

December 20, 2012

By Electronic Filing

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. ER13-____-____
Proposed Tariff Revisions to Clarify and Update the NYISO's Tariffs**

Dear Ms. Bose:

Pursuant to Section 205 of the Federal Power Act,¹ the New York Independent System Operator, Inc. ("NYISO") hereby submits proposed revisions to its Market Administration and Control Area Services Tariff ("Services Tariff") and Open Access Transmission Tariff ("OATT") to resolve ambiguities and clarify certain provisions that describe Market Participant settlements and the posting of information related to them.² These revisions cover the following topics:

- A. Real-time compensation for Generators;
- B. Hourly real-time settlement obligations for Loads with customers who participate in the Day-Ahead Demand Response Program;
- C. Allocation of the costs of Demand Reduction payments and Bid Production Cost Guarantees made to participants in the NYISO's demand response reliability programs;
- D. The NYISO's OASIS Posting of the the TSC/ NTAC Rates Provided by Transmission Owners and the New York Power Authority; and
- E. Transaction settlements for Transmission Customers.

These tariff revisions have been approved by the Market Participants acting through the NYISO Management Committee and by the NYISO's independent Board of Directors.

As discussed in Section III, below, the NYISO is also using this opportunity to correct a ministerial error in its Services Tariff and incorporate a previously accepted amendment that the

¹ 16 U.S.C. § 824d.

² Capitalized terms that are not otherwise defined herein shall have the meaning specified in Article 1 of the OATT and Article 2 of the Services Tariff.

NYISO recently discovered was inadvertently not included in the published Services Tariff. The NYISO's settlements have been conducted in accordance with the amendment since the October 15, 2008 when it was accepted as effective. Thus, the proposed correction of the Services Tariff will not require any changes to prior settlements.

I. Documents Submitted

1. This filing letter;
2. A clean version of the proposed revisions to the NYISO's Services Tariff ("Attachment I");
3. A blacklined version of the proposed revisions to the NYISO's Services Tariff ("Attachment II").
4. A clean version of the proposed revisions to the NYISO's OATT ("Attachment III"); and
5. A blacklined version of the proposed revisions to the NYISO's OATT ("Attachment IV").

II. Description and Justification of Proposed Tariff Revisions

The NYISO recently completed a review of its Tariffs to compare their provisions against the rules used by its settlement software. The Tariff clarifications proposed here were identified as appropriate in that review.

A. Real-Time Compensation for Generators

Services Tariff Section 4.5.6 describes the settlement for Generators that inject Energy over a Real-Time Dispatch ("RTD") interval in excess of energy injections scheduled for them in the Day-Ahead Market. A clarification is necessary in the specific settlement rule described in this Section for excess injections when the Real-Time LBMP is negative.

Negative LBMPs are an indication that excess generation should be reduced to resolve adverse impacts that such Energy injections are having or could have on a system constraint. The settlement rule for injections in excess of Day-Ahead schedules when the Real-Time LBMPs are negative encourages Generators to reduce their output by charging them, at the Real-Time LBMP, for the difference between their actual injections and those that they scheduled Day-Ahead.

The NYISO is proposing to clarify Section 4.5.6's settlement rule for excess injections when the Real-Time LBMP is negative by adding the term "Day-Ahead" to modify the phrase "scheduled Energy injection" as shown in the underlined text below:

Supplier shall be paid the product of: (1) the Real-Time LBMP in that RTD interval for the applicable Generator bus and (2) the difference between the Supplier's Actual Energy Injection for that RTD interval and the Supplier's Day-Ahead scheduled Energy injection over that RTD interval.

The proposed change will more clearly indicate that the charge to Suppliers injecting Energy in excess of their Day-Ahead schedule when LBMPs are negative is applied to all injections between the Supplier's Actual Energy Injections and its Day-Ahead scheduled Energy injection for a given RTD interval. If a Supplier had no Day-Ahead schedule, it would be charged for all its output in that interval at the LBMP price. The NYISO currently calculates the real-time settlement for Suppliers with excess injections when the Real-Time LBMP is negative using this formula as clarified.

B. Hourly Real-time Settlement Obligations for Loads with Customers who Participate in the Day-Ahead Demand Response Program

Services Tariff Section 4.5.4.1 describes the settlement for Load Serving Entities with real-time Energy withdrawals that are less than they scheduled Day-Ahead. A clarification is necessary to describe the impact on this settlement of real-time Load reductions taken by participants in the Day-Ahead Demand Reduction Program ("DADRP") who are also customers of the LSE.

