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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. RM10-17-000**
Demand Response Compensation in Organized Wholesale Energy Markets

Dear Ms. Bose:

The New York Independent System Operator, Inc. ("NYISO") submits this filing in compliance with the Commission's Order 745, issued in this docket on March 15, 2011.[1] Included with this filing are (1) proposed amendments to the NYISO's Open Access Transmission Tariff ("OATT") and Market Administration and Control Area Services Tariff ("Services Tariff"); and (2) the supporting data and documentation required by Order 745.[2] To ensure smooth implementation of the changes to the NYISO's existing demand response program, the NYISO requests an effective date for the proposed tariff amendments that would allow for deployment of software changes consistent with the NYISO's planned March 2012 software release schedule.

In preparing this filing, the NYISO conducted several working sessions with its Market Participants to discuss Order 745's requirements and the NYISO's proposals for compliance.[3]

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[1] *Demand Response Compensation in Organized Wholesale Energy Markets*, Order No. 745, FERC Stats. & Regs. 31, 322 (2011) (hereafter, "Order 745").

[2] Capitalized terms not otherwise defined herein have the meanings specified in Section 1 of the OATT and Section 2 of the Services Tariff.

[3] The NYISO hosted extended discussions on Order 745 with stakeholders on May 9, June 30, July 18, and August 9, 2011. The NYISO also received written comments from several interested parties.

The NYISO made adjustments to its initial proposals and performed additional analyses to explore issues and questions raised in the stakeholder process. Where relevant, these are noted below.

I. Documents Submitted

1. This filing letter;
2. A clean version of the proposed revisions to the OATT ("Attachment I");
3. A clean version of the proposed revisions to the Services Tariff ("Attachment II");
4. A blacklined version of the proposed revisions to the OATT ("Attachment III"); and
5. A blacklined version of the proposed revisions to the Services Tariff ("Attachment IV")
6. The NYISO's proposed Methodology, which will be posted to the NYISO website ("Attachment V"); and
7. The data and supply curves used to calculate the monthly threshold prices for the period August 2010 – July 2011, available at http://www.nyiso.com/public/markets_operations/market_data/demand_response/index.jsp.

II. Background: Demand Response Compensation in the NYISO Markets

Demand Side Resources are full participants in the NYISO Day-Ahead Market for Energy through the Day-Ahead Demand Reduction Program ("DADRP").[4] Demand Reduction Providers may bid their load curtailment capability into the Day-Ahead Market ("DAM") as energy resources. As currently structured, the program establishes a floor price for these resources of $75/MWh.[5] When prices rise to that level, or above, the NYISO's Security Constrained Unit Commitment ("SCUC") software evaluates the Bids and dispatches the least-cost mix of Demand Side and generation Resources. A Demand Reduction provider is compensated at the Locational Based Marginal Price ("LBMP") for that hour and at that

[4] The NYISO notes that participation in DADRP is not the only way a Demand Side Resource can participate in the Day-Ahead market. Such a resource could bid its load into the Day-Ahead market and settle its deviations at the applicable Real-Time price, if it is retail access load.

[5] NYISO Services Tariff, Section 4.2.1.9. See New York Independent System Operator, Order Accepting and Modifying Proposed Tariff Revisions, Docket No. ER04-1188-000 (October 29, 2004) (Commission accepts $75/MWh offer floor). The NYISO applies the same threshold to Demand Reduction Bids to supply Operating Reserves or Regulation Service in the Day-Ahead and Real-Time markets. Services Tariff Sections 4.2.1.3.2 and 4.4.1.2.1.

location, and is subject to penalties for any failure to curtail its load in accordance with its schedule.[6]

However, the NYISO does not administer a demand response program in the Real-Time Market. For this reason, the NYISO's compliance filing does not address the compensation of Demand Reduction used to balance supply and demand in real-time. In response to the Commission's directives in Order 719, the NYISO proposed a plan for assessing the communications and software issues associated with establishing a mechanism for the real-time dispatch of Demand Side Resources.[7] More recently, the NYISO notified the Commission that it would suspend the proposed plan until the Commission issued its ruling in the present docket.[8] As discussed below, the NYISO will incorporate the directives of Order 745 as it develops its preliminary market design.

