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September 9, 2010

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
Regarding its Rate Schedule 1 Provisions; Docket No. _____**

Dear Ms. Bose:

Pursuant to Section 205 of the Federal Power Act,¹ the New York Independent System Operator, Inc. (“NYISO”) hereby submits revised tariff sheets for its Market Administration and Control Area Services Tariff (“Services Tariff”) and its Open Access Transmission Tariff (“OATT”) to reorganize and clarify the descriptions of the NYISO’s methodologies for calculating the charges and payments set forth in Rate Schedule 1 of the Services Tariff, Schedule 1 of the OATT, and related provisions in the NYISO’s tariffs (collectively, the “Rate Schedule 1 Provisions”).² The NYISO’s Rate Schedule 1 Provisions establish the method by which the NYISO calculates its annual budget charge and other non-budget, market-related charges and payments.

The NYISO recently conducted an internal review of the Rate Schedule 1 Provisions and identified opportunities to improve and clarify certain provisions.³ The NYISO proposes to revise the Rate Schedule 1 Provisions to make such clarifications and improvements as described in Section IV below. The proposed revisions are largely organizational and will not, with one limited exception described below, alter the NYISO’s current practices for calculating charges and payments under the Rate Schedule 1 Provisions. These proposed Tariff revisions

¹ 16 U.S.C. § 824d (2008).

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.

³ The NYISO conducted this internal review and is making this filing as part of an on-going comprehensive review of its tariffs to identify opportunities to improve and clarify them.

were approved unanimously with abstentions by the NYISO stakeholders' Management Committee on June 15, 2010.

I. List of Documents Submitted

The NYISO submits the following documents:⁴

1. This filing letter;
2. A chart illustrating the relocation of the Rate Schedule 1 Provisions;
3. A clean version of the proposed revisions to the Services Tariff;
4. A blacklined version of the proposed revisions to the Services Tariff;
5. A clean version of the proposed revisions to the OATT; and
6. A blacklined version of the proposed revisions to the OATT.

II. Copies of Correspondence

Copies of correspondence concerning this filing should be served on:

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⁴ The blacklined tariff sheets attached hereto are marked to indicate the proposed tariff revisions contrasted against the most recent version of the tariff sheets being considered by the Commission. The NYISO respectfully requests waiver of 18 C.F.R. § 35.10(c) (2008) to the extent the blacklined tariff sheets deviate from the requirements of the Commission's regulations. The NYISO notes that several of the tariff sheets impacted by this filing contain changes currently pending before the Commission in Docket No. ER10-1866-000. The proposed changes concern adjustments to certain calculation methodologies for non-budget, market-related charges in Schedule 1 of the OATT. *See Proposed Tariff Clarifications Addressing Guarantee and Margin Assurance Payments, and Rules for Implementation of Improved Reference Levels for Generators that Are Not Able to Complete their Minimum Run Time Within the Dispatch Day*, Docket No. ER10-1866-000 (July 21, 2010).

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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. 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) (2008)) to permit it to provide service in this manner.

IV. Description of Proposed Revisions

The NYISO proposes to revise the Rate Schedule 1 Provisions as described in this Section IV. The proposed revisions are largely organizational and are, with one limited exception, consistent with the NYISO's current practices for calculating charges and payments under the Rate Schedule 1 Provisions. The single change to the NYISO's current practices proposed herein is described in Section IV.C.(i) below.

A. Proposed Revisions to Improve the Organization of the Rate Schedule 1 Provisions

As part of its review of the Rate Schedule 1 Provisions, the NYISO identified the following opportunities to improve the organization of the Rate Schedule 1 Provisions:

- (i) Schedule 1 of the OATT and Rate Schedule 1 of the Services Tariff contain similar, but not identical, provisions regarding the NYISO's calculation of its annual budget charge and certain other non-budget charges and payments. The NYISO proposes to consolidate all of the charges and payments established by the Rate Schedule 1 Provisions into Schedule 1 of the OATT to remove unnecessary duplication in the NYISO's tariffs and to avoid any errors that may arise from having similar, but not identical, provisions in both tariffs. The NYISO

⁵ The NYISO respectfully requests waiver of 18 C.F.R. § 385.203(b)(3) (2008) to permit service on counsel for the NYISO in both Washington, D.C. and Richmond, VA.

will replace the provisions in Rate Schedule 1 of the Services Tariff with a cross-reference to Schedule 1 of the OATT.