Through the DADRP, the NYISO makes an Energy payment at the Day-Ahead LBMP to customers that have scheduled a real-time Demand Reduction in the Day-Ahead Market. The NYISO balances this Day-Ahead schedule in the Real-Time Market using the DADRP customer's real-time Demand Reduction, in the same way the NYISO balances scheduled DayAhead Energy from Generators. In two separate settlement calculations, the NYISO holds LSEs harmless from the market activity impacts of their DADRP customers on both the LSE's Day-Ahead purchase obligations and the LSE's real-time balancing obligations. Whereas the Tariff separately describes the hold harmless settlement for the LSE's Day-Ahead purchase obligations in Section 4.2.6, it does not separately identify the LSE's real-time balancing adjustment in the language of Section 4.5.4.1. To clarify this hold-harmless real-time settlement, the NYISO proposes to specifically describe it in Section 4.5.4.1.

The NYISO credits the LSE's Day-Ahead Energy purchases for megawatts that have been scheduled for its DADRP customers, recognizing that the DADRP's LSE does not need to buy energy in the Day-Ahead Market to serve Load that the DADRP customer has been scheduled not to consume in real-time.³

Likewise, the NYISO adjusts LSEs' real-time settlements, when their real-time withdrawals that are less than scheduled Day-Ahead, by debiting their real-time balancing market payment for any actual DADRP real-time reduction by the LSE's customers.⁴ The NYISO reverses that portion of the LSE's balancing market settlement that was occasioned by the DADRP customer's reduction. The NYISO proposes to revise Services Tariff Section 4.5.4.1 to expressly establish that the NYISO will make a real-time balancing market adjustment

³ Services Tariff Section 4.2.6

⁴ The LSE is paid at the real-time LBMP for the difference between its Day-Ahead purchases and its actual real-time consumption Services Tariff Section 4.5.4.1

for LSEs with DADRP customer-reductions in real-time by adding the underlined sentence shown below:

Section 4.5.4.1 General Rules

When a Customer's Actual Energy Withdrawals over an SCD interval are less than its Energy withdrawals scheduled Day-Ahead over that SCD interval, the Customer shall be paid the product of: (a) the Real-Time LBMP calculated in that RTD interval for each applicable Load Zone; and (b) the difference between the scheduled Energy withdrawals and the Actual Energy Withdrawals in that Load Zone. In addition, a Customer LSE providing Energy service to a Demand Reduction Provider's Demand Side Resource in a Load Zone shall be charged the product of: (a) the Real-Time hourly LBMP for that Load Zone; and (b) the actual Demand Reduction at the Demand Reduction Bus in that Load Zone

C. Allocation of the Costs of Demand Reduction Payments and Bid Production Cost Guarantee Payments Made to Participants in the NYISO's Demand Response Reliability Programs

The NYISO's two demand response reliability programs allow it to call upon Special Case Resources ("SCRs") and Emergency Demand Response Providers ("EDRP") to reduce Load when necessary to resolve local or statewide reliability or security issues.⁵ Section 6 of OATT, Rate Schedule 1, describes the methodology for recovering costs incurred when these programs are activated ("cost allocation rules"). Section 6 provides separate rules when the reliability need is local or statewide. The costs recovered include payments for real-time SCR and EDRP Demand Reductions and Bid Production Cost Guarantee ("BPCG") payments made to SCRs with Minimum Payment Nominations in excess of their real-time settlement.⁶ As described in greater detail below, the cost allocation rule is unclear when the costs of Energy payments to SCRs and EDRPs, and BPCG payments made to SCRs, are to be recovered from statewide Load.

1. Allocation of the Costs of Demand Reduction Payments

OATT Section 6.1.9.2 describes the allocation rule for costs incurred to pay for real-time SCR and EDRP Demand Reductions when such reductions are necessary to resolve statewide reliability or security issues. The description of the statewide Load from which these costs should be recovered needs to be stated more clearly. Section 6.1.9.2 states that these costs are to be recovered from "each Transmission Customer that serves Load in the NYCA," indicating that the NYISO should recover the cost of these payments exclusively from Transmission Customers serving internal statewide Load. Section 6.1.9.2 continues, however, by also requiring that withdrawals for Wheels through and Exports should also be assessed an appropriate load ratio

⁵ Services Tariff Sections 5.12.11.1 and 22.5

⁶ Payments for Demand Reductions from SCRs are made to Responsible Interface Parties and from EDRPs are made to Curtailment Service Providers ("CSPs").

share of the costs of these payments, indicating that Transmission Customers serving external Load should also share in the cost allocation.

OATT Section 6.1.9.1, on the other hand, sets forth a cost allocation rule for payments made to SCRs and EDRPs, when they were called to meet a local reliability need, that assigns these costs exclusively to “each Transmission Customer that serves Load in the Subzone for which the reliability services of the Special Case Resources and Curtailment Service Providers were called.” The Section goes on to exclude withdrawals to serve external Load from any cost allocation responsibility.