III. The Net Benefits Test

A. Description of the Methodology

In Order 745, the Commission directed RTOs and ISOs to develop a method for determining a threshold price at which "net benefits," as defined by the Commission, would occur. The Commission described this threshold as "the point along the supply stack for each month beyond which the benefit to load from the reduced LMP resulting from dispatching demand response resources exceeds the increased cost to load" related to the decrease in billing units arising from the dispatch of the demand response.[9] The Commission also required RTOs and ISOs to apply their test methodologies using historical data and to submit the results of their analyses with their compliance filings.[10]

The NYISO has developed an approach to the net benefits test that complies with the Commission's directives. Briefly stated, Order 745 requires the NYISO to (1) develop a representative supply curve for each month based on the previous year's supply curve; (2) find the "net benefits threshold price" for each month, based on the historical data; (3) update the data

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[6] The Commission approved the structure of the DADRP in New York Independent System Operator, Order on Tariff Filing, Docket No. ER01-1740, 95 FERC ¶ 61, 223 (2001). The concept of an offer floor at $50 was introduced in 2003. New York Independent System Operator, Order on Tariff Filing, Docket No. ER03-303-000, 102 FERC ¶ 61,313. As noted in footnote 5 above, the offer floor was raised to $75 the following year.

[7] Compliance Filing in Docket No. ER09-1142-006, New York Independent System Operator, Inc. (February 25, 2010). The NYISO submitted progress reports on June 1, 2010, January 18, 2011, and June 3, 2011 in Docket No. ER01-3001.

[8] Supplement and Errata to Annual Report in Docket No. ER01-3001, New York Independent System Operator, Inc. (January 25, 2011) at 39.

[9] Order 745 at P 79.

[10] Id. at P 79-81.

for significant changes in resource availability and fuel prices; (4) post the result and apply the updated threshold in the NYISO's bidding and scheduling processes for the next calendar month.

The following section describes the specific elements of the NYISO's methodology for conducting the "net benefits test." Attachment V sets out a simplified description of this methodology, which the NYISO proposes to post on its web site upon approval of this compliance filing.

Step 1: Retrieve supply offers from the reference month

The first step in calculating the net benefit threshold will be to retrieve the bids and offers that will be used to construct the supply curve for the reference month.[11] The data used will consist of the Day-Ahead market offers of physical generators (including pumped storage supply offers), Day-Ahead market import offers net of export bids, and Day-Ahead market bilateral import and export bids.[12] This combination of physical supply bids and offers defines the supply that is available to meet NYISO load in the day-ahead market. Virtual supply and demand offers will not be included in the supply curve because they in general depend on expected real-time prices, although some virtual supply and demand bids and offers may be proxies for expected real-time physical exports and imports.

The NYISO proposes to analyze only the high load period hours (HB13 through HB19) for all days of the reference month. In developing the supply curves, the NYISO sought to ensure that the results were as closely representative of New York's supply as possible. Limiting the hours analyzed to a consistent set of high load hours avoids the distortions in the estimation of the smoothed supply curve that could arise from averaging supply curves over hours with large shifts in the New York aggregate supply curve associated with differences between on-peak and off-peak hydro, Qualified Facilities, and pump storage schedules.

