NEW YORK INDEPENDENT SYSTEM OPERATOR
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February 7, 2011

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.*, Proposed Tariff Revisions Regarding Interconnection Facilities Study Cost Allocation, Docket No. ER11-____

Dear Secretary Bose:

In accordance with Section 205 of the Federal Power Act[1] and Part 35 of the Federal Energy Regulatory Commission's ("Commission") regulations,[2] the New York Independent System Operator, Inc. ("NYISO") respectfully submits proposed revisions to its Standard Large Facility Interconnection Procedures contained in Attachment X to the NYISO Open Access Transmission Tariff ("OATT") and proposed revisions to its Small Generator Interconnection Procedures contained in Attachment Z to the NYISO OATT. [3]

The first proposed modification is a revision to Attachment X designed to more equitably allocate the study costs from the Class Year Interconnection Facilities Study ("Class Year Study") among the projects comprising a Class Year group of projects electing to be evaluated for Energy Resource Interconnection Service ("ERIS").[4] The second proposed modification is a revision to Attachment Z designed to limit the circumstances under which a Small Generator is required to enter a Class Year Study and thereby incur additional Class Year Study costs. Both proposed revisions are further described below in Section III of this letter.

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[1] *See* 16 U.S.C. § 824d (2000).

[2] 18 C.F.R § 35 *et seq.* (2009).

[3] Capitalized terms not otherwise defined in this letter have the meaning set forth in Attachments S, X and Z of the NYISO's Open Access Transmission Tariff ("OATT").

[4] The NYISO offers two levels of interconnection service under its OATT: Energy Resource Interconnection Service ("ERIS") and Capacity Resource Interconnection Service ("CRIS"). ERIS is the service provided by NYISO to interconnect the Generating Facility or Merchant Transmission Facility to the New York State Transmission System in accordance with the NYISO Minimum Interconnection Standard, to enable the New York State Transmission System to receive Energy and Ancillary Services from the Generating Facility or Merchant Transmission Facility, pursuant to the terms of the NYISO OATT.

The NYISO respectfully requests that the Commission waive the usual sixty day notice period and accept the proposed tariff revisions with an effective date of March 1, 2011, the start date for Class Year 2011. The necessity of, and justification for, this request is set forth below in Section IV of this transmittal letter.

I. Documents Submitted

1. This filing letter;

2. A clean version of the proposed revisions to the NYISO's OATT ("Attachment I"); and

3. A blacklined version of the proposed revisions to the NYISO's OATT ("Attachment II").

II. Background

The Commission has required standardization of interconnection study procedures and agreements for both large and small facilities through Order No. 2003[5] and Order No. 2006.[6] The NYISO's Large Facility Interconnection Procedures ("LFIP") contained in Attachment X to the OATT were approved by the Commission and went into effect on August 6, 2004.[7] The NYISO's Small Generator Interconnection Procedures ("SGIP") contained in Attachment Z to the OATT were approved by the Commission and took effect on February 20, 2007.[8]

Attachment X to the OATT contains the procedures for processing the Interconnection Requests of Large Generating Facilities and Merchant Transmission Facilities proposing to interconnect to the New York State Transmission System.[9] Attachment X calls for three successive Interconnection Studies of each proposed project, to assess its feasibility, to evaluate its impact on system reliability, and to identify the facilities needed for its reliable interconnection. These three successive studies are: the Interconnection Feasibility Study, the

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[5] *Standardization of Generator Interconnection Agreements and Procedures,* Order No. 2003, FERC Stats. & Regs. P 31,146 (2003), *order on reh'g,* Order No. 2003-A, FERC Stats. & Regs. P 31,160, *order on reh'g,* Order No. 2003-B, FERC Stats. & Regs. ¶ 31,171 (2004), *order on reh'g,* Order No. 2003-C, FERC Stats. & Regs. ¶ 31,190 (2005), *aff'd sub nom. Nat'l Ass'n of Regulatory Util. Comm'rs v. FERC,* 475 F.3d 1277 (D.C. Cir. 2007).