(ii) Schedule 1 of the OATT establishes that the NYISO will calculate each charge and payment as the product of specific billing unit and rate information. The provisions for the calculation of the billing unit and rate information for each charge and payment are currently in different locations within Schedule 1. The NYISO proposes to consolidate the provisions for the calculation of the billing unit and rate information for each charge and payment into a single mathematical formula for each charge or payment in one location in Schedule 1.

(iii) Schedule 1 of the OATT currently intermixes the calculation methodologies for the NYISO's annual budget charge with the calculation methodologies for other non-budget, market-related charges and payments, such as the charges for the recovery of guarantee payments made to its Suppliers. The NYISO proposes to consolidate into a new Section 6.1.2 of Schedule 1 all of the provisions regarding the calculation of its annual budget charge to clearly distinguish the costs associated with the NYISO's annual budget from all other costs recovered through Schedule 1. The remainder of the charges and payments will be addressed in the new Sections 6.1.3 through 6.1.14 of Schedule 1.

The NYISO submits as Attachment I to this filing letter a table that illustrates the reorganization of the Rate Schedule 1 Provisions as described in this Section IV.A.

B. Proposed Revisions to Clarify the Description of the NYISO's Annual Budget Charge

As part of its review of the Rate Schedule 1 Provisions, the NYISO identified opportunities to clarify the description of its methodology for calculating its annual budget charge, including:

(i) Section 6.1.2.1 of Schedule 1 of the OATT and Section 15.1.2 of Rate Schedule 1 of the Services Tariff indicate that customers that participate in the Special Case Resource Program or the Emergency Demand Response Program will be responsible for an annual budget charge based on their billing units, which are determined based on the customer's "total compensable injection MWh." The NYISO proposes to clarify in the new Section 6.1.2.4.3 that total compensable injection MWh are determined based on the total Load reduction, in MWh, measured and compensated during testing or an actual event.

(ii) A customer that purchases a Transmission Congestion Contract ("TCC") that is created on or after January 1, 2010, is responsible for a portion of the NYISO's annual budgeted costs. Section 6.1.1 of Schedule 1 of the OATT and Section 15.1.1.2 of Rate Schedule 1 of

the Services Tariff currently contain a placeholder for the January 1, 2010, date.⁶ The NYISO proposes to replace the placeholder with the January 1, 2010, date in the new Section 6.1.2.4.

(iii) Section 6.1.2.2.1.4.2 of Schedule 1 of the OATT and Section 15.1.3.1.4.2 of Rate Schedule 1 of the Services Tariff describe the NYISO's methodology for annually recalculating the rates for its annual budget charges to customers that engage in Virtual Transactions and to customers that purchase TCCs. The NYISO proposes to provide additional detail in the new Section 6.1.2.4.4 describing how the NYISO determines the variables that it uses to recalculate these annual rates (e.g., the annual revenue requirement amount, the over/under collection amount, etc.).

(iv) Section 6.1.3 of Schedule 1 of the OATT and Section 15.1.4 of Rate Schedule 1 of the Services Tariff provide an illustrative list of the costs that the NYISO may recover from its customers through its annual budget charge. The NYISO proposes to revise this list in the new Section 6.1.2.1 to improve the description of certain cost categories and to remove cost categories that are no longer applicable or that describe costs that are recovered outside of the NYISO's annual budget charge. For example, the NYISO proposes to remove the category "working capital costs" as the NYISO recovers these costs through the Working Capital Fund charge in the new Section 6.1.5. The proposed revisions to the cost category descriptions will not alter the costs that the NYISO may currently recover through its annual budget charge.

(v) Section 6.1.2.2.1 of Schedule 1 of the OATT and Section 15.1.3.1 of Rate Schedule 1 of the Services Tariff describe the charge for the recovery of the NYISO's annual budgeted costs as the "ISO Annual Budget and FERC Regulatory Fees" component. The NYISO proposes to remove the reference to "FERC Regulatory Fees" from the description of the annual budget charge as the Commission's regulatory fees comprise just one of the categories of costs that the NYISO recovers through its annual budget charge.