In response to Market Participants' requests, the NYISO examined the impact of using different hours to build the supply curve. The NYISO considered three alternative approaches: (1) including all 24 hours for all days; (2) including all 24 hours of week days; and (3) using HB13 through HB19 for week days only. The NYISO found that including or excluding weekends had little effect on the supply curves. The exclusion of non-peak hours results in slightly higher heat rates, which the NYISO calculates in accordance with step 1; however, the NYISO believes it is appropriate to exclude off-peak hours because portions of the non-peak supply curve are not representative, since they are driven by bidding behavior specific to non-peak hours. Furthermore, because the Commission's methodology results in one price for all hours, the NYISO believes that including off-peak hours in constructing the supply curve would tend to diminish the cost-effectiveness of the demand response, contrary to the Commission's intent.

[11] As used here, and as proposed for the tariff, the "reference month" is the month that is twelve months prior to the month in which the net benefits threshold price is to be applied. The month to which the threshold applies is referred to as the "study month."

[12] The generator supply offers used in this analysis are posted to nyiso.com on a masked basis with a three month lag.

Step 2: Adjust the supply offers for entry and exit

In order to construct a representative supply curve as a basis for determining the price threshold, the NYISO proposes to adjust the historical supply curves for resource availability. To take into account retirements that have occurred since the reference month, the NYISO will remove from the supply stack the offers of any resources with a capacity of 20 megawatts or larger that have permanently retired from service 45 or more days prior to the posting date for the net benefit threshold. The NYISO will consider a generation resource which has given notice of retirement to the New York Public Service Commission ("NYPSC")[13] to be "permanently retired" if the NYISO confirms that the unit has actually ceased operations and is no longer eligible to offer in the markets. New entrants and other resources that were not in service during the reference month will not be included in the supply curve because it is not possible for the NYISO to project what the units' offers might have been. Thus, new supply will not be included in the supply stack until it is represented in the offers for the reference month.

Step 3: Combine the offers to create hourly supply curves

Having compiled the generation offers described in step 1 for each relevant hour in the reference month, and after deleting the offers of resources that are no longer in service, the NYISO will create the supply curve representing existing capacity for each hour by iterating through each price point, determining the amount of supply net of exports available from all suppliers in the reference month. Thus, each hourly supply curve consists of the set of pairs of offer price and offer quantity: *{P, MW}*. The NYISO will "stack" the supply offers in ascending order.

The supply curve is intended to measure the supply available to meet New York demand and therefore is net of supply supporting exports.

This step in the process results in approximately 210 hourly supply curves for the reference month. Consistent with the methodology described in Order 745, the supply curve calculation does not take account of transmission congestion or the impact of a demand reduction on the unit commitment in the Day-Ahead market.[14]

Step 4: Adjust offers for changes in fuel prices

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[13] The NYPSC has established rules requiring generators to notify the agency 180 days in advance of a retirement. New York Public Service Commission, Order Adopting Notice Requirements for Generation Unit Retirements, Case No. 05-E-0889 (2005). These notices are available to the NYISO.

[14] For these reasons, and because the benefit calculation does not take account of the generation owned or under long-term contract to consumers or the capacity market impact of reductions in Day-Ahead market revenues, the net benefit test does not measure the actual pecuniary benefit to consumers from price reductions in the Day-Ahead market but simply carries out the calculations directed by Order 745.

As required by Order 745, the NYISO will adjust the supply offers comprising the hourly supply curves for day-to-day differences in gas prices. The NYISO proposes to use the daily spot Transco Z-6-NYnatural gas prices for the reference month for this adjustment. The offer prices comprising each hourly supply curve for the reference month compiled in step 3 will be deflated by the spot Transco Z-6 NY natural gas price for the gas delivery day corresponding to the New York Day-Ahead market day. This normalizes the supply offers over the month to supply offers reflecting a common natural gas price. This step also produces an implied heat rate for each price quantity point on the hourly supply curve, as illustrated by the following formula:

- Heat Rate = Offer Price / Gas Price

Some Market Participants questioned the NYISO's plan to utilize gas prices for the fuel price adjustment. The NYISO notes that, although not all New York resources use gas as a fuel, the New York market tends to clear with gas on the margin. Accordingly, the NYISO does not propose to attempt resource-specific fuel cost adjustments. The NYISO has also observed that some kinds of non-gas fired resources tend to offer in as price takers, so that the deflation using the gas price is irrelevant, and that energy limited resources in the New York portfolio, such as pondage hydro and pumped storage, have gas-priced based opportunity costs. In addition, the amount of coal-fired generation located in New York is relatively small.

