

July 31, 2014

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 Revise
Credit Requirement for CTS External Transactions; Docket No. ER14- ____-000**

Dear Ms. Bose:

Pursuant to Section 205 of the Federal Power Act,¹ the New York Independent System Operator, Inc. ("NYISO") hereby submits revisions to Sections 2.3 and 26.4 of its Market Administration and Control Area Services Tariff ("Services Tariff") to better align the credit requirements for Coordinated Transaction Scheduling ("CTS") External Transactions with the associated market risk.² The credit requirements for CTS External Transactions are calculated separately from other External Transactions and do not account for interaction between CTS and nonCTS External Transactions, which may result in over collateralization. By implementing the revisions proposed in this filing the NYISO can better align the credit requirements for CTS transactions with the market risk they present by accounting for the interaction between CTS and non-CTS External Transactions. The NYISO's proposed tariff revisions have been approved unanimously by the NYISO's Management Committee.

I. List of Documents Submitted

The NYISO submits the following documents:

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

II. Copies of Correspondence

Copies of correspondence concerning this filing should be served on:

Robert E. Fernandez, General Counsel

¹ 16 U.S.C. § 824d (2012).

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

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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. Summary and Background

CTS is a set of real-time market rules that allow for the scheduling of imports and exports based on a Transmission Customer's willingness to purchase energy at a source in the PJM Interconnection, L.L.C. ("PJM") Control Area or NYISO Control Area and sell the energy at a sink in the other region's Control Area if the forecasted price at the sink minus the forecasted price at the corresponding source is greater than or equal to the dollar value specified in the CTS Interface Bid. CTS Interface Bids will be an additional bidding option for Transmission Customers that transact at the NYISO/PJM border. Transmission Customers will have the ability to submit CTS Interface Bids at all of the Proxy Generator Buses that represent the NYISO's border with PJM.³

Transmission Customers using CTS will submit a single CTS Interface Bid to indicate their desire to simultaneously buy Energy in one Control Area and sell Energy into the other Control Area based on the forecasted price difference between the NYISO and PJM markets at the relevant location. Every 15 minutes, the NYISO will incorporate PJM's forecast prices into the NYISO's Real-Time Commitment (RTC) optimization, and will economically evaluate CTS Interface Bids, Decremental Bids and Sink Price Cap Bids to determine cross-border Transaction schedules.

In February of 2014 the Commission accepted a proposal from the NYISO and PJM to permit Market Participants to submit CTS Interface Bids. The Tariff revisions that the Commission accepted included updated NYISO credit rules to implement the proposed market change.⁴

³ See *N.Y. Indep. Sys. Operator Inc.*, Proposed Tariff Amendments to Implement Coordinated Transaction Scheduling with PJM Interconnection, LLC, Docket No. ER14-552-000, Section II, C (filed December 6, 2013) ("NYISO Filing").

⁴ *N.Y. Indep. Sys. Operator Inc.*, Proposed Tariff Amendments to Implement Coordinated Transaction Scheduling with PJM Interconnection, LLC, Docket No. ER14-552, Section II, C (filed December 6, 2013) ("NYISO Filing"); *New York System Operator, Inc.*, 146 FERC ¶ 61,097, at P 34 (2014).

Because CTS is a real-time only product and the market design does not allow CTS Interface Bids to be submitted in the Day-Ahead Market, the initial CTS credit rules did not address possible interaction between a CTS Interface Bid in the Real-Time Market and Day-Ahead scheduled Imports or Exports that eventually become Real-Time Market bids and offers. The accepted CTS credit requirement applies to any Market Participant that enters a CTS Bid to Export Energy from the New York Control Area; excluding only non-firm transactions. The CTS credit requirements only apply to CTS Bids to Export Energy, Bids to purchase Energy from the NYISO administered markets, as those are the CTS transactions that create a credit exposure to the NYISO. All of a Market Participant's CTS Interface Bids to Export Energy that have the same source, sink and Bid date/hour are grouped together and credit evaluated as one bid-group. The CTS Credit Requirement for each bid-group will first be calculated at the close of each hour-ahead market. At market close for an hour the CTS credit requirement for CTS Interface Bids to Export will be calculated as the sum of the time-weighted RTC price times the MWhs bid for each interval within the hour, not to be less than zero. When the hour during which one or more CTS Interface Bid(s) to Export is scheduled and completed in real-time, the credit requirement will be the total MWhs scheduled times the time-weighted integrated Real-Time LBMP for that hour, not to be less than zero. After the market day is complete, the credit requirement for CTS transactions will equal the net payments due to the NYISO as determined by the daily bill results for that market-day.

