

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

New York Independent System Operator, Inc.)

Docket No. ER14-864-000

**MOTION FOR LEAVE TO RESPOND, AND RESPONSE OF THE
NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.**

Pursuant to Rules 212 and 213 of the Federal Energy Regulatory Commission’s (the “Commission’s”) Rules of Practice and Procedure,¹ the New York Independent System Operator, Inc. (“NYISO”) submits this “Response” to the comments filed in this docket on January 17, 2014 by the New York Transmission Owners (the “Comments”) and respectfully requests leave to respond to the protest filed in this docket on January 17, 2014 by Great Bay Energy, LLC and Financial Marketers Coalition (the “Protest”).² The Comments and Protest were submitted in response to the NYISO’s December 27, 2013 Federal Power Act Section 205 filing of *Proposed Tariff Amendments to Implement Simplified and Improved Proxy Generator Bus Pricing Rules*.

This Response only responds to Great Bay’s Protest. The NYISO is contemporaneously submitting another pleading opposing Great Bay’s Motion to Consolidate Docket No. ER14-552 with this Docket.

I. Motion for Leave to Respond

The NYISO is authorized to answer the Comments as a matter of right.³ The NYISO recognizes that the Commission generally discourages responses to protests. However, the

¹ 18 C.F.R. §§ 385.212 and 385.213.

² See *Motion to Intervene, Motion to Consolidate and Protest of Great Bay Energy, LLC and Financial Marketers Coalition*. The entities that signed-on to the Protest are referred to collectively as “Great Bay” in this Response.

³ If the Commission concludes that the New York Transmission Owners’ Comments were, in fact, a protest, the NYISO respectfully requests leave to answer them for the reasons stated herein.

NYISO respectfully requests leave to submit this Response. The Commission has allowed responses to protests when they help to clarify complex issues, provide additional information that will assist the Commission, correct inaccurate statements, or are otherwise helpful in developing the record in a proceeding.⁴ The NYISO's Response meets this standard. The NYISO's Response does not introduce new arguments, but instead is submitted for the limited purpose of clarifying certain factual matters and correcting inaccurate statements in the Protest, thereby assisting the Commission in its review and consideration of the issues presented in this proceeding. The NYISO therefore respectfully requests that the Commission exercise its discretion and accept this Response.

II. Response to Protest

The Protest asks the Commission to reject NYISO's proposals to eliminate the Real-Time Import Bid Production Cost Guarantee ("RT Import BPCG") in advance of the NYISO's implementation of CTS with PJM Interconnection, LLC ("PJM") and in advance of the NYISO's implementation of CTS with ISO-New England ("ISO-NE").⁵ The concerns raised in the Protest should be rejected for the reasons explained in this Response.

⁴ See, e.g., *Morgan Stanley Capital Group, Inc. v. New York Independent System Operator, Inc.*, 93 FERC ¶ 61,017 at 61,036 (2000) (accepting an answer that was "helpful in the development of the record . . ."); *New York Independent System Operator, Inc.*, 91 FERC ¶ 61,218 at 61,797 (2000) (allowing "the NYISO's Answer of April 27, 2000, [because it was deemed] useful in addressing the issues arising in these proceedings . . ."); *Central Hudson Gas & Electric Corp.*, 88 FERC ¶ 61,138 at 61,381 (1999) (accepting prohibited pleadings because they helped to clarify the issues and because of the complex nature of the proceeding).

⁵ See Protest at 3. The NYISO does not respond to Great Bay's various contentions addressing the proposed elimination of the Import Curtailment Guarantee in this Response because the NYISO did not submit any Tariff revisions in Docket No. ER14-864-000 that propose to change, eliminate or modify the Import Curtailment Guarantee. The NYISO explains why it is appropriate to eliminate the Import Curtailment Guarantee at CTS Enabled Proxy Generator Buses in the pleadings it filed in Docket No. ER14-552-000.

A. Continuing to Provide a RT Import BPCG Would Distort the Price Signals NYISO's Proposed Uniform Pricing Rules Are Designed to Send

The Protest argues:

NYISO's primary, if not entire, justification for the elimination of the Real-Time Import BPCG is the improvements that CTS will bring to the system. NYISO does not provide any justification in its filing for eliminating the Real-Time Import BPCG in advance of CTS implementation.⁶

The quoted statement is not accurate. It suggests that Great Bay has failed to grasp why it is necessary to eliminate RT Import BPCG in order for the Uniform Pricing Rules that the NYISO submitted for the Commission's consideration to provide benefits to the markets that the NYISO administers.