Step 5: Average the hourly curves

Next, the NYISO will develop the representative average supply curve by horizontally averaging across the deflated hourly supply curves for the reference month for existing capacity (from step 4) and for retired capacity (from step 2). This step will entail calculating the amount of supply offered on each supply curve summed over the quantities offered at this heat rate over all of the supply curves for the month, and then dividing that supply by the number of hourly supply curves included in the calculation.

Step 6: Smooth the supply curve

Order 745 instructs ISOs and RTOs to "smooth" the representative supply curve for the study month, "using numerical methods."[15] Simply put, the "smoothing" is the process of identifying a functional form/equation that provides a good approximation of the representative supply curve. The Commission did not specify the method to be used for this step, and recognized that each ISO or RTO might take different approaches.[16]

After experimenting with a variety of equations, the NYISO proposes to use a polynomial equation with exponential term:

[1] $\text{Heat Rate} = A + B*MW + C*MW^2 + D*MW^3 + \exp^{(E*MW+F)}$

where coefficients *A, B, C, D, E*, and *F* are parameters that will be estimated for each month.

[15] Order 745 at fn. 161.

[16] Id. at fn. 160.

The parameters for this function are estimated using a non-linear partial least squares methodology. Because the representative supply curve consists of continuous offer curves that have been averaged, a sampling process is necessary to identify the price quantity points on this supply curve that will be used to estimate the parameters of the model. The price quantity points were identified by moving along the supply curve in small megawatt increments and calculating the offer price for each increment. Although the actual supply curve compiled in step 5 is upward sloping over its entire range, the functional form of equation [1] is not necessarily upward sloping.

The portion of the hourly supply curves that will be analyzed is the portion falling in the range between $5 and $350 per megawatt hour. The point of the limiting the calculation of the supply curve to offers in this price range is that fitting a smoothed supply curve to the offers at the extreme ends of the supply curve could materially distort the estimation of the smoothed supply curve in the relevant range in which the net benefit threshold will lie.[17]

The NYISO will post the estimated parameters for the supply curve equation along with the net benefits threshold for each month, by the 15th of the preceding month.

Step 7: Find the point on the supply curve at which the benefit exceeds the costs

The Commission describes the net benefits threshold as the point along the supply curve at which the net benefits from the dispatch of demand response exceed the cost to load.[18] The Commission further stated that the threshold will be found in the area where the supply curve becomes inelastic.[19] However, the representative supply curves calculated from generator offers as described above are not smooth, continuous functions; rather, they have locally flat areas followed by locally vertically steep areas. As a consequence, the obvious way of applying the net benefit test – stepping through each point of the representative supply curve and comparing the costs and benefits – can produces oscillating results. The test may alternatively be passed and failed along different parts of the representative supply curve.

The application of the numerical smoothing process described in the FERC order is one way to reduce this kind of indeterminacy in the calculation of the net benefits threshold. This kind of indeterminacy can be completely avoided by choosing a functional form that has the property that the supply elasticity is constantly declining, so that once the quantity at which the elasticity falls to one is identified, it is necessarily the case that the elasticity is lower than 1 for all higher outputs. However, the NYISO believes that this functional form produces a curve that does not accurately represent the actual supply curve.

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[17] The total net supply at $5 will be included in the supply used to calculate the supply elasticity. The analysis will not, however, attempt to fit a mathematical supply curve formula to the offer price data in the range from $5 down to -$999.

[18] Order 745 at P 79.

[19] Id. at P 80 and fn. 163.