The Services Tariff allows the NYISO to hold collateral for Day-Ahead and Real-Time Decremental Import Bids or Sink Price Cap Export Bids, and Real-Time CTS Interface Bids to Export. Under the CTS market design approved by FERC, Transmission Customers will be able to transfer their Day-Ahead scheduled Imports and Exports into the NYISO's Real-Time Market using their choice of a CTS Interface Bid, a Decremental Bid, or a Sink Price Cap Bid. When Real-Time Decremental Import Bids or Sink Price Cap Export Bids are associated with a corresponding scheduled Day-Ahead Import or Export, the credit requirement is reduced by the number of scheduled MWhs associated with the corresponding Day-Ahead Import or Export Bid. However, the approved CTS credit rules do not currently account for the situation in which a Real-Time CTS Interface Bid to Export is associated with a scheduled Day-Ahead Export. Absent the Services Tariff revisions proposed in this filing, the NYISO would be required to hold collateral on both the MWhs included in the real-time CTS Interface Bid and the MWhs scheduled as an Export in the Day-Ahead Market, resulting in Market Participants being over-collateralized.

V. Description of Proposed Revisions

The NYISO proposes to revise Section 26.4.2.2 of the Services Tariff, replacing the current procedure and methodology for determining the credit requirements for CTS External Transactions with a more refined methodology that establishes credit requirements for CTS External Transactions that are better aligned with the market risk they present. The NYISO will establish each Market Participant's credit requirement for CTS Interface Bids as described in Section IV above. In calculating the credit requirement, the MWhs Bid for each CTS Interface Bid to Export will be reduced by the MWhs scheduled in the Day-Ahead Market for the corresponding Day-Ahead Bid to Export. Only those CTS transactions that create an exposure to the NYISO will have a credit requirement. The NYISO also proposes other ministerial and clarifying edits to Section 26.4.2.2.

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

The NYISO respectfully requests Commission action within sixty days of the date of this filing to provide the NYISO with timely notice that the changes have been accepted so that the NYISO can confidently move forward with developing and deploying the software changes that are necessary to effectuate the Tariff revisions described herein.

Additionally, the NYISO respectfully requests a flexible effective date for the Tariff revisions proposed in this filing that will be no earlier than November 1, 2014. The NYISO will not be able to propose a precise effective date until the software changes needed to implement the proposed Tariff revisions are fully tested and ready for deployment. The proposed effective date is the same as the effective date for the CTS revisions that the Commission accepted on February 20, 2014.⁵ The NYISO proposes to submit a compliance filing at least two weeks in advance of the proposed effective date specifying the date on which these Tariff revisions will take effect.⁶ Consistent with Commission precedent,⁷ the compliance filing will provide adequate notice to the Commission and to Market Participants of the implementation date for CTS between NYISO and PJM.

To the extent necessary, the NYISO requests a waiver of Commission regulations to allow the NYISO to make this filing more than 120 days prior to the date on which the proposed service is to become operational.⁸ No Market Participant will be prejudiced by this request because the proposed implementation timetable was developed in consultation with New York and PJM Market Participants. Market Participants have known for some time that the ISOs plan to implement CTS software and new market rules no earlier than November 1, 2014. The ISOs will provide at least two weeks advance notice prior to implementation of CTS, including these proposed revisions if they are accepted.

VII. Stakeholder Approval

In May 2014, the NYISO proposed to Market Participants to revise the CTS External Transaction credit requirements to account for the interaction between a DAM LBMP Bid and a CTS Interface Bid at the Credit Policy Working Group. The NYISO's Business Issues Committee approved the tariff revisions proposed in this filing at its meeting on June 18, 2014, and the NYISO's Management Committee unanimously approved these revisions on June 26, 2014. On July 15, 2014, the NYISO's Board of Directors approved a motion directing the NYISO to file the Tariff revisions approved by the Management Committee for the Commission's consideration.

⁵ See *New York System Operator, Inc.*, 146 FERC ¶ 61,097, at P 34 (2014) (“[W]e accept the proposed tariff revisions to be effective the later of November 2014 or the date that CTS becomes operational, subject to NYISO making a compliance filing with revised tariff records no later than 14 days prior to the date on which CTS will become operational reflecting the effective date of the tariff provisions.”).

⁶ *New York System Operator, Inc.*, 146 FERC ¶ 61,097, at P 34 (2014).

⁷ *New York System Operator, Inc.*, 106 FERC ¶ 61,111, PP 5, 10 (2004). (“We will allow NYISO to implement parts of the filing prior to September 2004, as such parts become ready for implementation, provided that NYISO adheres to the three steps identified above in Paragraph 5 of this order.”); *New York Independent System Operator, Inc.*, Letter Order, Docket No. ER11-2544-000 (Feb. 10, 2011).

⁸ See 18 CFR §35.3(a)(1).

VIII. Conclusion

WHEREFORE, for the foregoing reasons, the New York Independent System Operator, Inc. respectfully requests that the Commission issue an order accepting the proposed tariff changes identified in this filing within sixty (60) days of the filing date.

Respectfully submitted,

/s/ Nathan D. Markey

Nathan D. Markey

Attorney

New York Independent System Operator, Inc.

cc: Michael A. Bardee
Gregory Berson
Anna Cochrane
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