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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. ER11-xxxx-xxx,
Proposed Tariff Revisions to Support Enhanced Interregional Transaction
Coordination***

Dear Secretary Bose:

In accordance with Section 205 of the Federal Power Act and Part 35 of the Commission's regulations, the New York Independent System Operator, Inc. ("NYISO") respectfully submits proposed revisions to its Market Administration and Control Area Services Tariff ("Services Tariff") and Open Access Transmission Tariff ("OATT").¹ If approved, these proposals will allow the NYISO to implement more frequent transaction scheduling at the borders of the New York Control Area ("NYCA"), which will enable system operators to utilize transmission between New York and its neighbors more efficiently. The NYISO anticipates that these measures will result in reduced uplift costs associated with real-time event management and congestion management, facilitate better integration of intermittent resources, and lower total system operating costs. The proposed amendments received extensive stakeholder review over the past twelve months, and obtained approvals from the NYISO's Management Committee and the NYISO's independent Board of Directors in October and November 2010, respectively.

¹ Capitalized terms not specifically defined herein have the meaning set forth in the Services Tariff and the OATT.

Part II of this filing describes the background and purpose of the proposed tariff revisions. Part III discusses the specific OATT and Services Tariff changes that are needed to implement the NYISO's proposals.

I. Documents Submitted

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

II. Background to this Filing

In its January 12, 2010 compliance filing in the ER08-1281 docket, the NYISO proposed to pursue both physical and market solutions to the problem of Lake Erie loop flows.² With the assistance and support of the Midwest Independent Transmission System Operator, Inc. (Midwest ISO), PJM Interconnection, LLC ("PJM"), the Ontario Independent System Operator ("IESO"), and their stakeholders, the NYISO's compliance filing recommended four market solutions: Buy-Through of Congestion, Congestion Management/Market to Market Coordination, Interface Pricing Revisions, and Interregional Transaction Coordination. The Commission accepted the NYISO's filing, conditioned on the filing of answers to certain questions.³ The NYISO filed its responses on August 16, 2010 and reported that it was continuing to work collaboratively with IESO, Midwest ISO, PJM, ISO New England ("ISO-NE"), and Hydro Quebec Trans Energie ("HQ") to develop the concepts it had proposed.⁴

With the present filing, the NYISO submits the tariff revisions that are necessary to implement one of those recommended market solutions, Enhanced Interregional Transaction Coordination, in New York. These provisions will put in place the program the NYISO and its partners contemplated in the January 12 filing and report by offering Market Participants the

² New York Independent System Operator, Inc., Report on Broader Regional Markets, Docket No. ER08-1281 (January 12, 2010).

³ *New York Independent System Operator, Inc.*, 132 FERC ¶ 61,031, at 11 (2010).

⁴ New York Independent System Operator, Inc., Response to Questions and Supplemental Report on Broader Regional Markets, Docket No. ER08-1281, at 3 (August 16, 2010).

ability to schedule flexible transactions at the NYISO's external interfaces. The NYISO anticipates that implementation of this capability will lower total system operating costs by improving the consistency of transaction schedules with market-to-market prices, expanding the pool of resources available to the system operator to balance intermittent resources, improving transmission utilization, and reducing the uncertainties associated with forward-looking scheduling horizons.

There are two fundamental elements to the NYISO's proposal. First, the tariffs must be revised to authorize more frequent scheduling of External Transactions. Second, the pricing rules that currently apply at external Proxy Generator Buses need to be modified to support flexible scheduling. The modified pricing rules must also take into account the fact that, as the Commission has previously recognized, some external interfaces are not fully competitive.⁵ The NYISO further proposes to clarify the existing import curtailment guarantee settlement rules for all Proxy Generator Buses, which the NYISO will apply independently of the flexible scheduling and revised pricing changes described here.⁶

The NYISO's Real-Time Market rules and Real Time Commitment ("RTC") and Real Time Dispatch ("RTD") software presently allow Market Participants to schedule energy at the NYCA borders only once per hour. The NYISO settles those hourly transactions at the applicable real-time clearing prices. Today, there is a time gap of 60 to 120 minutes between scheduling the energy and the determination of the real-time prices at which the transactions are settled. This gap exposes traders to locked-in positions and potential volatility in the real-time market prices. Reducing the time between the scheduling and pricing of energy at the NYCA border will reduce this pricing risk and should ultimately increase efficiency and decrease costs to consumers in New York and in neighboring Control Areas.⁷

⁵ *New York Independent System Operator, Inc.*, 104 FERC ¶61,220 (2003); 105 FERC ¶61,347 (2003) (accepting tariff revisions recognizing certain external proxy buses as non-competitive). To date, Proxy Generator Buses associated with the HQ Control Area and the Dennison Scheduled Line have been designated as non-competitive. The NYISO is not proposing to change those designations here.