To address these uncertainties, the NYISO opted to use a functional form that allows the elasticity of the estimated curve to vary with heat rate, depending on values of the estimated parameters used in smoothing the curve. The steps in the NYISO's calculations are described below.

In mathematical terms, the NYISO defines the supply elasticity as:

[2] $$\text{Elasticity} = \frac{\frac{Heat\ \ Rate}{MW}}{\frac{d(Heat\ \ Rate)}{d(MW)}}$$

where based on the specification of the supply curve in equation [1]:

[3] $$\frac{d(Heat\ \ Rate)}{d(MW)} = \text{B} + 2*\text{C}*\text{MW} + 3*\text{D}*\text{MW}^2 + \text{E}*\exp^{(\text{E}*\text{MW}+\text{F})}$$

and therefore

[4] $$\text{Elasticity} = \frac{Heat\ \ Rate}{MW} * \frac{1}{\text{B} + 2*\text{C}*\text{MW} + 3*\text{D}*\text{MW}^2 + \text{E}*\exp^{(\text{E}*\text{MW}+\text{F})}}$$

Using these equations, and given the values of the supply curve parameters estimated in step 5, the NYISO will calculate the supply elasticity for each price and quantity along the representative average supply curve. The NYISO will then determine the heat rate at which the elasticity falls below one and remains below one for higher heat rates. This heat rate will be used to determine the net benefits threshold.

Step 8: Convert the heat rate to an LMP threshold

All that remains is to convert the elasticity point found in step 7 to a price, which in the NYISO markets is termed "LBMP." This involves a simple mathematical operation which converts the heat rate threshold to the corresponding LBMP value of the net benefits threshold by multiplying the projected natural gas price[20] for the study month by the threshold heat rate from the reference month. This calculation is described as follows:

[5] Threshold LBMP = Threshold Heat Rate * Projected Natural Gas Price

where

[6] Projected Natural Gas = Henry Hub Futures Price + 3-year Basis

[20] The Projected Gas Price will be constant for each study month.

To perform this calculation, the NYISO will project gas prices for the study month using a Henry Hub NYMEX Natural Gas Futures Price, which will be collected no later than four business days before the threshold price posting date – plus a constant three-year basis differential. The 3-year basis differential is the differential between the Henry Hub daily spot price and Transco Z6-NY daily spot price averaged over corresponding months of prior three years. This differential reflects the typical spread during that month due to gas pipeline tariffs and gas pipeline congestion. A three year average is used to account for the year to year variability in prices due to weather conditions.

Step 9: Post result and adjust for significant changes

As directed by Order 745, the NYISO will post the result of its calculations on the 15th of the month preceding the study month. The result will be a price threshold, expressed in $/MWh, below which demand response bids will not be accepted in the NYISO's unit dispatch processes. The NYISO will monitor forward natural gas prices after the posting date, and will post an adjusted threshold price if there is a significant change (increase or decrease) in those prices between the posting date and the first day of the study month. To accommodate Market Participants' needs, the NYISO will attempt to post any such adjustment no later than 2 business days before the beginning of the study month.

For these purposes, and after consulting with Market Participants, the NYISO proposes to define a significant change as an increase or decrease of more than $0.75 per MMBtu in the Projected Natural Gas price as calculated in [6] for the study month.

B. Proposed Tariff Changes

Because the DADRP already compensates economic Demand Reduction at the LBMP, the tariff amendments required to implement the compensation provisions of Order 745 are fairly limited. To ensure that the dispatch of Demand Side Resources is cost-effective, the NYISO proposes to use the results of the net benefits test to establish the offer floor.

This is accomplished through a combination of changes. First, the NYISO proposes at Section 2.13 of the Services Tariff to define term "Monthly Net Benefits Offer Floor" as the LBMP value that results from the test. Then, at Sections 4.2.1.3.2, and 4.2.1.9, the NYISO proposes to use this defined term – representing a value that will change monthly - in place of the $75/MWh threshold. The NYISO also clarifies here that demand response Bids must be for a minimum time period of not less than an hour.

