

March 29, 2016

By Electronic Delivery

Honorable Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

**Re: Docket No. ER16-425-000, *New York Independent System Operator* –
Compliance Filing**

Dear Secretary Bose:

On November 30, 2015, the New York Independent System Operator, Inc. (“NYISO”) filed proposed tariff revisions to improve its scarcity pricing logic (“Comprehensive Scarcity Pricing”).¹ On March 1, 2016, the Federal Energy Regulatory Commission (“Commission”) accepted the proposed revisions (“March 1 Order”).² In doing so, the Commission directed the NYISO to “submit a compliance filing within 30 days of the date of this order clarifying its proposed Services Tariff and OATT provisions to clearly identify and state where they apply to shortage events versus scarcity events.”³

The NYISO submits this compliance filing to address the Commission’s directive in the March 1 Order. As further described herein, the NYISO proposes certain additional, clarifying revisions to more clearly identify tariff provisions that are controlling only during periods when scarcity pricing is active.

I. Documents Submitted

1. This filing letter;
2. A blacklined version of the proposed compliance revisions to Rate Schedule 4 of the NYISO’s Services Tariff (“Attachment I”); and

¹ Docket No. ER16-425-000, *New York Independent System Operator, Inc.*, Proposed Revisions to Services Tariff and OATT to Implement Improved Scarcity Pricing (November 30, 2015) (“Comprehensive Scarcity Pricing Filing”). Capitalized terms not otherwise defined herein shall have the meaning specified in Section 2 of the NYISO Market Administration and Control Area Services Tariff (“Services Tariff”) and Section 1 of the NYISO Open Access Transmission Tariff (“OATT”).

² *New York Independent System Operator, Inc.*, 154 FERC ¶ 61,152 (2016).

³ *Id.* at P 24.

3. A clean version of the proposed compliance revisions to Rate Schedule 4 of the NYISO's Services Tariff ("Attachment II").

II. Background

On November 30, 2015, the NYISO filed proposed revisions to implement its Comprehensive Scarcity Pricing project.⁴ Scarcity pricing refers to the pricing rules utilized for Energy and certain Ancillary Services in the Real-Time Market when the NYISO has called upon Emergency Demand Response Program ("EDRP") resources and/or Special Case Resources ("SCRs") to provide load reduction to assist with maintaining system reliability. The purpose of scarcity pricing is to ensure that real-time prices for Energy and certain Ancillary Services appropriately reflect the costs associated with deploying EDRP resources and SCRs. The Comprehensive Scarcity Pricing proposal will replace the *ex post* scarcity pricing methodology by incorporating scarcity pricing into the real-time optimization.

On March 1, 2016, the Commission issued an order accepting the NYISO's proposal, subject to a compliance filing to further clarify the tariff revisions.⁵ In compliance with Ordering Paragraph B of the March 1 Order, the NYISO hereby submits proposed revisions to more clearly delineate provisions that are controlling only during real-time intervals when scarcity pricing is active. Specifically, the NYISO proposes additional clarifying revisions to various provisions of Section 15.4.7 of Rate Schedule 4 of the Services Tariff to more clearly identify the Operating Reserve Demand Curves that will apply during real-time intervals in which scarcity pricing is active.

III. Description of Compliance Tariff Revisions

The Comprehensive Scarcity Pricing project leverages the NYISO's existing rules and procedures for Operating Reserves and co-optimization thereof with Energy and Regulation Service. The tariff revisions for the Comprehensive Scarcity Pricing project, therefore, rely on the existing tariff provisions related to Operating Reserves. To the extent that special provisions were deemed necessary to address the supplemental 30-Minute Reserve requirement proposed by the NYISO for purposes of incorporating scarcity pricing into the real-time optimization, the NYISO proposed tariff revisions to clearly identify such rules and limit their application to only real-time intervals during which scarcity pricing is active. If special rules are not identified as being applicable during such intervals, the existing provisions of the tariff are controlling.

After further review of the accepted tariff revisions, the NYISO has identified opportunities to clarify such revisions. The NYISO seeks to further revise various provisions of Section 15.4.7 of Rate Schedule 4 of the Services Tariff. Such additional revisions clearly delineate the Operating Reserve Demand Curves that apply under various conditions.

⁴ See Comprehensive Scarcity Pricing Filing.

⁵ See March 1 Order at P 24.