The NYISO's Proposed Uniform Pricing Rules are designed to allocate both upside (the opportunity to profit from latency risk) *and* downside latency risk to Transmission Customers. If the RT Import BPCG were to continue to be paid after the NYISO's proposed Uniform Pricing Rules take effect, Transmission Customers that schedule imports to New York will be insulated from downside latency risk, but will still have the opportunity to profit from upside latency risk. Continuing to provide a RT Import BPCG would undercut the very purpose and the expected benefits of the new Uniform Pricing Rules because it will insulate Transmission Customers from downside latency risk while maintaining or enhancing⁷ upside latency risk. If Transmission Customers are insulated from downside latency risk, their import offers will not incorporate downside latency risks. The biased risk allocation will result in import offers that do not reflect expected LBMPs. As a result of this bias, the NYISO's Real Time Commitment ("RTC")⁸ may

⁶ Protest at 4.

⁷ The proposed Uniform Pricing Rules enhance Transmission Customers' opportunity to benefit from upside latency risk when External Interface Congestion is present in the NYISO's Real-Time Commitment.

⁸ **Real-Time Commitment ("RTC")**: A multi-period security constrained unit commitment and dispatch model that co-optimizes to solve simultaneously for Load, Operating Reserves and Regulation Service on a least as-bid

schedule Imports that are likely to prove uneconomic in the NYISO’s Real-Time Dispatch (“RTD”).⁹

The NYISO offers the following simplified example¹⁰ to illustrate why continuing to pay a RT Import BPCG would undercut the benefits the proposed Uniform Pricing Rules are expected to provide:

“Trader Z,” a NYISO Transmission Customer, wants to schedule an import to the NYISO in the Real-Time Market at Proxy Generator Bus Y, which is **not** a CTS Enabled Proxy Generator Bus. In this example Trader Z has the opportunity to purchase 100 MW of Energy in the neighboring Control Area that corresponds to Proxy Generator Bus Y for \$45/MWh. Trader Z submits an offer to import 100 MW of Energy to the NYCA at Proxy Generator Bus Y for \$50/MWh. The LBMP in RTC¹¹ is \$50/MWh in this example and there is no External Interface Congestion present in RTC.

RTC schedules 50 MW (half) of Trader Z’s 100 MW import offer. However, by the time we reach real-time, operating circumstances are different from what RTC expected when it

production cost basis over a two hour and fifteen minute optimization period. *See* Section 2.18 of the Services Tariff.

⁹ **Real-Time Dispatch (“RTD”)**: A multi-period security constrained dispatch model that co-optimizes to solve simultaneously for Load, Operating Reserves, and Regulation Service on a least-as-bid production cost basis over a fifty, fifty-five or sixty-minute period (depending on when each RTD run occurs within an hour). The Real-Time Dispatch dispatches, but does not commit, Resources, except that RTD may commit, for pricing purposes, Resources meeting Minimum Generation Levels and capable of starting in ten minutes. *See* Section 2.18 of the Services Tariff.

¹⁰ The NYISO’s Proxy Generator Bus Pricing Rules Filing at 4-13 provides background, explanation and examples of how the proposed Uniform Pricing Rules will work.

¹¹ For purposes of this simplified example, “RTC” is either the Rolling RTC at a Variably Scheduled Proxy Generator Bus or RTC₁₅ at a Proxy Generator Bus that is scheduled on an hourly basis. The example covers one scheduling period—15 minutes at a Variably Scheduled Proxy Generator Bus, or an hour at a Proxy Generator Bus that is scheduled on an hourly basis.

scheduled Trader Z's Import. The RTD LBMP throughout the NYCA and at Proxy Generator Bus Y is stable at \$40/MWh.¹²

Under the proposed Uniform Pricing Rules Trader Z will receive \$40/MWh for its Import. The difference between the RTC price at which the Import was scheduled (\$50/MWh) and the Uniform Pricing Rule price at which the Import settles (\$40/MWh) illustrates the downside risk that the Uniform Pricing Rules propose to assign to the Transmission Customer.

When Trader Z anticipates that it may under-recover the \$45/MWh cost it paid to purchase Energy in a neighboring Control Area to sell into the NYCA due to differences between the RTC (scheduling) and RTD (settlement) LBMPs, Trader Z will increase the price at which it offers imports to the NYCA in order to make sure it recovers sufficient revenues to make future imports profitable. Alternatively, Trader Z might offer fewer (or no) MWs for import at Proxy Generator Bus Y.