The NYISO proposes additional language in Section 4.2.1.9 obligating the NYISO to perform the test monthly and to post the Monthly Net Benefits Offer Floor on its website by the 15th of each month, as specified in Order 745. This new language establishes that the Monthly Net Benefits Offer Floor represents the threshold below which demand response is not cost-effective, and describes the method that the NYISO will use in making its calculations and any fuel price adjustments subsequent to the monthly posting date. The NYISO's proposals also address the possibility of error in conducting the Net Benefits Test, and provide that such an error will not be used to revise market clearing prices for the period prior to the imposition of the

corrected Monthly Net Benefits Offer Floor. Finally, this new section requires the NYISO to publish the details of its net benefits methodology in the ISO Procedures.

The NYISO will also substitute the Net Benefits Offer Floor in place of the $75/MWh threshold provided in sections 4.2.1.3.2 and 4.4.1.2.1, which specify the minimum offers for Demand Side Resources providing ancillary services in the Day-Ahead and Real-Time Markets. With this change, demand response providers will continue to be able to offer Regulation and Operating Reserves, so long as they bid at or above the Monthly Net Benefits Offer Floor.

Finally, to ensure clarity, the NYISO also proposes to add several new defined terms to the Services Tariff. In addition to the term "Monthly Net Benefits Offer Floor," the NYISO will add definitions for "Reference Month," "Study Month," and "Net Benefits Test."

IV. Cost Allocation Tariff Amendments

As required by Order 745, the NYISO has also reviewed its method for allocating the costs of DADRP and has concluded that its current approach "appropriately allocates costs to those that benefit from the demand reduction…"[21] For this reason, the NYISO is not proposing to any substantive changes to the basic methodology it uses to allocate program costs.

The DADRP cost allocation rules are contained in Attachment R, Section 24 to the Services Tariff. The methodology allocates the costs of Demand Reduction to Transmission Customers on the basis of their Load Ratio Shares while taking into account the probability that any particular Demand Reduction will benefit them, given historical patterns of congestion on the New York State Transmission System. The NYISO is responsible for identifying a list of frequently constrained NYCA interfaces, and then calculating a set of coefficients to represent the expected fraction of time when these interfaces are constrained. When none of the interfaces are constrained, Transmission Customers in all Load Zones benefit from Demand Reduction. When one or more of the interfaces are constrained, the distribution of benefits depends on the location of the Transmission Customers as well as the location of the Demand Reduction (i.e. upstream or downstream of the constraint). Attachment R identifies the congested interfaces and the coefficients that the NYISO applies in calculating a Transmission Customer's share of DADRP costs.

In preparing this compliance filing, the NYISO initially reported to Market Participants that it did not see a need to modify this approach. However, Market Participants pointed out that Attachment R does not currently address how costs should be allocated when multiple interfaces are constrained. In response, the NYISO conducted additional analysis to determine whether to add new coefficients to the cost allocation process. As a result of that review, the NYISO is now proposing to amend Attachment R and refine its method by adding four additional coefficients to this section. This change will enable the NYISO to allocate costs to the beneficiaries of the demand response when more than one interface is constrained. Taken together, these revisions will more accurately reflect the impacts of NYCA system congestion, which limits the LBMP benefits of Demand Reduction scheduled in the Day-Ahead Market.

[21] Order 745 at P 102.

V. Amendments to Measurement and Verification Protocols

As directed by Order 745, the NYISO has reviewed its existing procedures for measuring and verifying demand response providers' performance.[22] Because the NYISO does not have direct access to real-time load data for demand response resources, the NYISO measures actual reductions in demand by reference to an estimated baseline. The NYISO's review suggested a need to adjust the NYISO's method for calculating a demand response resource's baseline load ("CBL"). The NYISO also determined that enhancements to its verification capabilities are necessary.

