Section 205 of the Federal Power Act,[1] the New York Independent System Operator, Inc. ("NYISO") hereby submits revisions to Attachment M of the Open Access Transmission Tariff ("OATT") and Attachment K of its Market Administration and Control Area Services Tariff ("Services Tariff") to allow Transmission Congestion Contracts with Points of Injection ("POI") and/or Points of Withdrawal ("POW") on Long Island ("Long Island TCCs") to be offered in the NYISO Centralized TCC Auctions.[2] Since the start of the NYISO markets, Long Island TCCs have been offered only in the monthly Reconfiguration Auctions. The Long Island Power Authority ("LIPA") has now requested that the NYISO make Long Island TCCs available for durations of up to three years in the NYISO Centralized TCC Auctions.

The NYISO proposes to accomplish this by amending the OATT to allow Long Island transmission capacity to be made available to support TCCs sold in the NYISO Centralized TCC Auctions. The NYISO is also proposing changes to the Services Tariff to ensure that associated credit requirements properly assess coverage for these longer-duration TCCs. Making Long Island TCCs available in Centralized TCC Auctions also allows the NYISO to propose a change in its formula to price Historic Fixed Price TCCs for Long Island and make additional clarifications to Attachment M of the OATT.

I. List of Documents Submitted

The NYISO submits the following documents:

[1] 16 U.S.C. § 824d (2012).

[2] Capitalized terms that are not otherwise defined herein have the meaning set forth in the NYISO's OATT, and if not defined therein, in the Services Tariff.

1. This filing letter;

2. A clean version of the proposed revisions to the Open Access Transmission Tariff ("OATT") (Attachment I);

3. A blacklined version of the proposed revisions to the OATT (Attachment II);

4. A clean version of the proposed revisions to Services Tariff (Attachment III); and

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

II. Copies of Correspondence

Copies of correspondence concerning this filing should be served on:

Robert E. Fernandez, General Counsel
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III. 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.

IV. Background

Several provisions of the OATT, dating to the inception of the NYISO, ensure that owners of transmission facilities would not be required to grant, or allow the use of, transmission rights if, in the opinion of the Transmission Owner, such activity would:

> [J]eopardize the tax-exempt status of any Local Furnishing Bond(s), Government Bonds, LIPA (the Long Island Power Authority) Tax-Exempt Bonds or any other tax-exempt debt obligations, or impair the ability of a Transmission Owner to issue future tax-exempt obligations.[3]

In the NYISO markets, transmission rights are financial rather than physical, and are allocated as Transmission Congestion Contracts ("TCCs"). At NYISO startup, LIPA was the only Transmission Owner to advise the NYISO that the use of its transmission assets to support the sale of TCCs for terms of longer than one month could jeopardize the status of its Tax-Exempt bonds. As a result, several additional provisions were added to the OATT to ensure that Long Island TCCs would not be sold for terms of longer than one month. Currently Long Island TCCs are available only in the NYISO's monthly Reconfiguration Auctions.

LIPA has now advised the NYISO that Long Island TCCs with durations of three years or less may be made available in NYISO Centralized TCC Auctions. LIPA has advised that selling such TCCs will not adversely affect the tax-exempt status of any of its Tax Exempt Bonds or impair its ability to issue future tax-exempt obligations. LIPA has asked the NYISO to pursue tariff amendments and software revisions to allow the use of its transmission assets in auctions for TCCs with durations of three years or less.

V. Description of Proposed Revisions

The proposed tariff amendments described in this section cover four areas: i) amendments to effectuate the LIPA's request to allow its transmission assets to support the sale of Long Island TCCs with durations of three years or less; ii) amendments to the pricing formula for Historic Fixed Price TCCs on Long Island; iii) a series of miscellaneous clarifications and corrections to Attachment M of the OATT; and iv) revisions to TCC credit requirements in Attachment K of the Services Tariff to cover durations of Long Island TCCs that go beyond one month.

A. Amendments to Effectuate LIPA's Request to Sell TCCs With Durations Of Three Years or Less with POIs and /or POWs on Long Island

As described below, the NYISO proposes several amendments to Attachment M of the OATT and Attachment K of the Services Tariff to effectuate this adjustment:

- **OATT Section 19.1.1, Attachment M**

The first sentence in this Section is amended to delete the reference to Section 19.2.1. This deletion appropriately indicates the primacy of this section over other directives in Attachment M.