Increasing the price at which imports are offered to the NYCA at Proxy Generator Bus Y, or reducing the quantity of imports that are offered to the NYCA at Proxy Generator Bus Y, should reduce the quantity of MWs imported at the Proxy Generator Bus (assuming nothing else changes). The posited reduction would be expected to better align the RTC price that NYISO uses to schedule Imports with the RTD settlement price that Imports are paid. The Uniform Pricing Rules are designed to provide Trader Z and other Transmission Customers incentives to offer in a manner that helps RTC schedule a true least cost selection of resources to serve the NYISO's real time Load, including Exports that are scheduled from the NYCA.

If the NYISO were to continue to pay Trader Z a \$10/MWh RT Import BPCG¹³ after the Uniform Pricing Rules go into effect, as Great Bay proposes, then Trader Z would receive

¹² RTD LBMPs are determined for intervals that are ordinarily/approximately five minutes in duration. In this simplified example NYISO assumes that the RTD LBMP is \$40/MWh in each interval.

\$50/MWh for Energy that cost Trader Z \$45/MWh. Since Trader Z would be recovering its full offer price, Trader Z would not be expected to change its offering behavior and RTC would continue to schedule Imports at Proxy Generator Bus Y that are more expensive than the marginal resource that is available for dispatch by RTD. Under Great Bay's proposal, the price signal the Uniform Pricing Rules are designed to send is blunted by the RT Import BPCG and RTC continues to select a sub-optimal mix of resources.

As the above example illustrates, the removal of RT Import BPCG re-assigns the risk of changes in real-time prices from NYCA Loads to the Transmission Customer that scheduled the External Transaction. The risks being re-assigned from NYCA Loads to Transmission Customers include both up-side risks and down-side risks.¹⁴ The proposed re-assignment of risk is appropriate because Transmission Customers scheduling External Transactions have the opportunity to incorporate a risk premium into their offers and bids to address a concern that real-time LBMPs could change in an adverse manner between the time an External Transaction is scheduled and the time the associated Energy is delivered.

B. Eliminating RT Import BPCG Will Not Harm Importers But Will Provide More Accurate Price Signals

It is not clear to the NYISO why the Protest takes issue with the elimination of RT Import BPCG. In 2012 and 2013 the NYISO paid a total of \$2,370,922,208.49 in LBMP settlements to Imports. The total volume of Imports over the same period was approximately 61,683,901 MWh. Dividing the LBMP \$ paid by the total MWh volume of Imports from PJM yields an average LBMP of approximately \$38.44/MWh paid to Imports. Over the same two year period, the NYISO made RT Import BPCG payments totaling \$5,442,357.23. Dividing the total RT

¹³ \$50/MWh offer - \$40/MWh LBMP = \$10/MWh RT Import BPCG.

¹⁴ In other words, the risk that the NYISO proposes to re-assign could increase or decrease the compensation paid to the Transmission Customer, or could increase or decrease the charges paid by the Transmission Customer.

Import BPCG \$ paid by the total MWh volume of Imports the NYCA received yields an average RT Import BPCG of approximately \$0.09/MWh.¹⁵ In 2012 and 2013 RT Import BPCG was a very small component (less than a quarter of a percent) of the total compensation paid to Imports. The NYISO does not understand why Great Bay is so adamantly opposed to the elimination of RT Import BPCG in advance of the NYISO's implementation of the CTS with PJM Tariff revisions and market improvements.

Assuming Transmission Customers increase their import offers to cover the risk that RT Import BPCG insulates them from (which is what Transmission Customers are expected to do, as explained in the above example), on average, the RT LBMP paid to Imports might increase by approximately \$0.09/MWh.¹⁶ Increased LBMP costs are expected to be offset by the reduction in uplift costs allocations that no longer accrue from RT Import BPCGs.

The NYISO regularly receives a large volume of offers to import Energy to the NYCA. Competition to schedule Imports to the NYCA and competition from internal NYCA resources is expected to discipline the offering behavior of Transmission Customers. Import offers that incorporate unrealistically high costs to address the risk they may be settled at an LBMP below their import offer price in the Real-Time Market will not be scheduled. Other resources, including import offers that include more reasonable expectations, will be scheduled in their place. Given the large volume of offers to import Energy and the full set of resources available for selection by the NYISO's RTC, the NYISO does not expect any increase in LBMPs will be higher than what is necessary to account for the additional risk that arises when the RT Import

¹⁵ RT Import BPCG payments made to each/any of the four NYISO Market Participants that joined the Protest for their Imports to the NYCA were less than the \$0.09/MWh average RT Import BPCG payment that the NYISO calculated for all Imports in 2012 and 2013.

¹⁶ The average increase in LBMPs should be less than \$0.09/MWh if the proposed Uniform Pricing Rules improve market efficiency, as they are expected to.