Anticipating that the implementation of the net benefits test might lead to an increased frequency of scheduling for demand resources, the NYISO was concerned that the integrity of the CBL might degrade over time. The NYISO evaluated alternative approaches to determining a customer's CBL. As a result of its analysis, and after feedback from Market Participants, the NYISO selected the alternative that performed best among the methods tested.

To implement the alternative method, the NYISO proposes to create a new subsection 24.2 to the Services Tariff specifying the terminology, steps, and calculations to be used in the revised CBL measurement methodology. As provided in Section 24.2.1, the NYISO will calculate an "Economic Customer Baseline Load" or "ECBL" with distinct procedures for weekdays and weekends. To produce a contemporary estimate of the baseline, the NYISO proposes to limit the window of time used in the baseline calculation to the last ten weekdays or last three weekend days of the same day type (i.e., last three Saturdays). For hours in the last ten days without a Day-Ahead demand reduction schedule, the metered load value is used. For hours in the last ten weekdays or last three weekend days where a Day-Ahead demand reduction was scheduled, a baseline proxy of that hour is substituted for the metered load. The ten weekday values are ranked in descending order, and the Weekday ECBL for the hour is the average of the fifth and sixth ranked hourly values. The Weekend ECBL is equal to the average of all three values for the same day type. Both the Weekday ECBL and Weekend ECBL values are adjusted by an in-day adjustment calculation to further account for any changes in load between the scheduled day and the calculated Weekday or Weekend ECBL hourly values. The NYISO then compares the metered load for the scheduled hour of Demand Reduction against the applicable ECBL to determine the actual amount of Demand Reduction.

The NYISO also proposes additions to Attachment R that will enable the NYISO to carry out effective verification processes and audits. New Section 24.3 provides the NYISO with explicit authority to verify Demand Reductions and requires Demand Reduction Providers to report both their metered load data and the data they use in making their ECBL calculations to the NYISO in accordance with ISO Procedures that are to be developed. Demand Reduction Providers who do not submit the necessary information will be subject to penalties, which may

[22] To date, those procedures have been contained in the NYISO's Day-Ahead Demand Response Program Manual. As part of this compliance filing, the NYISO will incorporate its revised baseline measurement procedures and verification requirements into the tariff.

include loss of eligibility to participate in the DADRP.[23] The NYISO also proposes to establish its right to recover any erroneous payment through an off-set against any other payments due to the Demand Reduction Provider.

Finally, to clarify the role of the measurement and verification processes in determining a supplier's compensation, the NYISO proposes to amend section 4.5.3.4 of the Services Tariff to ensure that only *verified* Demand Reductions are eligible for payment.

VI. Effective Date

To ensure smooth implementation of the revisions proposed here, the NYISO requests an effective date that would allow for deployment of software changes consistent with the NYISO's March 2012 software release schedule.[24] The NYISO has already evaluated the changes that will be necessary to support implementation of this compliance filing, and has determined that significant changes to several systems will be necessary. Assuming the Commission accepts this compliance filing, the NYISO currently anticipates that these software modifications will be accomplished in a time frame that will permit the NYISO to deploy them, with other previously-scheduled projects, in March 2012.

VII. Communications and Correspondence

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

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[23] These two elements – the requirement to provide data and the potential loss of eligibility for a non-performing supplier – have been part of the NYISO's administration of the program since 2003. See NYISO Demand Response Manual at Section 6.5.

[24] As this date is uncertain, the NYISO has used a placeholder date of March 31, 2012 in the metadata of the submitted eTariff sections.

VIII. 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.

IX. Conclusion

Wherefore, for the foregoing reasons, the NYISO requests that the Commission accept this compliance filing and authorize these amendments to take effect on a date that would allow for deployment of software changes consistent with the NYISO's planned March 2012 software release schedule.

Respectfully submitted,

/s/ Elizabeth A. Grisaru

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