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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., Compliance with Order No. 719,
Docket No. ER09-1142-000***

Dear Secretary Bose:

In compliance with Paragraph 97 of the Commission's final rule on *Wholesale Competition in Regions with Organized Electric Markets* ("Order No. 719")¹ and paragraph 42 of the Commission's subsequent *Order on Compliance Filing*,² the New York Independent System Operator, Inc. ("NYISO") respectfully submits proposed tariff revisions to its Market Administration and Control Area Services Tariff ("Services Tariff") that will enable aggregators of small demand response resources to participate in the NYISO's Operating Reserves and Regulation Service markets.³

I. Documents Submitted

The NYISO submits the following:

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

¹ Order No. 719, 73 Fed. Reg. 64,100 (Oct. 28, 2008), FERC Stats. & Regs. ¶ 31,281 (2008), 125 FERC ¶ 61,071 (2008).

² *New York Independent System Operator, Inc.*, 129 FERC 61,164 (2009).

³ Capitalized terms not specifically defined in this filing letter have the meanings given to them in the Services Tariff and the NYISO Open Access Transmission Tariff.

II. Communications and Correspondence

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

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III. Background to this Filing

In Order No. 719, the Commission required ISOs/RTOs to adopt several market reforms intended to ensure demand response resources' participation in the organized markets on a basis comparable to that of other resources.⁴ Specifically, the Commission ordered ISOs and RTOs to (1) accept bids from demand response resources for certain ancillary services; (2) eliminate deviation charges imposed on buyers in the energy market for reducing demand during a system emergency; (3) allow aggregators of retail customers ("ARCs") to bid demand response directly into the organized markets; and (4) modify their rules for price formation during periods of operating reserve shortage to allow clearing prices to rebalance supply and demand.⁵

The NYISO demonstrated in its Order No. 719 compliance filing that its existing demand response programs fully complied with three of the Commission's directives: the NYISO allowed Demand Side Resources to participate in its bid-based ancillary services markets; it did not impose deviation charges of the type the Commission sought to waive; and its price formation rules already allowed clearing prices to rise during shortage conditions.⁶ The NYISO further reported that its existing programs partially met the Commission's requirement that ARCs be allowed to participate in the competitive markets because the NYISO already permitted

⁴ Order No. 719 included other directives that have been addressed in other filings. See *New York Independent System Operator, Inc.*, Compliance with Order 719, Docket ER09-1142-000 (May 19, 2009). The present filing focuses narrowly on demand response aggregation issues.

⁵ Order No. 719 at P 15, 18 C.F.R. 35.28. The Commission also required ISOs and RTOs to report on the feasibility of including small demand response resources in the ancillary services markets. *Id.* at P 97. The NYISO filed its report on October 28, 2009. *New York Independent System Operator, Inc.*, Compliance with Order No. 719, Docket ER09-1142-000 (October 28, 2009).

⁶ *New York Independent System Operator, Inc.*, Compliance with Order 719, Docket ER09-1142-000 (May 19, 2009) at 3-13.

aggregators to bid in the Day-Ahead Energy Market, ICAP Market, and the Emergency Demand Reduction Program (“EDRP”).⁷ The NYISO acknowledged that ARCs were not yet eligible to participate in the bid-based ancillary services markets but explained that it was working with stakeholders to address the technical and communications requirements necessary to enable their participation.⁸

The Commission largely accepted the NYISO’s Order No. 719 compliance filing but directed the NYISO to continue developing the market rule changes that would allow ARCs to provide ancillary services, and to file proposed rules at the conclusion of the stakeholder process.⁹ In a subsequent compliance filing, also accepted by the Commission, the NYISO proposed to file semiannual updates on its progress.¹⁰ In its June 2012 update, the NYISO stated that it expected to file the tariff changes supporting the new rules by late summer 2012. The instant filing presents the culmination of the NYISO’s efforts and proposes tariff modifications that meet its compliance obligations associated with the Commission’s ruling in Order No. 719. The proposed tariff amendments will permit qualified ARCs to bid in the NYISO’s Operating Reserves and Regulation Service markets.

The NYISO and Market Participants¹¹ have also developed procedures describing the communication, metering, enrollment/registration, and measurement and verification requirements for ARCs participating in the Demand Side Ancillary Service Program (“DSASP”). The NYISO has told stakeholders that it will incorporate these procedures into the NYISO’s Ancillary Services Manual and make them effective on the effective date of the tariff modifications proposed here following the Commission’s acceptance of this compliance filing. While the procedures set out various requirements that are specific to these resources and the ancillary services markets, the NYISO has not proposed to change its current measurement and verification methodology for ARCs because aggregations of Demand Side Resources will be treated as a single resource in the bidding, scheduling, dispatch, and settlement processes. Furthermore, changes to any measurement and verification calculations at this point would affect single DSASP Resources and result in additional delays in implementing ARC participation in the NYISO’s ancillary services markets.