⁶ Import curtailment guarantees are intended to protect a Market Participant's Day Ahead settlement in the event of a real-time curtailment imposed by the NYISO for reliability. The proposed clarifications implement that principle in language that will apply to hourly as well as intra-hour Transactions.

⁷ An analysis prepared by Potomac Economics, the NYISO's independent Market Monitor, suggests a total annual production cost savings for all NYISO interfaces of \$175 million as a result of adopting the more frequent external transaction scheduling protocols proposed here. Analysis of the Broader Regional Markets Initiative, Potomac Economics presentation to Joint NYISO-IESO-MISO-PJM Stakeholder Technical Conference on Broader Regional Markets (September 27, 2010), available at

The tariff changes discussed below will provide the NYISO and Market Participants the ability to schedule energy at designated Proxy Generator Buses on a fifteen-minute basis, and in some instances, on a five-minute basis. At the same time, Market Participants will continue to have the ability to schedule hourly transactions at those Proxy Generator Buses, at their option. However, until the NYISO implements flexible scheduling at all Proxy Generator Buses, wheel-through transactions will be unable to opt for intra-hour scheduling, in order to ensure matching injection and withdrawal schedules.

This filing also proposes revised pricing rules to be implemented in conjunction with the introduction of intra-hour scheduling at any particular Proxy Generator Bus.⁸ The pricing rules vary depending on whether (1) the NYISO has designated the Proxy Generator Bus as available for flexible scheduling, (2) the same bus has also been designated as non-competitive or is associated with a designated Scheduled Line, and (3) the bus is or is not subject to a constraint.⁹ The NYISO will continue to utilize the RTC and RTD software to schedule transactions and evaluate price constraints.

All External Transactions at a given Proxy Generator Bus will settle based on the LBMPs derived by RTD unless the Proxy Generator Bus is constrained. In such a case, Transactions at the constrained location will settle using the appropriate alternative pricing rule. The proposed tariff sheets identify the various formulas that the NYISO will use depending on scheduling frequency and system conditions at any given Proxy Generator Bus; in general, the proposed rules require the NYISO to substitute more appropriate LBMPs for the RTD LBMPs when congestion or other constraints limit either imports or exports at that location.¹⁰ The substitute LBMPs will include the constraint costs at the Proxy Generator Buses resulting from the economic evaluation and scheduling of external transactions, where the LBMP outputs from RTD may not include these costs, as external transaction schedules may have already been established prior to the RTD execution.

If the Proxy Generator Bus is non-competitive, or if it is associated with a designated Scheduled Line, the NYISO will apply a different set of rules to determine pricing. Again, the

http://www.nyiso.com/public/webdocs/committees/bic_miwg/meeting_materials/2010-09-27/BRM_Analysis_Presentation_to_RTOs_9-27-10.pdf.

⁸ More details of the Proxy Generator Bus Pricing Rules can be found at http://www.nyiso.com/public/webdocs/committees/bic_miwg/meeting_materials/2010-06-07/Agenda_04_EITC_Scheduling_Pricing_Concept.pdf.

⁹ The designated Scheduled Lines are the Cross Sound Cable, the Linden VFT, and the Neptune line. Services Tariff, Attachment B, section 17.1.6.3. A specific Proxy Generator Bus is associated with each of these for purposes of transaction scheduling.

¹⁰ Special pricing rules will also apply to Transactions at the designated Scheduled Lines.

choice of pricing rule is dictated by whether or not the particular bus is available for hourly or more flexible scheduling and by the presence or absence of specific constraints. As the Commission has noted, LBMPs at a non-competitive facility or designated Scheduled Line can be influenced by limited opportunities for competition during constrained periods. Thus additional rule sets need to be applied to mitigate the possibility of non-competitive outcomes.

The Commission should note that these revised pricing rules are conceptually the same as those employed by the NYISO today at Proxy Generator Buses. The modifications are designed to extend the current Commission-approved pricing to accommodate the various scheduling frequencies that will be possible as the NYISO implements intra-hour scheduling at the NYCA borders. The NYISO's pricing will continue to substitute LBMPs that reflect the value of constraints for those generated by RTD. Where an interface is non-competitive, the pricing will continue to recognize minimum and maximum bounds, as the current rules do today.