[6] *Standardization of Small Generator Interconnection Agreements and Procedures*, Order No. 2006, FERC Stats.& Regs. ¶ 31,180, *order on reh'g*, Order No. 2006-A, FERC Stats. & Regs. ¶ 31,196 (2005), *order granting clarification*, Order No. 2006-B, FERC Stats. & Regs. ¶ 31,221 (2006).

[7] *New York Independent System Operator, Inc.*, 108 FERC ¶ 61,159 (2004); *order on reh'g*, 111 FERC ¶ 61,347 (2005).

[8] *New York Independent System Operator, Inc.*, 119 FERC ¶ 61,333 (2007).

[9] *See* Section 30.2.1 of Attachment X to the OATT.

Interconnection System Reliability Impact Study, and the Class Year Study.[10] The annual Class Year Study is conducted to identify the Connecting Transmission Owner's Attachment Facilities and System Upgrade Facilities needed to reliably interconnect all the projects in the Class Year. The Class Year is comprised of projects that have met specified Class Year eligibility requirements by the time the combined group study begins in March each year. Each annual Class Year Study allocates the cost of System Upgrade Facilities identified in the study among the projects in the Class Year in accordance with the cost allocation methodologies set forth in Attachment S to the OATT.[11]

Small Generating Facilities no larger than 20 MWs proposing to interconnect to the New York State Transmission System or to the Distribution System are studied in accordance with the SGIP. As described in Section 32.3.5.3 of the SGIP, if any Interconnection Study determines that a Small Generating Facility requires a System Upgrade Facility to interconnect, then that Small Generating Facility is placed in the next Class Year, and cost responsibility is allocated to the Small Generating Facility in accordance with the procedures and methodologies in Attachment S.

A. Study Cost Allocation for the Class Year Study

Attachment X of the OATT allocates study costs for the Class Year Study among the Class Year members being studied for ERIS.[12] Class Year Study costs fall into three major categories: the study of Connecting Transmission Owner ("CTO") Attachment Facilities; the study of "local" System Upgrade Facilities necessary to facilitate the direct connection of the proposed project to the existing system, such as a new ring bus for a line connection or facilities required to create a new bay for a substation connection; and study of more systemic System Upgrade Facilities that are identified through analysis such as power flow, short circuit, or stability. Currently, costs associated with the study of Attachments Facilities are directly assigned to the individual project being studied, while costs associated with the study of System Upgrade Facilities are divided equally among projects being studied for ERIS. The current tariff language does not differentiate between study costs for the different types of System Upgrade Facilities.

This provision of Attachment X does not account for the fact that study costs associated with local System Upgrade Facilities, which are performed individually for each project in a Class Year, are highly variable and dependant upon the circumstances of each project. For example, a project that will require the design of a new substation to interconnect will require

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[10] *See* Sections 30.6, 30.7 and 30.8 of Attachment X to the OATT.

[11] *See* Section 8.2 of Attachment X to the OATT. *See also* Sections 25.6.2.3.1 and 25.6.2.3.4 of Attachment S to the OATT (Class Year eligibility and re-entry criteria).

[12] Deliverability Study costs incurred for projects seeking CRIS are divided equally among those projects seeking CRIS for a particular Class Year. The NYISO is not proposing any changes to the allocation of Deliverability Study costs in this filing.

more extensive study—and contribute to higher study costs—than an uprate project that will only require confirmation that existing equipment can accommodate the increased size of the project.

The study of local System Upgrade Facilities is directly assignable to specific projects because they are performed individually within Class Year Study. However, under the current rules, these study costs are divided equally for all the projects in the Class Year. As a result, projects that have below average study costs (when examined on a per project basis) are required to pay much more than that project's directly assignable portion of the Class Year Study costs. The NYISO and its stakeholders believe that the Tariff modifications described below in Section III.A. effectively address this issue.