BPCG is eliminated. The resulting increase in LBMPs should be less than \$0.09/MWh if the proposed Uniform Pricing Rules improve market efficiency as they are expected to.

Traders are uniquely situated to evaluate the risks associated with taking a position in the NYISO's markets. Traders can manage the nature and scope of the risk they assume by carefully crafting the offers they submit and by setting the margins they will accept for engaging in an Import, or any other External Transaction. Unlike Imports, Exports from the NYCA have *never* been eligible to receive a RT Export BPCG. Traders that schedule Export transactions at the NYISO's borders already incorporate the risk of being settled at an LBMP that is higher or lower than their export bid into their bidding strategy.

Incorporating the risk that an Import might be paid a settlement that is less than its import offer into LBMP offers will benefit the NYCA because it will move the risk (cost) of having scheduled Imports paid less than their offer price into the LBMP component of an import offer, rather than "hiding" a portion of the costs in uplift. By incorporating the costs associated with being paid an LBMP that is less than the import offer into the import offer price, RTC's market evaluation can appropriately assess the value of scheduling these import offers. This will enable RTC to correctly judge the tradeoff between different resources and select a more efficient mix of resources to serve NYCA load.

C. NYISO's Stakeholders Understood That NYISO Intended to Implement the Simplified Proxy Bus Pricing Rules Before it Moved Proxy Scheduling Closer to Real-Time Operations When the Stakeholders Voted to Approve NYISO's Tariff Filing

Pages six through nine of the Protest discuss the additional exposure to latency risk importers will face in the time period between April 8, 2014 and the date that NYISO expects to move its real-time External Transaction scheduling decisions 15 minutes closer to real-time

operations (hereafter, the “CTS Scheduling Improvement”).¹⁷ The Protest (at 6-8) suggests that the NYISO’s stakeholders expected the CTS Scheduling Improvement to be in place before the NYISO implements the simplified and improved Proxy Generator Bus pricing rules when the NYISO’s Management Committee voted to approve the submission of Tariff revisions to implement the simplified and improved Proxy Generator Bus pricing rules. However, that wasn’t the case. The NYISO’s stakeholders understood when each of the measures would be implemented before the NYISO’s Management Committee voted to approve the Tariff revisions that the NYISO submitted in this Docket.

The excerpt from the September 30, 2013 NYISO Management Committee Meeting Minutes included on page seven of the Protest indicates that NYISO representative Mr. Michael DeSocio explained to the members of the Management Committee that the NYISO intended to implement the Simplified and Improved Proxy Generator Bus Pricing Rules before it expected to implement any of the CTS with PJM improvements:

Mr. DeSocio explained that.... The proposal would become effective in early 2014. Mr. Fromer said BPCG is a form of price protection and questioned why it is being removed prior to CTS implementation.¹⁸ [Highlighting added.]

The NYISO’s intent to implement the simplified and improved Proxy Generator Bus pricing rules before it expected to implement the CTS with PJM improvements was also evident from the presentations that Dr. Nicole Bouchez and Mr. DeSocio gave to the NYISO’s Management Committee. Slide 15 of Dr. Bouchez’s presentation on CTS with PJM indicates

¹⁷ The NYISO proposes to implement the External Transaction scheduling improvement in November of 2014 as a component of the CTS with PJM upgrades. NYISO expects CTS with PJM and the proposed scheduling improvement will be implemented on schedule.

¹⁸ Link to Final September 30, 2013 NYISO Management Committee Meeting Minutes: http://www.nyiso.com/public/webdocs/markets_operations/committees/mc/meeting_materials/2013-09-30/Final_MC_Minutes_09302013.pdf

that implementation of CTS with PJM is slated for “Fall 2014.”¹⁹ Slides 8 and 9 of Mr. DeSocio’s presentation entitled *Special Pricing Rules Updates*, state that one of the NYISO’s goals for 2014 is to “implement the revised special pricing rules early in the year.”²⁰

The Motion that the NYISO’s Management Committee approved by “majority show of hands with abstentions” (there were no votes against the NYISO’s proposed Tariff revisions) stated:

Motion #6

The Management Committee (“MC”) hereby recommends that the Board of Directors authorize the NYISO to file with the Federal Energy Regulatory Commission, pursuant to Section 205 of the Federal Power Act, to approve changes to the NYISO’s MST [Market Services Tariff] with regard to the Special Pricing Rules updates **as more fully described in the presentation made to the MC on September 30, 2013.**²¹ [Highlighting added.]

