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November 16, 2009

By Hand

Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street N.E.
Washington, D.C. 20426

**Re: New York Independent System Operator, Inc.'s Proposed Tariff Revisions to the
Credit Requirements for Energy and Ancillary Services; Docket No. _____**

Dear Ms. Bose:

Pursuant to Section 205 of the Federal Power Act,¹ the New York Independent System Operator, Inc. ("NYISO"), by counsel, hereby submits revisions to its Open Access Transmission Tariff ("OATT") and its Market Administration and Control Area Services Tariff ("Services Tariff") to better align the credit requirements for purchases of energy and ancillary services ("Energy Credit Requirements") with the corresponding customer payment obligations.² The NYISO is also proposing to make non-substantive revisions to its tariffs to eliminate unnecessary duplication. The tariff revisions proposed in this filing are described in detail in Section V below.

I. List of Documents Submitted

The NYISO submits the following documents:

1. This filing letter;
2. A clean version of the proposed revisions to OATT and Services Tariff (Attachment I); and
3. A blacklined version of the proposed revisions to the OATT and Services Tariff (Attachment II).

¹ 16 U.S.C. § 824d (2009).

² Capitalized terms that are not otherwise defined herein shall have the meanings specified in Article 2 of the Services Tariff.

Kimberly D. Bose, Secretary
November 16, 2009
Page 2

II. Copies of Correspondence

Copies of correspondence concerning this filing should be served on:

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III. Service List

The NYISO will electronically send a link to this filing to the official representative of each of its customers, to each participant on its stakeholder committees, to the New York Public Service Commission, and the New Jersey Board of Public Utilities, and send a copy of this filing by first class mail to the Pennsylvania Public Utilities Commission. In addition, the complete filing will be posted on the NYISO's website at www.nyiso.com. The NYISO will also make a paper copy available to any interested party that requests one. To the extent necessary, the NYISO requests waiver of the requirements of Section 35.2(d) of the Commission's Regulations (18 C.F.R. § 35.2(d) (2009)) to permit it to provide service in this manner.

³ The NYISO respectfully requests waiver of 18 C.F.R. § 385.203(b)(3) (2009) to permit service on counsel for the NYISO in both Washington, D.C. and Richmond, VA.

IV. Background

The NYISO currently calculates a customer's Energy Credit Requirement based on the customer's historical purchases at historical energy prices. As set forth in Section III.B.(i) of Attachment K to the Service Tariff,⁴ a customer's Energy Credit Requirement equals the greater of the customer's average daily purchases during either (i) the month with the highest purchases in the Prior Equivalent Capability Period, or (ii) the prior 10 days, extrapolated out for 50 days.⁵

Market participants expressed concerns that this methodology does not adjust for fluctuations in energy prices from year to year, which could result in inflated credit requirements during periods when energy prices are lower than in the prior year. For example, the decrease in energy prices from summer 2008 to summer 2009 has resulted in current Energy Credit Requirements materially exceeding actual payment obligations for many customers because the summer 2009 credit requirements were based on the summer 2008 energy prices.

To address these concerns, the NYISO and market participants developed an enhanced methodology for calculating Energy Credit Requirements (when based on the Prior Equivalent Capability Period purchases) that would adjust the dollar amount of the historical purchases for projected fluctuations in energy prices. The NYISO would use the projected fluctuations in gas prices to forecast fluctuations in energy prices, as gas prices and energy prices tend to be highly correlated.

V. Description of Proposed Revisions

Under the proposed tariff revisions, for each month in the Prior Equivalent Capability Period, the NYISO would calculate a "Price Adjustment" quotient by dividing (a) the Henry Hub futures gas price for the like month in the current/upcoming Capability Period by (b) the average Henry Hub spot gas price for that month during the Prior Equivalent Capability Period. The NYISO would apply the Price Adjustment by multiplying the Price Adjustment quotient for a given month in the Prior Equivalent Capability Period by the amount of the customer's historical purchases in that month. The NYISO would then compare the six price-adjusted purchase amounts to determine the month of the customer's highest purchases (i.e., the Basis Month) in the Prior Equivalent Capability Period.

⁴ See Sheet Nos. 495 and 496.

⁵ The NYISO uses a multiplier of 50 because there are approximately 50 days between the day a customer first accrues charges for purchases of energy and ancillary services and when the customer is required to pay the NYISO for those charges. This multiplier is reduced to three if the customer has entered into a prepayment agreement with the NYISO. See Section III.B.(i)(b) of Attachment K to the Services Tariff (Sheet No. 496).

Kimberly D. Bose, Secretary
November 16, 2009
Page 4

The NYISO proposes to add the term “Price Adjustment” to the Services Tariff to establish the methodology described above for adjusting the previous year’s energy purchases to reflect current year energy prices. The NYISO would also revise the definitions of “Basis Month” and “Basis Amount” to indicate that the NYISO would make those determinations based on the price-adjusted amounts. The Basis Amount, consequently, would equal the price-adjusted purchase amount for the Basis Month.

By revising the definitions of Basis Month and Basis Amount, the NYISO could implement the proposed price-adjustment methodology without having to modify the text of the formulas for calculating the Energy Credit Requirements for existing customers, set forth in Section III.B.(i) of Attachment K to the Services Tariff,⁶ because those formulas are expressed as:

$$\frac{\text{Basis Amount for Energy and Ancillary Services}}{\text{Days in Basis Month}} \times 50^7$$

Additionally, the NYISO proposes to revise the definition of “AEP” in the formula for determining the Energy Credit Requirements for new customers, set forth in Section III.B.(i)(c) of Attachment K to the Services Tariff,⁸ to mean the price-adjusted average energy and ancillary services price during the Prior Equivalent Capability Period so that the credit requirements for new customers would also adjust for fluctuations in energy prices.

Commission approval of these proposed tariff changes would enable the NYISO to implement Energy Credit Requirements that are better aligned with actual market risk and more accurately reflect the current payment obligations of NYISO customers.

VI. Effective Date

The NYISO respectfully requests that this filing become effective on January 16, 2009, which date complies with the Commission’s notice requirements.⁹

⁶ See Sheet Nos. 495 and 496.

⁷ This multiplier is reduced to 3 for customers that have a prepayment agreement with the NYISO.

⁸ See Sheet No. 496.

⁹ 18 C.F.R. § 35.3 (2009)

Kimberly D. Bose, Secretary
November 16, 2009
Page 5

VII. Requisite Stakeholder Approval

The NYISO's Business Issues Committee unanimously approved (with abstentions) the tariff revisions proposed in this filing at its meeting on September 9, 2009. The NYISO's Management Committee unanimously approved these revisions at its meeting on September 30, 2009. On October 20, 2009, the NYISO's Board of Directors approved a motion directing the NYISO to file the proposed 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,

Ted J. Murphy
Counsel for
New York Independent System Operator, Inc.

cc: Michael A. Bardee
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