The proposal also includes modifications to the eligibility rules for real-time bid production cost guarantees for transaction bids at Proxy Generator Buses available for more flexible scheduling; these are intended to create an incentive to offer intra-hour transactions in real-time.

The NYISO intends to implement the proposed more frequent scheduling and new pricing rules one Proxy Generator Bus at a time. The NYISO will provide at least a two week notice to its Market Participants before activating more frequent scheduling at a Proxy Generator Bus. Those Proxy Generator Buses that have not yet been designated as available for intra-hour scheduling will continue to be governed by the existing pricing and bid production cost settlement rules.

III. Description of Tariff Changes

Implementation of the NYISO's proposals requires modifications to both the Services Tariff and the OATT. The principal changes are described below.

- A. Changes to Definitions. The tariff sheets submitted with this filing include changes to the definitions of certain terms that appear in both tariffs, as well as new terms.

Services Tariff 2.4, OATT 1.4: A change to the definition of Desired Net Interchange will facilitate more frequent External Transaction scheduling.

The NYISO also proposes to add the term "Dynamically Scheduled Proxy Generator Bus" to identify those locations at which the NYISO will be capable of accommodating transactions that are subject to modification every five minutes in real-time.

Services Tariff 2.5, OATT 1.5: The new term "Energy Profile MW" will be used to specify the maximum desired schedule for an External Transaction Bid.

Services Tariff 2.18, OATT 1.18: The NYISO proposes minor changes to the definitions of “Real-Time Commitment” or “RTC” and “Real-Time Dispatch” (“RTD”) to authorize intra-hour scheduling at a Proxy Generator Bus. The NYISO is also adding a new term, “Rolling RTC,” to identify any RTC run that schedules fifteen-minute External Transactions.

Services Tariff 2.19, OATT 1.19: The NYISO proposes modifications to the definition of “Sink Cap Price Bid” that will allow for bid curves on Export transactions.

Services Tariff 2.22, OATT 1.22: The NYISO is introducing another new term, “Variably Scheduled Proxy Generator Bus.” This term identifies locations at which the NYISO will offer to schedule External Transactions at fifteen minute intervals.

- B. Services Tariff Changes. The NYISO proposes several changes to Sections 4.4.1, 4.4.2, 4.4.3, and 4.5 of the Services Tariff that are necessary to implement intra-hourly transactions. The NYISO is also proposing related changes to Attachments B, C, and J.

Section 4.4.1.1: The NYISO revises this section to clarify that RTC will produce binding schedules for External Transactions on a quarter-hour basis.

Section 4.4.1.2.2: The changes proposed for this section eliminate the fixed requirement that External Transaction Bids have a minimum one-hour duration and substitutes provisions that will allow the NYISO to implement variable scheduling at specific Proxy Generator Buses with the agreement of the parties submitting the Bids.

Section 4.4.1.3: The NYISO’s revisions will allow RTC to schedule intra-hour External Transactions by the quarter hour at Proxy Generator Buses for which variable scheduling has been authorized. The changes also provide that the amount of Energy scheduled in association with an External Transaction may change on the quarter hour within a given hour.

Section 4.4.1.4: This section sets forth the basic rules governing RTC’s role in making scheduling decisions for External Transactions. The proposed modifications specify the timing for RTC to schedule hourly and 15 minute External Transactions at Variably Scheduled Proxy Generator Buses. The changes also require subsequent RTC runs within the hour to revisit prior External Transaction schedules and to schedule the next set of economic 15 minute External Transactions.

Section 4.4.2: The changes proposed here are intended to implement five minute transactions. Modifications to subsection 4.4.2.1 specify that the Real-Time Dispatch will produce such schedules for External Transactions at Dynamically Scheduled Proxy Generator Buses. New subsection 4.4.2.2 provides that RTD will schedule External Transactions on a five minute basis at those locations and authorizes the NYISO to change the schedule for energy associated with an External Transaction every five minutes. The new language also clarifies that the existing rules in Attachment J of the OATT will apply to External Bilateral Transaction Schedules. The subsequent sections are renumbered to accommodate this new subsection.

Section 4.4.3: The existing section authorizes the NYISO to activate the RTD-CAM software when unexpected system conditions occur. The proposed changes will permit RTD-CAM to schedule five minute transactions at Dynamically Scheduled Proxy Generator Buses.