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[3] OATT, Attachment M § 19.1.1.

A new provision is proposed to be added to indicate that any Transmission Owner advising the NYISO in the future that the granting or use of transmission rights would jeopardize the tax-exempt status of any Local Furnishing Bond(s), Government Bonds, LIPA Tax-Exempt Bonds or any other tax-exempt debt obligations, or impair the ability of a Transmission Owner to issue future tax-exempt obligations, also advise the NYISO of the TCC durations that would be unavailable. This proposed amendment to Section 19.1.1 would require Transmission Owners to affirmatively state whether or not one-month duration TCCs may be available, even if longer durations are being restricted. This declaration is intended to avoid unintentionally overlooking the possibility that transmission assets could support the availability of one month TCCs when a Transmission Owner requests limited use of its transmission assets for longer durations pursuant to Section 19.1.1. Particularizing this issue helps ensure that whatever New York transmission assets are available to support the sale of TCCs in the NYISO's auctions are offered in NYISO auctions.

- **OATT Section 19.8.3, Attachment M**

This section, which describes the transmission capacity made available in Centralized TCC Auctions,[4] is proposed to be amended to refer to the opportunity Transmission Owners have, pursuant to Section 19.1.1 of the OATT to refrain from allowing the use of some or all of their transmission system assets to support TCCs, if such use could jeopardize the tax-exempt status of their bonds. Several non-material drafting improvements are also proposed.

- **OATT Section 19.8.3.4, Attachment M**

The NYISO proposes to delete the direct reference to LIPA's capacity withheld from Centralized TCC Auctions and offered into Reconfiguration Auctions as this subject area is proposed to be covered by more generic language in Sections 19.1.1, 19.8.3 and 19.8.5. The generic language would allow LIPA, and any other Transmission Owner, to release available transmission Capacity into Centralized TCC Auctions.

- **OATT Section 19.8.5, Attachment M**

The NYISO proposes to revise the last sentence in this section to delete the specific reference to LIPA. This section will now indicate that transmission capacity made available pursuant to Section 19.1.1 by any Transmission Owner for durations of one month will be made available by the NYISO in Reconfiguration Auctions.

B. Amendments to Clarify or Correct Various Provisions in Attachment M of the OATT

- **OATT Section 19.4.1, Attachment M**

[4] Centralized TCC Auctions make TCCs available for durations of six months and one-year. Two-Year TCCs may also be made available. OATT Section 19.8.1, Attachment M

To correct an inadvertent omission, the NYISO is proposing to add the word "not," to this provision in Section 19.4.1:

> Subject to the limitations set forth in Section 19.4.2 of this Attachment M, a Transmission Owner with a set of ETCNL designated from a Point of Injection to a Point of Withdrawal, as detailed in Table 2 of this Attachment M, shall have a right prior to each Centralized TCC Auction to convert into an ETCNL TCC each megawatt of transmission Capacity of that set of ETCNL **not** used to support the sale of existing TCCs that are valid for any part of the duration of any TCCs to be sold in the Centralized TCC Auction and that remains after any reduction pursuant to Section 19.8.2 of this Attachment M.

ETCNL TCCs designate transmission capacity that is not to be sold in TCC auctions but rather is to be retained by the Transmission Owner for the purpose of acquiring Congestion Rents. ETCNL TCCs could not be retained by the Transmission Owner if the transmission Capacity supporting them had already been sold to support TCCs that remain in effect. The word "not" is necessary to reflect the accurate meaning of the paragraph.

- **OATT Section 19.7, Attachment M**

The amendments proposed to this section correct a cross reference and delete unintentionally added language. They are ministerial and do not reflect substantive changes.

- **OATT Section 19.8.5, Attachment M**

The NYISO proposes to correct an inadvertent oversight in the last sentence in the second to last paragraph which describes Transmission Capacity available in a Reconfiguration Auction by also including transmission capacity not required to support already-outstanding Grandfathered Rights.

- **OATT Section 19.9.2, Attachment M**

The NYISO is correcting an inadvertent misstatement of the time period after which masked TCC bids become available to the public. They become available in three months, not six.