B. Small Generator Facilities Study Requirements

Attachment Z of the OATT defines the circumstances under which a Small Generator is responsible for System Upgrade Facilities and required to enter a Class Year. Specifically, Section 32.3.5.3.2 provides that:

> the Interconnection Customer will be responsible for the cost of System Upgrade Facilities if the NYISO and Connecting Transmission Owner determine, based on an Interconnection Study, determine (i) that System Upgrade Facilities are necessary to accommodate the Interconnection Request, and (ii) that the electrical contribution of the project to the need for the System Upgrade Facilities is greater than the *de minimis* impacts defined in [Attachment S to OATT.][13] If both determinations are made, then the Small Generating Facility shall be evaluated as a member of the next Class Year, and the Interconnection Customer's cost responsibility shall be determined in accordance with that Attachment S.

As a result of the Attachment Z language cited above, projects determined by an Interconnection Study to require any System Upgrade Facilities, even minor local ones, are nevertheless required to undergo a Class Year Study. Experience has revealed that a Small Generating Facility that triggers only local System Upgrade Facilities need not be evaluated in the Class Year Study. Such projects have not triggered System Upgrade Facilities identified through the studies performed on a combined basis for all projects in a Class Year, which include stability, short circuit, and power flow studies. Therefore, including these projects in the Class Year is not necessary. Moreover, modifying the requirement that such projects be evaluated in the Class Year Study will reduce the cost and time associated with the interconnection process for Small Generating Facilities.

In addition, the criteria specified in Section 32.3.5.3.2 with respect to determining cost responsibility for System Upgrade Facilities does not reference functional System Upgrade Facilities, but rather refers to the electrical contribution of the project vis-à-vis the need for the

[13] *See* Section 25.6.2.6.1 of Attachment S to the OATT.

System Upgrade Facilities. Section 23.3.5.3.2 considers whether the "electrical contribution of the project to the need for the System Upgrade Facilities is more than a *de minimis* impact." This latter requirement is not directly applicable to System Upgrade Facilities that are not readily measured in amperes or other discrete electrical units.[14]

The NYISO and its stakeholders believe that the Tariff modifications described below in Section III.B. of this letter effectively address these issues.

III. Description of the Proposed Tariff Modifications

Following discussions with stakeholders, the NYISO proposes to revise Attachment X to the OATT and Attachment Z to the OATT. The NYISO proposes to add a definition for Local System Upgrade Facilities to both Attachment X and Attachment Z. The NYISO further proposes to revise Section 30.13.3.1 of Attachment X and Section 32.3.5.3.2 of Attachment Z as detailed below. Additional revisions to Attachment Z are proposed merely to reconcile current tariff language and current language in the Small Generator Interconnection Agreement with the proposed revision to Section 32.3.5.3.2 in Attachment Z. The NYISO and its stakeholders believe that proposed Tariff modifications effectively address the issues identified in Section II, *supra*, and would implement improvements to the interconnection study process as discussed herein.[15] If the Commission approves these proposed modifications, they will first apply to projects in Class Year 2011.

A. Proposed Change in Allocation of Class Year Study Costs

To address the issues discussed above in Section II.A., the NYISO proposes to modify the methodology under which study costs are allocated for a Class Year Study. The NYISO's proposed tariff amendments would revise Attachment X to add a definition for Local System Upgrade Facilities in order to differentiate between (1) Local System Upgrade Facilities necessary to facilitate the direct connection of the proposed project to the existing system and (2) more systemic System Upgrade Facilities that are identified through analysis such as power flow, short circuit, or stability.[16]

Additional proposed modifications to Attachment X would change the Class Year Study cost allocation as follows:

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[14] *See* Section 25.6.2.5.1 of Attachment S to the OATT.

[15] The NYISO has filed and the Commission has accepted other modifications and improvements to the interconnection procedures. *See, e.g.*, *New York Independent System Operator, Inc*., 124 FERC ¶ 61,238 (2008).

[16] The proposed change to the manner in which study costs are assigned and the introduction of the definition of "Local System Upgrade Facility" is not intended to change the Class Year cost allocation methodology for System Upgrade Facilities and System Deliverability Upgrades set forth in Attachment S.