The NYISO has always recovered the costs of payments to SCRs and EDRPs when they are called to meet a statewide reliability need exclusively from internal statewide Load without including Wheel through or Export withdrawals. Thus, the NYISO proposes to clarify this point and revise Section 6.1.9.2 to more clearly establish that these costs are to be recovered only from internal statewide Load. The NYISO also proposes to revise Section 6.1.9.2 to specifically exclude withdrawals supporting Exports or Wheels through from the cost allocation formula.

2. Allocation of the Costs of Bid Production Cost Guarantee Payments

Similarly, Section 6.1.12.5 describes the cost allocation rules for recovering the payment of BPCGs to SCRs, when they are called to meet reliability needs either locally or statewide, and the LBMP paid does not cover their Minimum Payment Nomination. This section is similar to Section 6.1.9.2 when it describes the allocation of the costs of BPCGs when the reliability need to which the SCR call was responding was statewide. BPCGs paid to SCRs called to resolve local reliability needs are allocated to internal Load and not to withdrawals to serve external Load. The NYISO has always recovered the costs of BPCG payments made to SCRs that are called to meet a statewide reliability need exclusively from statewide Load without including Wheel through or Export withdrawals.

Thus, the NYISO is proposing to clarify Section 6.1.12.5 by revising it to establish that the cost of BPCG payments made to SCRs when called to meet a statewide reliability need are to be recovered only from internal statewide Load. The NYISO proposes to revise Section 6.1.12.15 to specifically exclude an allocation of these costs to withdrawals supporting Exports or Wheels-through.

D. The NYISO’s OASIS Posting of the the TSC/ NTAC Rates Provided by Transmission Owners and the New York Power Authority

In New York, each investor-owned Transmission Owner recovers the costs of assets used in providing wholesale Transmission Service from wholesale Transmission Customers with transactions that either sink in their service territory or that utilize interface facilities owned by the Transmission Owner.⁷ This recovery is through a monthly charge (the “Transmission

⁷ The NYISO proportions Exports and Wheels through based on the ownership of all lines in the Exporting Interface and provides each Transmission Owner with the Export and Wheel through megawatts eligible for a TSC. The Transmission Owners also invoice the TSC to Transmission Customers with Exports and Wheels through which

Service Charge” or “TSC”) which is posted on the NYISO’s OASIS but which is invoiced by each Transmission Owner individually.

Each Transmission Owner calculates its wholesale TSC, using a formula found in the NYISO OATT, and advises the NYISO of the appropriate TSC charge by the 14th of the month for the following month. The NYISO then posts each TSC rate on its OASIS by the 15th of the month, for the following month, as required by OATT Section 14.1.3.

Software systems and late arriving TSC charges from the Transmission Owners have prevented timely OASIS postings on a few occasions. Market Participants agree that this ministerial activity need not be dictated with so much specificity in the NYISO tariff that late postings with no material impact would be made into Tariff violations. Since the rate posting is for the following month, the Market Participants have agreed that some flexibility should be afforded to the NYISO to successfully post a rate it receives on the 14th of the month provided that the rate is posted before it becomes effective the following month.

Therefore the NYISO is proposing to amend OATT Section 14.1.3 to revise the deadline by allowing the NYISO to post the TSC by the 15th of the month or as soon thereafter is as reasonably possible but in no event later than the 20th of the month. This will allow the NYISO to provide this OASIS rate information in a timely fashion without the threat of a tariff violation whenever there is a delay in getting the TSC posted within one day of its receipt.

The New York Power Authority (“NYPA”) follows a similar practice in calculating a monthly NYPA Transmission Adjustment Charge (“NTAC”) for use of its transmission facilities. The NYISO invoices the NTAC to all Transmission Customers with internal withdrawals, and with Export and Wheels through that utilize NYPA’s interface facilities. NYPA is also responsible for providing the NYISO with its NTAC rate on the 14th of the month for OASIS posting by the 15th.

The NYISO is similarly proposing to revise this posting deadline by amending OATT Section 14.2.2.3 to state that the NTAC will be posted by the 15th of the month or as soon thereafter is as reasonably possible but in no event later than the 20th of the month.

E. Transaction Settlements for Transmission Customers

The NYISO is proposing to delete a Transmission Customer settlement rule for Export transactions that is no longer appropriate in the Energy market. Section 5.12.10 of the Services Tariff requires the NYISO to compensate Transmission Customers with a curtailed Export transaction when the transaction sourced at a NYISO capacity Supplier’s Generator bus and the curtailment was made to resolve a NYCA reserves shortage. The compensation to be paid is the greater of the LBMP at the NYISO’s Proxy Generator bus where the Export was scheduled or the price at the importing Control Area’s Proxy Bus for the import.

The NYISO's tariff does not compensate Transmission Customers with Export Transactions that are curtailed by the NYISO to resolve any other reliability issue. Neither does it compensate Transmission Customers with Export Transactions that are curtailed by the NYISO to resolve a reserves shortage issue if their transaction was sourced from the LBMP market.