C. Amendments to Revise the Pricing Formula for Historic Fixed Price TCCs with POIs and / or POWs on Long Island

The opportunity to make Long Island TCCs available in Centralized TCC Auctions allows the NYISO to also propose a change in the formula it uses to price Historic Fixed Price TCCs for Long Island TCCs. Historic Fixed Price TCCs were approved by the Commission in partial compliance with Commission Order Nos. 681 and 681-a[5] in Docket ER07-521-000.[6]

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[5] 123 FERC ¶ 61,044 (2008)

Historic Fixed Price TCCs are available to entities upon the expiration of their Grandfathered Rights or Grandfathered TCCs. These TCCs are priced, with the exception of Historic Fixed Price TCCs for Long Island, using the average of one-year auction results from the four previous Centralized TCC Auctions, and congestion rent payouts for the previous four Capability Periods. Because Long Island TCCs were not available to be purchased in the Centralized TCC Auctions, these instruments are priced solely on the difference in Day-Ahead Congestion between the POW and the POI associated with the TCC, averaged over four Capability Periods.[7]

With the availability of Long Island TCCs in Centralized TCC Auctions, this more limited pricing calculation is no longer necessary and the NYISO proposes to price Historic Fixed Price TCCs for Long Island in the same manner it prices all other Historic Fixed Price TCCs – that is by using a combination of one-year auction results and congestion rent payouts. A transition is also proposed in the new Section 19.2.1.2 (iii) such that the NYISO will not include auction results in this pricing formula until Long Island TCCs have been available in at least four Centralized TCC Auctions.

D. Amendments to Provide Appropriate Credit Requirements for Buying and Selling Long Island TCCs with Durations of Three Years or Less

- **Services Tariff Section 26.4.2, Attachment K**

Section 26.4.2 of the Services Tariff, which governs the NYISO's administration of the operating requirement for the NYISO TCC auctions, provides a credit requirement for TCCs with a one-month duration for Zone K TCCs. It does not, however, provide a credit requirement for TCCs of longer durations in Zone K. Load Zone K, or Long Island, is LIPA's service territory. In Attachment K, Zone K TCCs are defined as TCCs that source or sink, but not both, in Zone K and do not source or sink in Zone J. The additional durations that will be offered in NYISO Centralized Auctions for Zone K TCCs are currently available for other locations in the New York Control Area and are accounted for in the credit requirements for TCCs sold in those areas. The NYISO proposes to use its current methodology for calculating credit requirements for TCCs with durations longer than one month but to add a term, risk premium, to the formulas to account for the difference in risk associated with a Zone K TCC.[8]

Historically, the NYISO uses past auction prices to establish TCC credit requirements. This option is unavailable for Long Island TCCs with durations of longer than one month as they

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[6] This docket remains open as the NYISO has not yet completed the stakeholder process to develop an allocation methodology for the revenue received from the sale of Historic Fixed Price TCCs.

[7] Although Market Participants cannot buy TCCs for periods of longer than one month between POIs and POWs on Long Island or between a point on Long Island and a point off Long Island, they can schedule Energy deliveries in real-time between any combination of these locations and the congestion components developed in the Day-Ahead market between any two of these locations accurately reflects the value to the energy market of this transmission capacity.

[8] The credit requirement for each TCC is a holding requirement and applies upon the initial award of the TCC through the expiration of TCC's term and until the NYISO receives payment for the TCC.

are not currently available in Centralized TCC Auctions. As such, the NYISO analyzed data between Zone K and Zone J monthly TCCs to determine if a relationship could be established to determine appropriate credit requirements for longer duration TCCs in Zone K. This analysis, however, provided insufficient data upon which to base a credit requirement for Long Island TCCs.