⁶ In an October 23, 2009, filing, the NYISO proposed certain revisions to its annual budget charge to recover annual budgeted costs from customers that participate in non-physical market transactions, including customers that purchase TCCs created on or after the effective date of the tariff revisions. *See Proposed Tariff Revisions to Allocate a Portion of Rate Schedule 1 Charges to Non-Physical Market Transactions, to Special Case Resources, and to Emergency Demand Response Program Participants and Request for Shortened Comment Period and for Expedited Action*, Docket No. ER10-95-000 (October 23, 2009). The NYISO included a placeholder for the effective date in its filed tariff sheets and indicated that it would make a ministerial filing to include the relevant date regarding the creation of TCCs after the tariff sheets were approved. *Id.* at pp. 4 and 8. The NYISO requested a January 1, 2010 effective date in its filing letter. *Id.* at p. 8. The Commission accepted the revised tariff sheets on December 2, 2009. *See* Letter Order, ER10-95 (December 2, 2009).

(vi) Section 6.1.2.2.1.2 of Schedule 1 of the OATT and Section 15.1.3.1.2 of Rate Schedule 1 of the Services Tariff describe the rate for allocating the NYISO's annual budgeted costs to customers based on their injection billing units. The NYISO proposes to clarify that this rate is calculated as 20% of the NYISO's annual budgeted costs divided by the total annual estimated withdrawal billing units for all NYISO customers.

C. Proposed Revisions to Clarify the Descriptions of the Non-Budget, Market-Related Rate Schedule 1 Charges and Payments

As part of its review of the Rate Schedule 1 Provisions, the NYISO identified opportunities to improve and clarify the descriptions of its methodologies for calculating the non-budget, market-related charges and payments located in the Rate Schedule 1 Provisions, including:

(i) Sections 6.1.2.2 and 6.1.2.2.6 of Schedule 1 of the OATT establish that the NYISO recovers NERC and NPCC costs invoiced to the NYISO for the upcoming calendar quarter from its customers on a quarterly basis. Currently, the NYISO determines a customer's share of such costs based on a customer's finalized Load meter data in the customer's most recent close-out settlement invoice. The NYISO proposes to change this methodology in the new Section 6.1.3 of Schedule 1 to provide that the NYISO will calculate each customer's share based on its Load meter data in the customer's most recent four-month true-up invoice. The proposed change will more closely align in time the incurred costs with the customer's participation in the NYISO's markets. This is the only change in current practice being proposed.

(ii) The NYISO recovers bad debt loss and Working Capital Fund costs through its Rate Schedule 1 provisions. The NYISO proposes to expressly provide provisions describing the charges for bad debt loss and Working Capital Fund costs in the new Sections 6.1.4 and 6.1.5 of Schedule 1.

(iii) The NYISO currently uses the unbudgeted costs component in Section 6.1.2.2.2 of Schedule 1 of the OATT and Section 15.1.3.2 of Rate Schedule 1 of the Services Tariff solely for the recovery of costs related to disputes. The NYISO proposes to clarify in the new Section 6.1.13 of Schedule 1 that this charge is specific to dispute costs. In making this revision, the NYISO proposes to clarify that Section 6.1.13 will apply to both the recovery of dispute related costs incurred by the NYISO and the allocation of dispute related costs recovered by the NYISO. In addition, the NYISO proposes to clarify that the rate for making such determinations will be calculated based on the customer's withdrawal billing units for the relevant month divided by the total "actual," as opposed to "estimated," withdrawal billing units for the relevant month.

(iv) The NYISO's Rate Schedule 1 Provisions do not expressly indicate how the NYISO allocates the revenues that it receives from customers that must satisfy certain financial

penalties set forth in the NYISO tariffs. The NYISO proposes to clarify in the new Section 6.1.14 of Schedule 1 that the NYISO allocates such revenue to its customers on a load ratio share basis.

(v) Section 6.1.2.2.7 of Schedule 1 of the OATT provides for the NYISO's recovery of costs for payments that the NYISO makes to suppliers pursuant to the NYISO's requirements for units responding to local reliability rules I-R3 and I-R5. The NYISO proposes to clarify in the new Section 6.1.7 of Schedule 1 that the NYISO calculates these charges separately to recover as applicable either (i) payment costs related to Local Reliability I-R3 or (ii) payment costs related to Local Reliability I-R5.