(1) There would be no change to the allocation of CTO Attachment Facility study costs. Such costs would continue to be assigned to individual projects;

(2) Local System Upgrade Facilities study costs would be assigned to individual projects[17] and not divided equally among ERIS Class Year projects; and

(3) There would be no change to the allocation of non-Local System Upgrade Facilities Study Costs. Such costs would continue to be divided equally among ERIS Class Year projects.

These proposed tariff revisions would yield a significant cost savings to projects whose proposed interconnection do not require extensive study of Local System Upgrade Facilities. These proposed tariff revisions would therefore more equitably distribute study cost responsibility among projects in the Class Year and would allow the study costs that are attributable to a specific project to be directly assigned to that project.

Below is a detailed description of the specific tariff amendments necessary to implement this proposal.

1. Section 30.1 of Attachment X

The NYISO proposes to revise this section, entitled, "Definitions," to add the following definition for Local System Upgrade Facilities:

> **Local System Upgrade Facilities** shall mean the System Upgrade Facilities necessary to physically interconnect a proposed project to the Connecting Transmission Owner's transmission system, consistent with applicable interconnection and system protection design standards. Local System Upgrade Facilities include any electrical facilities required to make the physical connection (e.g., a new ring bus for a line connection or facilities required to create a new bay for a substation connection). Local System Upgrade Facilities also include any system protection or communication facilities that may be required for protection of the Connecting Transmission Owner's transmission facility (line or substation) involved in the interconnection. Local System Upgrade Facilities do not include System Upgrade Facilities required to mitigate any adverse reliability impact(s) of the project(s) identified through analysis such as power flow, short circuit, or stability (e.g., replacement of a circuit breaker at a nearby substation that becomes overdutied as a result of the project(s)).

[17] If more than one facility contributes to the need for particular local System Upgrade Facilities, the Developers of those facilities shall share equally in the cost to study those local System Upgrade Facilities.

2. Section 30.13.3.1 of Attachment X

Section 31.13.3.1 is a subsection of Section 31.13.3, entitled, "Obligation for Study Costs and Study Deposits." The NYISO proposes to revise Section 30.13.3.1 to add that for Class Years 2011 and beyond, the Developer of each Large Facility shall pay the actual cost of studying Local System Upgrade Facilities. The NYISO proposes a further revision of the section to clarify that the Facility Study costs divided equally to all Developers of Large Facilities in a Class Year does not include those costs related to Local System Upgrade Facilities.

B. Proposed Change in Small Generator Facilities Study Requirements

To address the issues discussed above in Section II.B. of this letter, the NYISO proposes to modify current tariff language that requires a Small Generating Facility to go through the Class Year Study process and incur Class Year Study costs even if such projects are determined to only require Local System Upgrade Facilities. Under the NYISO's proposed tariff revisions, Small Generating Facility projects for which an Interconnection Study identifies no System Upgrade Facilities or only Local System Upgrade Facilities would not be evaluated in the Class Year Study process outlined in Section II.A, *supra*.[18] In addition, the NYISO's proposed tariff revisions would remove the second prong of the current two-prong requirement in Section 32.3.5.3 for entry into the Class Year process regarding the electrical contribution of the project.

The specific tariff amendments to Attachment Z necessary to implement this proposal are discussed in detail below.

1. Section 32.5, Appendix 1 of Attachment Z

The NYISO proposes to revise this section, entitled, "Glossary of Terms," to add the same definition for Local System Upgrade Facilities referenced above as a proposed addition to Section 30.1 of Attachment X.