Consequently, the NYISO evaluated the credit factors in both the Zone J and Zone K monthly credit formulas and determined that the risk premium for Zone K TCCs is approximately 1.5 times the risk premium for Zone J TCCs. Because the NYISO has no experience or data with which to evaluate the potential credit exposure for longer duration Zone K TCCs, the NYISO is proposing to use a factor of 1.75 times the Zone J risk premium to create the Zone K term for the Six-Month, One-Year and year two of the Two-Year TCC formulas. The use of a factor of 1.75 accounts for the uncertainty in the difference in risk between Zone J and Zone K TCCs[9] for TCCs with a duration longer than one month and is a multiplier the Market Participants have accepted.[10]

As Long Island TCCs are sold in Centralized TCC Auctions, empirical data on the risk of longer-term Long Island TCCs will become available. At the request of stakeholders the NYISO is proposing tariff language to grant it the discretion to temporarily adjust the Zone K TCC risk premium in the TCC formulas *after such data becomes available*. The NYISO proposes that if the Zone K TCC formula results in a relationship between collateral and congestion rents that deviates from the Zone J relationship by more than 10%, the NYISO may use this proposed authority to make temporary changes and adjust the Zone K TCC risk premium in the formula accordingly.

This will ensure that the NYISO can, if necessary to protect the market, respond to this data and revise its credit formula quickly thereby avoiding an unreasonable over- or under-collateralization of longer-duration Long Island TCCs. The NYISO may exercise this authority depending on a variety of factors including the size and consistency of the deviation, system conditions contributing to the deviation, and the term of any factor contributing to the deviation. If the NYISO were to exercise this proposed authority it would immediately advise the Commission and all stakeholders of the adjustment. The NYISO would then initiate a stakeholder process to determine the permanent adjustment and file an amendment to the Tariff, pursuant to Section 205 of the Federal Power Act, within ninety (90) days of making the temporary adjustment. Should the NYISO not make such a filing within this time period, the Zone K risk premium will return to 1.75 times the Zone J risk premium. If the NYISO does make such a filing with the Commission, the temporary adjustment would stay in effect until the Commission issues an Order on the permanent adjustment.**[11]**

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[9]The NYISO is proposing a more conservative risk premium to ensure that the market is protected from potential losses. In its analysis the NYISO has seen greater variability in the monthly Zone K TCCs from Zone J TCCs since the point in time when the initial risk premiums were established.

[11] The Commission has accepted a similar process to allow the NYISO to make temporary modifications related to the Regulation Service Demand Curve as established in Section 15.3.7 of the Services Tariff in the eighth

At the request of stakeholders, the NYISO also proposes to conduct an analysis once it has accumulated data for one year. After the NYISO conducts this analysis it will file with the Commission a report determining whether the provision authorizing temporary adjustments in the Zone K TCC risk premium is still necessary for the protection of the markets. If the provision is still necessary the NYISO will conduct this analysis on an annual basis and file subsequent reports. Upon a determination that the provision is no longer necessary the NYISO will initiate the stakeholder process to remove the provision and file an amendment to the Tariff pursuant to Section 205 of the Federal Power Act.

VI. Effective Date

The NYISO respectfully requests that this filing become effective sixty days from the date of this filing on November 30, 2013. This will allow the NYISO sufficient time to implement these revisions for the Spring 2014 NYISO Centralized TCC Auction.

VII. Requisite Stakeholder Approval

LIPA requested that the NYISO make Long Island TCCs with durations of three years of less available in the NYISO Centralized TCC Auction. The proposed credit tariff revisions were presented at the April 22, 2013 Credit Policy Working Group and all of the proposed tariff revisions were presented at the June 28, 2013 Market Issues Working Group. The NYISO's Business Issues Committee unanimously approved the tariff revisions proposed in this filing by a show of hands, with abstentions, at its meeting on July 17th, 2013, and the NYISO's Management Committee approved these revisions with two abstentions and one vote in opposition at its July 31, 2013 meeting. On August 19, 2013 the NYISO's Board of Directors approved a motion directing the NYISO to file the tariff revisions approved by the Management Committee.

VIII. Conclusion

WHEREFORE, for the foregoing reasons, the New York Independent System Operator, Inc. respectfully requests that the Commission accept the proposed tariff changes identified in this filing.

Respectfully submitted,

/s/ Nathan D. Markey

cc:	Michael A. Bardee	Gregory Berson
	Anna Cochrane	Jignasa Gadani
	Morris Margolis	Michael McLaughlin
	David Morenoff	Daniel Nowak

unnumbered paragraph. The NYISO has requested one hundred and twenty days to ensure that it has adequate time to bring an adjustment through the stakeholder process and receive approval from the Commission.