⁷ *New York Independent System Operator, Inc.*, Compliance with Order No. 719, Docket ER09-1142-000 (May 19, 2009) at 9.

⁸ As the NYISO indicated in its May 2009 compliance filing, the NYISO administers competitive markets for Operating Reserves and Regulation Service. *Id.* at 3.

⁹ Order on Compliance Filing, 129 FERC § 61, 164 (November 20, 2009) at P 42.

¹⁰ Order No. 719 Demand Response Compliance Filing, letter order issued April 23, 2010. The NYISO’s semiannual reports are filed in Docket No. ER01-3001.

¹¹ Joint Price-Responsive Load and Market Issue Working Group presentations 12/1/11, 3/22/12, 4/26/12, 5/15/12, and 6/21/12, available at www.nyiso.com

IV. Proposed Tariff Amendments

Demand response resources have been eligible to participate in the Operating Reserves and Regulation Service markets through the DSASP since June 2008.¹² Individual Demand Side Resources offer their product in the same manner as generating resources by submitting availability bids in either the Day-Ahead or the Real-Time Market and, if they are scheduled, receive the same market clearing prices for those ancillary services. The NYISO also extends the same Day-Ahead Margin Assurance Payments and Bid Production Cost Guarantee Payments to DSASP Resources that it offers to generators. With this existing framework already established in the Services Tariff, the NYISO's proposed modifications simply incorporate ARCs into the same framework. Thus, the specific tariff changes proposed here are not extensive.

Amendments to Article 2: Definitions

Section 2.4: The NYISO proposes to add three related terms. First, the NYISO proposes a definition of "Demand Side Ancillary Service Program" that applies to "qualified DSASP Resources." To complement this definition, the NYISO will define "Demand Side Ancillary Service Program Resource (DSASP Resource)" to include both individual and aggregated Demand Side Resources. This definition also sets out the fundamental requirements that both types of suppliers must meet to participate in DSASP, which are (1) the ability to control demand in a measurable and verifiable manner, and (2) qualification as an ancillary services provider in accordance with the NYISO's tariff and procedures. Finally, a proposed definition of "Demand Side Ancillary Service Provider" sets forth the Customer's responsibility for enrolling the DSASP Resource and for dispatching the individual resource or aggregated resources when communicating directly with the NYISO.¹³

Amendments to Article 4.1: Market Services

Section 4.1.6 sets out certain Customer responsibilities. The NYISO proposes minor changes to clarify that the responsibility to notify the NYISO of real time operating problems falls on the Supplier of a resource, whether generation or demand side, and including ARCs.

Amendments to Article 4.2: Day-Ahead Markets and Schedules

At Section 4.2.1.3.3, the NYISO proposes modifications to clarify the obligations of suppliers of Operating Reserves or Regulation Service from a Demand Side Resource, which

¹² *New York Independent System Operator, Inc.*, Compliance Filing, Docket No. ER04-230-023 (March 24, 2008); Order on Tariff Revisions, 123 FERC § 61,203 (May 23, 2008) (accepting NYISO filing subject to compliance filings).

¹³ The NYISO will permit a DSASP Provider to communicate either through a Transmission Owner or directly with the NYISO. During the initial phase of implementation, the NYISO will limit the amount of DSASP Resources using direct communication to 150 MW, in order to gain experience with direct communication for this type of resource.

under the revised definitions includes an ARC. The effect is to require ARCs to specify normal and emergency response rates, just as other providers of Ancillary Services do. The NYISO also proposes to use the defined term “DSASP Provider” in Section 4.2.1.9 so that both individual and aggregated Demand Side Resources seeking to provide ancillary services follow the same bidding rules.

V. Effective Date

While the tariff changes needed to establish ARCs as providers of ancillary services are minimal, implementation of the revisions to the NYISO’s software systems will require some time. The NYISO develops and tests software on a rolling schedule that seeks to accommodate Commission directives and stakeholder initiatives efficiently. Based on its present commitments, the NYISO anticipates that the software changes required to implement these modifications to DSASP will be ready for testing and deployment in the second quarter of 2013. Accordingly, the NYISO requests an effective date of April 1, 2013 for these tariff revisions.

VI. Service

The NYISO will e-mail a copy of this filing to the official representative of each party to this proceeding, to the New York Public Service Commission, and to the New Jersey Board of Public Utilities. In addition, the NYISO will post this filing on the NYISO’s website at www.nyiso.com and will email the electronic link to the filing to each of its customers and to each participant of its stakeholder committees.

VII. Conclusion

Wherefore, for the reasons given above, the NYISO respectfully requests that the Commission accept the proposed tariff amendments, without conditions or modifications, to be effective April 1, 2013.

Respectfully submitted,

/s/ Elizabeth A. Grisaru

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