2. Section 32.3.5.3.2 of Attachment Z

Section 23.3.5.3.2 is a subsection of Section 32.3.5 entitled, "Facilities Study." The NYISO proposes to revise Section 23.3.5.3.2 to clarify that the Interconnection Customer shall be responsible for the cost of a System Upgrade Facility only if the NYISO and Connecting Transmission Owner, based on an Interconnection Study, determine that System Upgrade Facilities are necessary to accommodate the Interconnection Request. The NYISO further proposes to delete the requirement regarding the electrical contribution of the project to the need for the System Upgrade Facilities being more than a *de minimis* impact. The NYISO proposes to further revise Section 23.3.5.3.2 to add that if System Upgrade Facilities are determined to be

[18] Currently, Section 32.1.1.7 of Attachment Z to the OATT a Small Generating Facility larger than 2 MWs requesting CRIS to enter a Class Year and be evaluated for deliverability as a member of the Class Year pursuant to Attachment S to the NYISO OATT.

necessary, the Small Generating Facility shall only be evaluated as a member of the next Class Year if non-Local System Upgrade Facilities have been identified. As a result, where only Local System Upgrade Facilities are determined to be necessary to accommodate the Small Generating Facility's interconnection request, the Small Generating Facility will be responsible for the cost of the Local System Upgrade Facility, but will not be required to enter the Class Year process. Small Generating Facilities that require no System Upgrade Facilities continue to not be required to enter a Class Year.

2. Additional Revisions to Attachment Z to Incorporate the Above-Referenced Proposed Tariff Revisions

In order ensure consistency with the revised tariff language proposed above, the NYISO also proposes additional revisions to Sections 32.1.6 of Attachment Z and Section 5.21, 5.22, 6.3 and Attachment 6 to the Small Generator Interconnection Agreement contained in Appendix 9 to Attachment Z ("SGIA").

Section 32.1.6 of Attachment Z and Sections 5.21 and 5.22 of the SGIA currently reference the cost responsibility for System Upgrade Facilities in accordance with Attachment S. Similarly, Attachment 6 to the SGIA references the cost estimates for System Upgrade Facilities in the Attachment S cost allocation process. The NYISO proposes to revise these provisions to add a reference to Section 23.3.5.3.2 of Attachment Z in order to clarify that such cost responsibility may be determined by Section 23.3.5.3.2 if the Small Generator is not required to enter the Class Year process provided by Attachment S.

The NYISO also proposes a clarifying revision to Section 6.3 of the SGIA which provides that Security posted for System Upgrade Facilities must meet the requirements for Security contained in Attachment S. The NYISO's proposed revision to this section would clarify that this is only applicable to Small Generating Facilities required to enter the Class Year process pursuant to Section 23.3.5.3.2 of Attachment Z.

V. Requests for Waiver of the Prior Notice Requirements and Requested Effective Date

The NYISO requests waiver of the prior notice requirements[19] in order that its proposed tariff revisions may become effective no later than March 1, 2011. There is good cause[20] for this request. The NYISO's evaluation of Class Year 2011 begins March 1, 2011, and the proposed tariff revisions are intended to apply to Class Year 2011. If these proposed tariff revisions do not apply to Class Year 2011, it would be one full year - Class Year 2012 - until market participants would be able to reap the benefits of these tariff revisions.

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[19] 18 C.F.R. §§ 35.3 and 35.11 (2009).

[20] *See Central Hudson Gas and Electric Corp.*, 60 FERC ¶ 61,106 at 61,338-339 (1992) *reh'g denied*, 61 FERC ¶ 61,089 (1992).

Potentially affected stakeholders have been on notice that the NYISO intended to make this filing and apply it to Class Year 2011 since the October 19, 2010 Interconnection Issues Task Force meeting. The proposed tariff revisions were also discussed with the Transmission Planning Advisory Subcommittee meeting on November 8, 2010. Notably, there was no objection to the proposed tariff revisions in any of the working group meetings, the Operating Committee meeting, nor the Management Committee meeting. Consequently, the NYISO respectfully submits that no stakeholder would be prejudiced if the Commission were to shorten the usual notice period.

V. Requisite Stakeholder Approval

The tariff revisions proposed in this filing were the product of discussions with stakeholders in the NYISO's Interconnection Issues Task Force and its Transmission Planning Advisory Subcommittee. These proposed changes to the OATT were approved unanimously by the Operating Committee on November 18, 2010 and by the Management Committee on December 15, 2010. The NYISO Board of Directors also approved the filing of these proposed changes.

VI. Communications and Correspondence

All communications and services 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.

Respectfully submitted,

/s/ Sara B. Keegan

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