The NYISO proposes to revise Section 15.4.7 to explicitly set forth certain Operating Reserve Demand Curves that were implicitly provided for in the revisions accepted by the March 1 Order. The proposed revisions improve clarity in the tariff by identifying the various Operating Reserve Demand Curves applicable to 30-Minute Reserves only during real-time intervals in which scarcity pricing is active.⁶ The NYISO also proposes to include language clarifying that any Scarcity Reserve Demand Curves implemented in real-time will apply only during the real-time intervals when the EDRP and/or SCR activation that necessitated the use of the Scarcity Reserve Demand Curves persists.

The NYISO proposes to revise Section 15.4.7(i) to expressly define a separate Operating Reserve Demand Curve that will apply during all scarcity periods, except for statewide activations (*i.e.*, all Load Zones) of the EDRP and/or SCR program.⁷ The revised demand curve: (i) increases values priced at less than \$500 per MW to \$500 per MW during such scarcity periods; and (ii) adjusts the otherwise applicable statewide 30-Minute Reserve requirement by an amount equal to the established Scarcity Reserve Requirement(s).⁸ The description of the parameters of this adjusted demand curve was previously set forth in the first paragraph of Section 15.4.7(i). Explicitly describing this demand curve within a separate paragraph, however, provides greater clarity as to the rules that apply only during real-time intervals when scarcity pricing is active.

In Section 15.4.7(j) and Section 15.4.7(k), the NYISO proposes to add a description of the Operating Reserve Demand Curves that will apply during certain real-time intervals in which scarcity pricing is active. The alternative 30-Minute Reserve demand curves provide for increasing the otherwise applicable locational reserve requirement to account for certain Scarcity Reserve Requirements.⁹ Adjusting the otherwise applicable locational reserve requirement in “upstream” reserve regions is described in the second sentence of the third paragraph of Section

⁶ The additional Operating Reserve Demand Curve descriptions are set forth in the following provisions of Section 15.4.7: (i) Section 15.4.7(i) for statewide 30-Minute Reserves; (ii) Section 15.4.7(j) for Eastern 30-Minute Reserves; and (iii) Section 15.4.7(k) for Southeastern 30-Minute Reserves. The additional Operating Reserve Demand Curves address situations in which the NYISO adjusts the otherwise applicable curves to account for the creation of a Scarcity Reserve Requirement in real-time. Such adjustments are necessary to ensure proper pricing outcomes during real-time intervals in which scarcity pricing is active. *See Comprehensive Scarcity Pricing Filing at 8-9 and 15.*

⁷ The applicable NYCA 30-Minute reserve demand curve that applies during real-time intervals in which a statewide activation of the EDRP and/or SCR program occurs is described in the second paragraph of Section 15.4.7(i).

⁸ This adjusted 30-Minute Reserve demand curve ensures that if the NYISO activates EDRP resources and/or SCRs in a subset of all Load Zones and such activation assists in avoiding a shortage of statewide reserves, the NYCA Operating Reserves prices will appropriately reflect the value of the EDRP resources and/or SCRs. *See Comprehensive Scarcity Pricing Filing at 9 and 15.*

⁹ Adjusting the otherwise applicable locational 30-Minute Reserve requirement when all the Load Zones associated with a given activation of the EDRP and/or SCR program are encompassed by a reserve region is necessary to ensure proper pricing outcomes given the nested nature of the NYISO’s reserve regions. *See id.* at 8 and 15.

15.4.7. The proposal to explicitly describe the reserve demand curves that account for such adjustments in Section 15.4.7(j) and Section 15.4.7(k) will provide a more clear delineation of the rules that apply only during periods in real-time when scarcity pricing is active.

IV. Effective Date

Consistent with the flexible effective date accepted by the Commission in the March 1 Order,¹⁰ the NYISO requests that the Commission permit the tariff revisions submitted herein to become effective on the date to be identified by the NYISO in a subsequent compliance filing. In compliance with Ordering Paragraph C of the March 1 Order, such filing will be submitted to the Commission at least two weeks prior to the proposed effective date for all of the tariff revisions related to the Comprehensive Scarcity Pricing project.

V. Service

The NYISO will send an electronic link to this filing to the official representative of each party to this proceeding, the official representative of each of its customers, each participant on its stakeholder committees, 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.

¹⁰ March 1 Order at P 25.

VI. Conclusion

The New York Independent System Operator, Inc. respectfully requests that the Commission accept the proposed tariff revisions submitted as part of this compliance filing to become effective on the date described in Section IV.

Respectfully submitted,

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