(vi) Sections 6.1.2.2.4 and 6.1.4 of Schedule 1 of the OATT establish the NYISO's methodology for addressing residual costs, which are the difference in costs between the payments that the NYISO receives from its customers and the payments that the NYISO makes to its customers. The NYISO proposes to clarify in the new Section 6.1.8 of Schedule 1 that the residual costs provision only applies to the cost difference in payments concerning market transactions. The NYISO also proposes to clarify that Day-Ahead Congestion Rent related payments are not included in this provision and to remove the related language from the formula for calculating the residual costs payment/charge. In addition, the NYISO proposes to remove the illustrative list of residual costs components currently located in Section 6.1.4 of Schedule 1 of the OATT as this list merely duplicates the formula for calculating the residual costs payment/charge. The NYISO also proposes to clarify that the residual costs charge can be either a payment or a charge. Finally, the NYISO proposes to make minor changes to the description of NYISO's and customer's payments in the formula for calculating the residual costs payment/charge. For example, the NYISO proposes to clarify that references to Transmission Usage Charge payments relate to Bilateral Transactions.

(vii) Section 6.1.7.5 of Schedule 1 of the OATT indicates that the daily charge to recover the NYISO's costs for Bid Production Cost guarantee payments made to compensate Special Case Resources will be determined on a Subzone basis. The NYISO proposes to remove the reference to Subzones from the new Section 6.1.12.5 as this charge is determined on a New York Control Area basis.

(viii) The NYISO calculates certain charges under the Rate Schedule 1 Provisions differently for customers that withdraw energy to provide station power as third-party providers. The amount that the NYISO collects from such charges is then rebated back to all customers based on each customer's energy withdrawals that are not used to supply station power as a third-party supplier. The NYISO proposes to modify the description of the following charges to expressly provide for these separate station power related calculations: Day-Ahead Margin Assurance Payment charge (new Sections 6.1.10.1.2, 6.1.10.1.3, 6.1.10.2.2, and 6.1.10.2.3 of Schedule 1), Import Curtailment Guarantee Payment charge (new Sections 6.1.11.2 and 6.1.11.3 of Schedule 1), and certain Bid Production Cost

guarantee payment charges (new Sections 6.1.12.3.2, 6.1.12.3.3, 6.1.12.6.2, and 6.1.12.6.3 of Schedule 1).

(ix) Sections 6.1.2.2.3.3 and 6.1.2.2.4.1.2 of Schedule 1 of the OATT provide that the NYISO will allocate the costs that it recovers through the Non-ISO Facilities Charge and the residual costs charge from customers that provide station power as third-party providers (under Sections 6.1.2.2.3.2 and 6.1.2.2.4.1.2 of Schedule 1) to all customers. The NYISO proposes to clarify in the new Sections 6.1.6.1.3 and 6.1.8.1.3 that the NYISO allocates such costs to customers using the following rate: the customer's withdrawal billing units that are not used to supply station power as a third-party provider divided by the sum of all customers' withdrawal billing units that are not used to supply station power as a third-party provider.

(x) The withdrawal billing unit amounts that the NYISO uses to calculate the rates for certain Schedule 1 charges and payments for customers that do not supply station power as a third-party provider exclude the withdrawal billing units of customers that supply station power as third-party providers. The NYISO proposes to modify the description of the following charges to expressly provide for the appropriate withdrawal billing unit amount: Non-ISO Facilities Charge (new Section 6.1.6.1.1), local reliability rules payment charge (new Section 6.1.7), residual costs payment/charge (new Section 6.1.8.1.1), Special Case Resources and Curtailment Service Providers charge (new Sections 6.1.9.1 and 6.1.9.2), Day-Ahead Margin Assurance Payment charge (new Sections 6.1.10.1.1 and 6.1.10.2.1), Import Curtailment Guarantee Payment charge (new Section 6.1.11.1), and certain Bid Production Cost guarantee payment charges (new Sections 6.1.12.3.1 and 6.1.12.6.1).

D. Proposed Removal of Unused Tariff Provisions

As part of its review of the Rate Schedule 1 Provisions, the NYISO identified a few historic, unused provisions. The NYISO proposes to remove the following unused provisions from its tariffs:

(i) The NYISO proposes to remove the "ISO Start-Up and Formation Costs" component set forth in Section 15.1.3.3 of Rate Schedule 1 of the Services Tariff. The NYISO has recovered all of the costs associated with this charge and no longer charges customers on the basis of this charge.

(ii) The NYISO proposes to remove the pro forma language regarding "Scheduling, System Control, and Dispatch" in the preamble (Section 6.1) of Schedule 1 of the OATT. The NYISO recovers all of its annual budgeted costs through Rate Schedule 1, including, but not limited to, the costs related to its provision of Scheduling, System Control, and Dispatch Service to customers. The proposed clarifications to the Rate Schedule 1 Provisions more clearly describe the NYISO's practices and such clarifications will not impact the provision of scheduling, system control, and dispatch related service through the NYISO's tariffs.