When the NYISO commenced operations in 1999, this rule directed that the Generator at whose bus the Transaction was sourced be paid the higher of the Proxy Generator Bus LBMP or the Generator's export recall bid if its bilateral transaction was curtailed to resolve an Operating reserves shortage. This may have been appropriate during the period of time that the NYISO was developing its ICAP Market if its purpose was to ensure that Generators were not financially disadvantaged when selling Energy externally if they sold their Installed Capacity to the NYISO. The rule has potentially different and unintended effects today, however, by paying the Transmission Customer not the Generator and by paying the higher of the real-time LBMP or the neighboring Control Area Proxy bus price not a recall bid. Transmission Customers with curtailed Export Transactions are not eligible for financial relief under any other circumstances in the NYISO market and it is unclear why this particular transaction should be set apart and its curtailment risk assigned to Loads.

Today, Generators are paid the real-time LBMP at their bus for the Energy they produced, but did not sell externally because the Export bilateral Transaction from their bus was curtailed (regardless of the reason for the curtailment). Thus, Generators are compensated for Energy produced but curtailed. Moreover, the Transmission Customer's obligation to pay a Transmission Usage Charge is net of Energy that does not flow because of a curtailment. Thus, Export curtailments do not leave Transmission Customers with an unfunded obligation to the NYISO for scheduled but curtailed Transactions.

Thus, this settlement either duplicates payments already authorized under other provisions of the NYISO OATT or is unnecessary because the curtailment did not leave the Transmission Customer with unfunded NYISO costs. In the absence of either of these rationales, there appears to be no market justification for paying for curtailed megawatts in this single circumstance.

The NYISO has examined settlements over the last several years and has found no circumstance under which this compensation was owed to a Transmission Customer. The NYISO's Market Participants have examined this proposal and agreed this provision should be deleted. Thus the NYISO proposes to delete the following language from Section 5.12.10, as shown:

5.12.10 Curtailment of External Transactions In-Hour

All Unforced Capacity that is not out of service, or scheduled to serve the Internal NYCA Load in the Day-Ahead Market may be scheduled to supply Energy for use in External Transactions provided, however, that such External Transactions shall be subject to Curtailment within the hour, consistent with ISO Procedures. Such Curtailment shall not exceed the Installed Capacity Equivalent committed to the NYCA.

If an Installed Capacity Supplier's Exports are Curtailed in-hour to resolve a New—York reserves shortage, the Transmission Customer scheduling such Exports shall be paid, for the remainder of the hour, the higher of the Real-Time LBMP at the New York proxy bus associated with the Exports, or the real-time price at the relevant proxy bus used by the External Control Area for Transactions with New York.

III. Inclusion Inadvertently Omitted Tariff Section

The Commission accepted a revision to the Services Tariff Section 4.5.6 in Docket No. ER08-1438-000 that prohibited paying Generators for injections above their Real-Time schedules, or basepoints, for the period in which they have been derated for failure to follow basepoints.⁸ This rule was included in a package of settlement revisions to provide additional financial incentives for generators to match their output to their dispatch instructions. The rule has been included in the calculation of generator settlements since it was accepted by the Commission but through an administrative oversight, was never included in the version of Section 4.5.6 appearing in the NYISO's published tariff.

The NYISO is taking this opportunity to add this already accepted provision to Section 4.5.6:

A Generator that is not following Base Point Signals shall not be compensated for Energy in excess of its Real-Time Scheduled Energy Injection if its applicable upper operating limit has been reduced below its bid-in upper operating limit by the ISO in order to reconcile the ISO's dispatch with the Generator's actual output, or to address reliability concerns.

IV. Effective Date

The NYISO requests an effective date of February 19, 2013, which is 60 days after the date of this filing, for the five Tariff revisions proposed in Section II. A. through E. above. The NYISO reiterates that the material in Services Tariff Section 4.5.6 that is being submitted for inclusion in the e-tariff being filed this date, as described in Section III of this filing letter, was accepted by the Commission with an effective date of October 15, 2008.⁹

V. Requisite Stakeholder Approval

The NYISO's Management Committee unanimously approved these tariff amendments on September 28, 2012 and October 31, 2012. The Board of Directors approved these tariff amendments on November 20, 2012.

⁸ *New York Independent System Operator, Inc.* Docket No, ER08-1438-000, Letter Order, 9/18/2008

⁹ *Id.*

VI. Communications and Correspondence

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

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VII. 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.

VIII Conclusion

Wherefore, for the foregoing reasons, the New York Independent System Operator, Inc. respectfully requests that the Commission accept this filing to be effective 60 days from filing, February 11, 2013.

Respectfully submitted,

/s/ Mollie Lampi
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