Mr. DeSocio’s September 30, 2013 presentation to the Management Committee explained that the NYISO intended to implement the Uniform Pricing Rules²² “early in [2014].” The voting members of the NYISO’s Management Committee understood that the NYISO intended implement the Uniform Pricing Rules before it implements CTS with PJM when they cast their votes approving both sets of Tariff revisions at the September 30, 2013 Management Committee meeting. Great Bay’s attempt to manufacture stakeholder confusion where there was none should be rejected by the Commission.

¹⁹ Link to September 30, 2013 *Coordinated Transaction Scheduling (CTS) – NYISO & PJM* presentation to the NYISO’s Management Committee:

http://www.nyiso.com/public/webdocs/markets_operations/committees/mc/meeting_materials/2013-09-30/CTS%20PJM%20MC%2009302013%20FOR%20PRESENTATION.pdf

²⁰ Link to September 30, 2013 *Special Pricing Rule Updates* presentation to the NYISO’s Management Committee:

http://www.nyiso.com/public/webdocs/markets_operations/committees/mc/meeting_materials/2013-09-30/9_Special%20Pricing%20Rule%20Updates%20for%20CTS.pdf

²¹ Link to posted Final Motions from the NYISO’s September 30, 2013 Management Committee Meeting:

http://www.nyiso.com/public/webdocs/markets_operations/committees/mc/meeting_materials/2013-09-30/093013_Final_Motions.pdf

²² The Uniform Pricing Rules were called the “Special Pricing Rules updates” in Mr. DeSocio’s presentation.

III. Response to New York Transmission Owners' Comments

At the bottom of page 5 and the top of page 6 of the New York Transmission Owners' Comments the New York Transmission Owners correctly state that the NYISO's e-Tariff filing in this Docket inadvertently failed to include some necessary Tariff revisions that the NYISO presented to its Management Committee.²³ In particular, the NYISO inadvertently failed to include the following highlighted changes to Section 17.1.6.5 of its Services Tariff in its e-Tariff submission in this Docket:

17.1.6.5 Method of Calculating Marginal Loss and Congestion Components of Real-Time LBMP at Non-Competitive Proxy Generator Buses and Proxy Generator Buses that are Subject to the Special Pricing Rule for Designated Scheduled Lines

Under the conditions specified below, the Marginal Losses Component and the Congestion Component of the Real-Time LBMP, calculated pursuant to the preceding paragraphs in Sections 17.1.6.3 and 17.1.6.4, shall be constructed as follows:

When the Real-Time LBMP is set to zero and that zero price was not the result of using the RTD, RTC or SCUC-determined LBMP;

Marginal Losses Component of the Real-Time LBMP = $Losses_{RTD, PROXY}$

GENERATOR BUS; and

Congestion Component of the Real-Time LBMP = $-(Energy_{RTD, REF BUS} + Losses_{RTD, PROXY GENERATOR BUS})$.

where:

²³ Link to the Tariff language that NYISO presented to its Management Committee for review: [http://www.nyiso.com/public/webdocs/markets_operations/committees/mc/meeting_materials/2013-09-30/9_MST%2017%201%20FID217%20-%20Special%20Pricing%20Rules%20Update%2020130930%20MC%20\(redlined\).pdf](http://www.nyiso.com/public/webdocs/markets_operations/committees/mc/meeting_materials/2013-09-30/9_MST%2017%201%20FID217%20-%20Special%20Pricing%20Rules%20Update%2020130930%20MC%20(redlined).pdf)

Energy_{RTD REF BUS} = The marginal Bid cost of providing Energy at the reference Bus, as calculated by RTD for that 5-minute interval; and

LOSSES_{RTD PROXY GENERATOR BUS} = The Marginal Losses Component of the LBMP as calculated by RTD for that 5-minute interval at the Non-Competitive Proxy Generator Bus or Proxy Generator Bus associated with a designated Scheduled Line.

The New York Transmission Owners' Comments accurately describe why the identified Tariff revisions are necessary. The NYISO respectfully requests that the Commission require the NYISO to submit the e-Tariff corrections highlighted above in a compliance filing.

IV. Conclusion

WHEREFORE, for the foregoing reasons, the New York Independent System Operator, Inc. respectfully requests that the Commission (i) accept this Response to the Protest, (ii) accept the Tariff revisions that the NYISO proposed in Docket No. ER14-864-000 for filing effective April 8, 2014, and (iii) require the NYISO to submit a compliance filing that makes the Tariff corrections described in Section III of this Response.

Respectfully submitted,

/s/ Alex M. Schnell

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New York Independent System Operator, Inc.

Dated: February 3, 2014

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

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 3rd day of February, 2014.

/s/ Mohsana Akter

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