

August 9, 2016

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.*, Docket No. ER16-____-000;
Proposed Tariff Amendments Regarding Recovery of Shortfalls in Funding
the NYISO's Annual Operating Costs**

Dear Secretary Bose:

The New York Independent System Operator, Inc. ("NYISO") submits this filing pursuant to Section 205 of the Federal Power Act¹ to propose amendments to Rate Schedule 1 of its Open Access Transmission Tariff ("OATT").² The proposed revisions are designed to align the amount of revenue retained by the NYISO with the NYISO's budgeted revenue requirement or its actual costs for the prior year. In the event of a NYISO Rate Schedule 1 recovery shortfall, the NYISO retains revenue collected from non-physical market activity to satisfy its annual budgeted revenue requirement. The proposed OATT revisions will cap the amount retained at the amount needed to satisfy the lower of the NYISO's budgeted revenue requirement or its actual costs for the prior year.

I. Background

The NYISO recovers its annual operating costs through a rate charged to its Transmission Customers for each MWh of energy they either physically withdraw or physically inject in New York ("physical market activity"). Those withdrawing energy ("Loads") pay 72% of the rate charged and those injecting energy ("Generators") pay 28% of the rate charged.³ The NYISO separately recovers annual operating cost contributions from Transmission Customers that: i) engage in virtual transactions; ii) purchase Transmission Congestion Contracts; iii) are Special Case Resources; or iv) participate in the Emergency Demand Response Program (collectively, "non-physical market activity").⁴ If the contributions recovered from non-physical market activity are not needed to enable the NYISO to recover its budgeted operating costs, then the

¹ 16 U.S.C. §824d.

² Rate Schedule 1 is OATT Section 6.1.

³ See OATT Section 6.1.2.2. Capitalized terms not otherwise defined herein shall have the meaning specified in Section 1 of the OATT.

⁴ See OATT Section 6.1.2.4, which sets forth specific rates for each of these activities.

OATT requires the NYISO to rebate the funds it collects from non-physical market activity back to Loads and Generators on a 72% / 28% basis as an offset to their operating cost contributions.⁵

The NYISO must recover all of its operating costs, up to the budget amount for the year. In years when budget-year energy consumption is less than forecast, the NYISO is unable to fully recover its operating costs from physical market activity.⁶ The NYISO then relies on collections from Customers engaged in non-physical market activity to resolve a prior year's revenue shortfall and will suspend rebating collections from non-physical market activity to the Loads and Generators (the "shortfall recovery process"). Once a revenue shortfall has been fully recovered, up to the budget amount, the NYISO resumes rebating the non-physical market activity revenues, for the balance of the year, to Loads and Generators on a 72% / 28% basis.

The NYISO's proposed Tariff revisions will cap the amount collected from non-physical market activity that is credited to operating costs at the lower of the NYISO's budgeted revenue requirement or the actual costs that were not already recovered from Loads and Generators for the prior calendar year. This approach will allow the NYISO to retain an amount closer to the actual under-recovery for a prior year when revenues from physical market activity were not sufficient to meet the NYISO's operating costs. Once the NYISO has recovered any shortfall from the prior year, it will commence refunding additional non-physical market activity revenues to Loads and Generators. The proposed Tariff process will work the same as the existing collection and rebate process when the amount collected from physical market activity (Loads and Generators) for the prior year is equal to or greater than the NYISO's budgeted revenue requirement for that year.

The Tariff revisions also propose to remove revenues recovered from Special Case Resources and Transmission Customers that participate in the Emergency Demand Response Program from the shortfall recovery process. The NYISO will no longer credit these revenues to its operating costs when operating costs are not fully recovered from Loads and Generators. The NYISO will continue to recover revenues from Special Case Resources and Transmission Customers that participate in the Emergency Demand Response Program and credit any collections to Loads and Generators. These resources only contribute to the NYISO's operating costs as a result of testing or an actual event; therefore, revenues from these resources are limited and have totaled approximately \$10,000 over the last five years. This change will ease the recordkeeping burden on the NYISO.

The NYISO's proposed Tariff revisions will better align the rates charged to NYISO's Transmission Customers with the NYISO's actual operating costs. The proposed amendments will align the amount of non-physical market activity revenue retained by the NYISO with the amount needed to satisfy a shortfall based on the lower of the budgeted revenue requirement or actual costs for the prior year. The NYISO's proposal will accomplish this goal without imposing any new or increased rates on any Transmission Customers.

⁵ See OATT Sections 6.1.2.4 and 6.1.2.5.

⁶ When budget-year market activity exceeds forecast, the NYISO discusses and determines the appropriate disposition of Rate Schedule 1 over-collections with its Market Participants and its Board of Directors.

These proposed Tariff amendments were approved unanimously by the NYISO's Management Committee.

II. Description of Proposed Revisions to OATT

The NYISO is proposing to amend OATT Section 6.1.2.5, which describes how the NYISO applies revenues from non-physical market activity to cover operating costs and rebates certain non-physical market activity funds to Loads and Generators.

In order to implement the cap on collection of operating costs described above, the proposed Tariff revisions provide that the NYISO shall use the revenue collected from non-physical market activity to recover the lower of: (i) its annual budgeted costs for the immediately preceding calendar year; or (ii) its actual costs for the immediately preceding calendar year, which is not already recovered from physical market activity.

The proposed Tariff revisions also remove references to the Special Cases Resource program and the Emergency Demand Response program from the definition of non-physical market activity revenue for purposes of recovering NYISO operating costs. This revision simply removes the revenues these programs provide from the NYISO's shortfall recovery process when non-physical market activity revenue is credited to operating costs that were not already recovered from Loads and Generators. Instead, the revenues from these programs will always be rebated to Loads and Generators.

III. 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").

IV. Effective Date

The NYISO respectfully requests that the Tariff revisions proposed in this filing be permitted to become effective on October 12, 2016; more than 60 days after the date of this filing. The NYISO respectfully requests that the Commission issue an order on this filing before October 12, 2016.

V. Stakeholder Approval

These amendments were approved unanimously by the NYISO Management Committee on April 27, 2016 and by the NYISO's Board of Directors on June 14, 2016.

VI. Communications and Correspondence

All communications and service 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.

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 that are attached hereto with an effective date of October 12, 2016.

Respectfully submitted,

/s/ James H. Sweeney

James H. Sweeney, Attorney
New York Independent System Operator, Inc.

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