

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

New York Independent System Operator, Inc.)))	Docket No. ER12-718-____
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**MOTION FOR LEAVE TO RESPOND, AND RESPONSE OF
THE NEW YORK INDEPENDENT SYSTEM OPERATOR, INC. AND
PJM INTERCONNECTION, L.L.C.**

Pursuant to Rules 212 and 213 of the Federal Energy Regulatory Commission’s (“FERC” or “Commission”) Rules of Practice and Procedure,¹ the New York Independent System Operator, Inc. (“NYISO”) and PJM Interconnection, L.L.C., (“PJM”) submit the following response (“Response”) to the *Motion to Intervene and Protest of the PSEG Companies* (“Protest”) that was submitted in the above-captioned Docket on January 20, 2012. The Protest was submitted in response to the December 30, 2011 *Jointly Submitted Market-to Market Coordination (“M2M”) Compliance Filing* (the “Compliance Filing”) by the NYISO and PJM (collectively the “RTOs”).²

I. Motion for Leave to Respond

The NYISO and PJM respectfully request leave to submit this Response. Although the Commission generally discourages responses to protests, the Commission has allowed responses to protests when they help to clarify complex issues, provide additional information that will assist the Commission, correct inaccurate statements, or are otherwise helpful in developing the

¹ 18 C.F.R. §§ 385.212 and 385.213.

² *New York Independent System Operator, Inc. and PJM Interconnection, L.L.C.*, Docket No. ER12-718, December 30, 2011, Jointly Submitted Market-to Market Coordination Compliance Filing.

record in a proceeding.³ This Response meets the aforementioned criteria. It does not introduce new arguments, but instead is submitted for the limited purpose of clarifying certain factual matters and correcting inaccurate statements in the Protest, thereby assisting the Commission in its review and consideration of the issues presented in this proceeding. The RTOs therefore respectfully request that the Commission exercise its discretion and accept this Response.

II. Response

A. Cost Capping

On page 6 of its Protest, PSEG⁴ questions why the NYISO and PJM should be allowed to apply mitigation measures to generators that are being redispatched to resolve M2M congestion when the redispatch is occurring to address congestion in the neighboring market. PSEG's protest inaccurately suggests that M2M dispatch is "interregional dispatch." In fact, M2M coordination does not alter the scheduled interchange between the New York and PJM markets. Under M2M, generators within NYISO or PJM, or generators in both markets,⁵ may be redispatched in order to manage congestion on flowgates near the NYISO/PJM border. The proposed revisions to the Joint Operating Agreement between NYISO and PJM (the "PJM-NYISO JOA") in the Compliance Filing result in each RTO adding an additional set of transmission constraints to its own security-constrained economic dispatch model and

³ See, e.g., *Morgan Stanley Capital Group, Inc. v. New York Independent System Operator, Inc.*, 93 FERC ¶ 61,017 at 61,036 (2000) (accepting an answer that was "helpful in the development of the record . . ."); *New York Independent System Operator, Inc.*, 91 FERC ¶ 61,218 at 61,797 (2000) (allowing "the NYISO's Answer of April 27, 2000, [because it was deemed] useful in addressing the issues arising in these proceedings . . ."); *Central Hudson Gas & Electric Corp.*, 88 FERC ¶ 61,138 at 61,381 (1999) (accepting prohibited pleadings because they helped to clarify the issues and because of the complex nature of the proceeding).

⁴ PSEG includes the following companies: Public Service Electric and Gas Company ("PSE&G"); PSEG Power LLC; and PSEG Energy Resources & Trade LLC.

⁵ As explained on pages 16 and 17 of the RTOs' December 30, 2011 transmittal letter, active M2M constraints are solved in an iterative manner, potentially resulting in cost-effective redispatch occurring in both PJM and the NYISO.

dispatching generation under that RTO's currently-existing market rules. Generators that are redispatched as part of M2M coordination to manage external constraints will be redispatched exactly as they are to manage internal constraints. Regardless of whether a generator is being dispatched to manage an internal constraint or external constraint, the RTO dispatching the generator must continue to utilize its market power mitigation rules to ensure that the generator is not exerting market power.