(iii) The NYISO proposes to remove the following language from Section 4.1.6 of the Services Tariff: “Demand Side Resources offering Operating Reserves or Regulation Service shall pay the Market Administration and Control Area Services charge based only on their withdrawal billing units.” This language simply re-states the NYISO’s normal process for charging Demand Side Resources based on their withdrawal units and is unnecessary.

(iv) The NYISO proposes to remove the following language from Section 6.1.2.2.1.5 of Schedule 1 of the OATT and Section 15.1.3.1.5 of Rate Schedule 1 of the Services Tariff: “the rate [for the charge for customers that participate in the Special Case Resources or the Emergency Demand Response program] will be reset annually to match the current calendar year’s rate for injections.” The proposed formula in the new Section 6.1.2.4.3 of Schedule 1 for calculating such charge applies the current calendar year’s data, so the related text is unnecessary.

(v) The NYISO proposes to remove the following language from Section 15.1.4 of Rate Schedule 1 of the Services Tariff: “Where costs, expenses, or receipts are incurred on a basis other than a monthly basis, the NYISO shall use reasonable judgment consistent with commonly accepted accounting practices to develop the monthly components.” The NYISO does not develop such monthly components.

E. Additional Proposed Clarifications

(i) Section 15.1.1.2 of Rate Schedule 1 of the Services Tariff establishes a customer’s obligation to sign a service agreement if it takes service under the NYISO’s Services Tariff. The NYISO proposes to relocate this requirement to Section 4.1.2 of the Services Tariff.

(ii) The NYISO proposes to clarify the description of the calculation methodology for penalty costs in Section 6.11.3.4 of Rate Schedule 11 of the OATT, so that the methodology clearly allocates penalty costs as intended: 50% to injection billing units and 50% to withdrawal billing units.

(iii) Section 6.1.2.1 of Schedule 1 of the OATT and Section 15.1.2 of Rate Schedule 1 of the Services Tariff define the terms injection billing units and withdrawal billing units. The NYISO proposes to create “Injection Billing Units” and “Withdrawal Billing Units” as defined terms consistent with the definitions in these provisions.

(iv) The NYISO tariffs do not expressly indicate how customers with negative value meter reads are charged for the NYISO’s annual budgeted costs. The NYISO proposes to clarify in the definition of Actual Energy Withdrawals that withdrawals will include the absolute value of negative withdrawals by Load for behind the meter generation. The NYISO also proposes to clarify in the definition of Injection Billing Units that such billing units will include the absolute value of negative injections by pump storage facilities.

(v) The NYISO proposes to relocate language pertaining to the injection billing units for Limited Energy Storage Resources from Section 4.1.6 of the Services Tariff to the definition of “Injection Billing Units.” The NYISO also proposes to clarify in the definition of Injection Billing Units that a Day-Ahead Demand Reduction Provider’s Demand Reduction will be included as Injection Billing Units. These clarifications will be applicable to the determination of the charges in Schedule 1 of the OATT and Schedule 11 of the OATT.

(vi) The NYISO proposes to clarify that “Scheduled Energy Withdrawals” are energy withdrawals that are scheduled on a real-time basis by the NYISO’s real-time dispatch process.

(vii) The NYISO also proposes general, non-substantive drafting improvements to the Rate Schedule 1 Provisions. For example, the NYISO proposes to ensure that the defined terms: Actual Energy Withdrawals, Actual Energy Injections, Scheduled Energy Withdrawals, and Scheduled Energy Injections are capitalized throughout the NYISO’s tariffs.

V. Effective Date

The NYISO respectfully requests that this filing become effective sixty (60) days after the date of this filing.

VI. Requisite Stakeholder Approval

The tariff revisions proposed in this filing were discussed with stakeholders in the NYISO’s Market Issues Working Group on May 24, 2010. The revisions were approved unanimously, with abstentions, at the NYISO’s Business Issues Committee meeting on June 2, 2010, and unanimously, with abstentions, at the NYISO’s Management Committee meeting on June 15, 2010. On July 20, 2010, the NYISO’s Board of Directors also approved these tariff revisions.

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VII. 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,

/s/ Ted. J. Murphy

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