Sections 4.5.3.2 and 4.5.4.2: The proposals for this subsection modify existing rules for the assessment of Financial Impact Charges related to failed transactions (injections and withdrawals) and calculating Curtailment Guarantee Payments to accommodate intra-hour External Transaction scheduling.

Attachment B, Section 17.1: The NYISO proposes numerous modifications to the pricing rules used in calculating real-time LBMPs at Proxy Generator Buses and designated Scheduled Lines. Subsection 17.1.6.1 defines the types of constraints that may be binding at a given Proxy Generator Bus and thus dictate application of a special pricing rule for an External Transaction. Changes to the next section, renumbered 17.1.6.2, establish the general rules for pricing External Transactions at Proxy Generator Buses that are subject to one or more of the defined constraints. Different formulas apply depending on whether the particular bus has been designated for hourly, fifteen-minute, or five-minute scheduling. If the Proxy Generator Bus is non-competitive, subsection 6.3 specifies the pricing rules that will apply to Transactions at that interface. A third set of pricing formulas, described at subsection 17.1.6.4 applies to Proxy Generator Buses associated with designated Scheduled Lines, which may also be subject to any of the defined constraints. Finally, subsection 17.1.6.5 will be modified to specify the method for calculating the Marginal Loss and Congestion components of real-time LBMPs for Transactions at Proxy Generator Buses that are scheduled intra-hour.

Attachment C, Section 18.6.1.2: This section addresses Suppliers' eligibility for real-time Bid Production Cost guarantee payments. The NYISO will add subparagraph 2.1 to preclude hourly import transactions scheduled at either Variably Scheduled or Dynamically Scheduled Proxy Generator Buses from receiving real-time shortfall payments. Similarly, customers will not be eligible for such payments with respect to import transactions at Non-Competitive Proxy Generator Buses or at any of the

designated Scheduled Lines, when the facility is export constrained. Other changes substitute the term “Customer” for “External Generators and other Suppliers.”

Attachment J, Section 25.6.1: This proposed modification confirms the method for determining a customer’s eligibility for an Import Curtailment Guarantee Payment, and clarifies the formula that the NYISO will use to calculate an eligible Supplier’s payment.

C. Changes to the OATT. The NYISO proposes corresponding changes to the OATT.

Section 3.1.8: A minor change to this section recognizes that External Transaction schedules may not be hourly and authorizes the NYISO to schedule Firm Transmission Service intra-hourly in real-time.

Attachment J, Section 16.3: The NYISO will add a new provision that parallels the proposed changes to Section 4.4.1 of the Services Tariff. The new language authorizes the NYISO to vary External Transaction Schedules more frequently than once an hour, so long as the bidder has opted for variable scheduling. Transmission Customers will also be allowed to modify Bilateral Transactions in the Real-Time Market. Additional changes provide the NYISO with needed flexibility to implement intra-hourly scheduling for these transactions.

IV. Effective Date and Implementation Plan

The NYISO requests an effective date of March 15, 2011 for the proposed amendments. The changes to the import curtailment guarantee settlement rules will become effective for all Proxy Generator Buses on that date. The NYISO intends to phase in the new scheduling and pricing rules on an interface-by-interface basis. The first location for more frequent Transaction scheduling will be the Hydro-Quebec/Chateauguay interface starting after the requested effective date in March 2011; the specific start date will depend on system operating conditions in both regions. The NYISO plans to extend implementation to Proxy Generator Buses at the PJM interface in the 4th quarter of 2011, and to the ISO-NE interface in early 2013. The NYISO will inform its Market Participants of the availability of intra-hour scheduling at a Proxy Generator Bus at least two weeks prior to implementing the change.

V. Stakeholder Approval

The amendments proposed in this filing were discussed and reviewed five times with stakeholders in the Market Issues Working Group forum. These amendments were unanimously approved by the NYISO’s Business Issues Committee on October 6, 2010 and were unanimously approved, with abstentions, by the NYISO’s Management Committee on October 21, 2010.

VI. Communications and Correspondence

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

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VII. Service

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 to the electric utility regulatory agencies of New Jersey and Pennsylvania. In addition, the complete filing will be posted on the NYISO's website at www.nyiso.com. 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) (2007)) to permit it to provide service in this manner.

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VIII. Conclusion

Wherefore, for the foregoing reasons, the New York Independent System Operator, Inc. respectfully requests that the Commission accept for filing the proposed tariff revisions attached hereto with an effective date of March 15, 2011.

Respectfully submitted,

/s/ Elizabeth A. Grisaru

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