

April 11, 2011

ELECTRONICALLY SUBMITTED

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 Informational Report on Efforts to Develop Rules Addressing Compensation to Generators that Are Determined to be Needed for Reliability; Docket No. ER10-2220-____.

Dear Secretary Bose:

In accordance with paragraph 54 and ordering paragraph “(C)” of the Federal Energy Regulatory Commission’s (“Commission’s”) October 12, 2010 *Order On Proposed Mitigation Measures* in Docket No. ER10-2220-000 (“Order”),¹ the New York Independent System Operator, Inc. (“NYISO”), hereby submits this *First Informational Report on Efforts to Develop Rules Addressing Compensation to Generators that Are Determined to be Needed for Reliability* (“Informational Report”). **In footnote 44 of its Order the Commission stated that it does not intend to issue public notices, accept comments, or issue orders on this Informational Report.**

Paragraph 54 of the Order stated, in part, as follows:

Because fixed cost recovery issues do not go to whether NYISO’s mitigation proposal is in itself just and reasonable, this proceeding is not the appropriate forum in which to raise such issues. Further, commenters do not present factual evidence that demonstrates that market participants generally will be unable to recover their costs due to application of the proposed mitigation provisions. We note, however, that the NYISO Board of Directors, in its July 29, 2010 decision on the appeal of the NYISO Management Committee’s adoption of the instant mitigation proposal, directed NYISO management to work with stakeholders to examine the generation owners’ claims that existing cost recovery mechanisms are inadequate and to review the process that evaluates permanent solutions to reliability problems. Accordingly, we believe the better course is to await the outcome of the stakeholder process as directed by the NYISO Board of Directors. In this regard, we direct NYISO to file status reports every 180 days beginning 180 days from the date of this order for informational purposes only.⁴⁴

¹ *New York Independent System Operator, Inc.*, 133 FERC ¶ 61,030.

⁴⁴ The Commission does not intend to issue public notices, accept comments, or issue orders on such informational filings.

In compliance with the cited sections of the Order, the NYISO submits this Informational Report.

I. Documents Submitted

1. This Informational Report;
2. A February 10, 2011 presentation by Shaun Johnson, Manager Energy Market Products, to the NYISO's Market Issues Working Group titled *Reliability Resource Presentation* ("Attachment A");
3. Three sets of comments on the NYISO proposal included in Attachment A that were submitted by the New York State Department of Public Service Staff, the New York Transmission Owners and Multiple Intervenors; also, an alternative proposal submitted by the Independent Power Producers of New York ("IPPNY") ("Attachment B"); and
4. A March 31, 2011 presentation by Shaun Johnson, Manager Energy Market Products, to the NYISO's Market Issues Working Group, also titled *Reliability Resource Presentation* ("Attachment C").

II. Informational Report

A. NYISO's Initial Proposal

The NYISO carefully reviewed the issues raised in the comments, protests and rehearing requests submitted in this Docket and in Docket No. ER09-1682, along with the feedback it received from its stakeholders, and used that information to develop an initial proposal for temporarily compensating generators that are planning to retire, but are needed for reliability to ensure they are able to recover their going-forward fixed costs. Only Generators that are determined to be needed for reliability would be eligible for compensation under the NYISO's proposal. Generators that are eligible for compensation would only receive compensation under the NYISO's interim measure until such time as (1) an alternative solution is developed and implemented, or (2) the resource is formally adopted as a Gap Solution under Attachment Y to the NYISO's Open Access Transmission Tariff (at which time a rate would be determined consistent with the Attachment Y rules). The NYISO shared this initial proposal with its stakeholders at a Market Issues Working Group ("MIWG") meeting that was held on February 10, 2011.

Following the MIWG discussions, the NYISO encouraged stakeholders to provide comments on its initial proposal. The comments that the NYISO received (from both load and supplier representatives) were critical of the NYISO's proposal for several reasons. The written comments that the NYISO received are included in Attachment B to this Informational Filing. In lieu of submitting comments, IPPNY presented an alternative draft proposal to the NYISO that it believed addressed many of the concerns expressed, both in oral comments at the February 10 MIWG, and in the attached written comments. As explained below, IPPNY's draft proposal was presented to the NYISO's stakeholders at the MIWG meeting that was held on March 31, 2011.

B. March 31, 2011 MIWG Meeting/IPPNY Draft Proposal

While the NYISO prepared the presentation included as Attachment C for presentation at the March 31, 2011 MIWG meeting, most of the discussion at the meeting occurred between stakeholder representatives. Representatives of the supplier sector asked load-side representatives about the reasons for their criticism of various aspects of the NYISO's draft proposal. Representatives of New York loads provided detailed responses to the suppliers' questions. When the presenter got to the summary of IPPNY's proposal (which was being shared with the load-side interests for the first time), IPPNY and other supplier-side representatives explained their reasoning and concerns to the load-side representatives. The New York State Department of Public Service Staff also participated actively in the MIWG discussion.

The discussion that occurred at the March 31, 2011 MIWG meeting was a constructive effort by divergent interests (suppliers and loads) to arrive at a common ground. While load-side interests expressed concerns with IPPNY's proposal, and there are areas where agreement has not been reached, the NYISO Staff believes further progress may be possible. NYISO Staff was encouraged by the tone of the discussions, which was clearly focused on better understanding the opposing positions; not restating past arguments.

C. Next Steps

This issue will next be discussed at a joint MIWG/Electric System Planning Working Group ("ESPWG") meeting that will be held in May. Load-side representatives have encouraged IPPNY to pull together a more concrete and fleshed-out proposal for the upcoming joint meeting. IPPNY's efforts to develop a universally acceptable proposal will, almost certainly, be assisted by information provided at the March 31, 2011 MIWG meeting. In addition, the NYISO Staff will make itself available to review and provide comments on IPPNY's proposal in advance of the joint meeting.

III. Communications

Communications and correspondence regarding this Informational Report and future informational reports in this Docket should be directed to:

Rana Mukerji, Senior Vice President of Market Structures
Robert E. Fernandez, General Counsel
Raymond Stalter, Director—Regulatory Affairs
*Shaun Johnson, Manager—Energy Market Products
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*Persons designated for receipt of service. As explained above, the Commission has instructed that this Informational Report should not be noticed for comment.

IV. Service

This Informational Report will be posted on the NYISO's website at www.nyiso.com. In addition, the NYISO will e-mail an electronic link to this Informational Report to the official representative of each party to this proceeding, to 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.

V. Conclusion

The NYISO respectfully submits this Informational Report in compliance with the Commission's Order. For the reasons explained above, the NYISO is hopeful that it will be able to develop and submit for the Commission's consideration tariff revisions that have been approved in the NYISO's stakeholder governance process. The NYISO's next informational report is due on or about October 11, 2011.

Respectfully submitted,

/s/ Alex M. Schnell

Rana Mukerji, Senior Vice President of Market Structures

Robert E. Fernandez, General Counsel

Shaun Johnson, Manager of Energy Market Products

Alex M. Schnell

New York Independent System Operator, Inc.

April 11, 2011

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service lists 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, New York this 11th day of April, 2011.

/s/ Alex M. Schnell

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Attachment A

**NYISO February 10, 2011 Presentation to the
Market Issues Working Group
Titled *Reliability Resource Compensation***

Attachment B

**Comments On NYISO's February 10, 2011
Presentation Submitted by the New York Department of
Public Service Staff, the New York Transmission
Owners and
Multiple Intervenors**

Attachment C

**NYISO March 31, 2011 Presentation to the
Market Issues Working Group
Titled *Reliability Resource Compensation***