NYISO and PJM will each be applying the cost capping or mitigation measures that apply in their respective markets to Generators that are serving load in their respective markets. The same cost capping or mitigation measures will be applied to Generators that are redispatched to provide M2M coordination as are applied to generators that are redispatched to manage internal congestion within the NYISO or PJM footprint.

M2M coordination does not result in PJM generation serving New York load, or New York generation serving PJM load. M2M redispatch alters the dispatch of New York generation serving New York load and/or the dispatch of PJM generation serving PJM load in a manner that produces the least-cost congestion solution for the combined region. New York generators that are redispatched for M2M coordination continue serving New York load and should remain subject to all of the mitigation rules that apply to other New York generators that serve New York load. Similarly, PJM generators that are redispatched for M2M coordination continue serving PJM load and should remain subject to PJM's energy market rules.

B. Rules that Allow Real-Time Bids to Reflect Updated Fuel Prices

In its Protest, PSEG argues that the Compliance Filing fails to address the fact that the NYISO market rules allow for hourly real-time bids to incorporate updated fuel prices, whereas the PJM market rules do not allow for such updated hourly bids and, therefore, PJM's prices will

be distorted.⁶ PSEG urged “the Commission to either reject the filing at this time, or else defer its implementation until such time as PJM has adopted rules comparable to [NYISO]’s that allow real-time bids that reflect the current fuel prices.”⁷ For the reasons set forth below, PSEG’s request is beyond the scope of this proceeding.

The fundamental philosophy behind the M2M transmission congestion coordination process that is set forth in the RTOs’ proposed revisions to the PJM-NYISO JOA is to allow transmission constraints that are significantly impacted by generation dispatch changes in both the NYISO and PJM markets or by the operation of the Ramapo PARs to be jointly managed in the real-time security-constrained economic dispatch models of both RTOs *utilizing each RTO’s currently-existing market rules* to (1) effectuate a more efficient and lower cost transmission congestion management solution, and (2) facilitate price convergence at the market boundaries.

The proposed revisions to the PJM-NYISO JOA in the Compliance Filing result in each RTO adding an additional set of transmission constraints to its own security-constrained economic dispatch model and dispatching generation *under each RTO’s currently-existing market rules*. Under PJM’s existing market rules, a generator is unable to update real-time bids to incorporate updated fuel prices regardless of the reason it is dispatched by PJM. NYISO’s and PJM’s existing market rules pertaining to the ability of a generator to update its bid in real-time, and the proposed M2M operations rules in the Compliance Filing are consistent with the Commission-approved market rules pertaining to the ability of a generator to update its bid in real-time, and rules pertaining to M2M operations in the *Joint Operating Agreement Between the Midwest Independent Transmission System Operator, Inc. and PJM Interconnection, L.L.C.* (the

⁶ Protest at page 2.

⁷ *Id.*

“MISO-PJM JOA”). Specifically, the MISO market rules allow for hourly real-time bids that reflect updated fuel prices,⁸ while the PJM market rules do not allow for such updated hourly bids, and the MISO-PJM JOA allows for M2M operations to be implemented in conjunction with such rules. The Compliance Filing applies the same approach under the PJM-NYISO JOA M2M provisions.

C. Existing Wheeling Agreements

PSEG’s Protest also raises a concern regarding the potential impact of M2M on the existing FERC filed wheeling agreements between Consolidated Edison Company of New York, Inc. (“ConEd”) and PJM.⁹ The two transmission service agreements provide for ConEd to deliver to PSE&G, in northern New Jersey, 1000 MW of power and for PSE&G to redeliver the same amount of power to ConEd in New York City (the “Wheeling Agreements”).¹⁰ ConEd and PJM are obligated to fulfill the two transmission service agreements referenced in the PSEG Protest.¹¹ PSEG asks that the NYISO and PJM be required “to make clear” how the Wheeling Agreements will be impacted by M2M implementation and, in particular, how the “auto-correction mechanism” component of Schedule C to the PJM-NYISO JOA¹² will be handled. Such clarification is not necessary because the RTOs have already explained in the Compliance

⁸ See MISO Energy and Operating Reserve Markets Business Practices Manual, Manual No. 002, §4.2 (*Resource Offer Requirements*).

⁹ See *Consolidated Edison Company of New York, Inc.*, 132 FERC ¶ 61,221 (2010).

¹⁰ PSE&G is a public utility company organized under the laws of the State of New Jersey. PSE&G is presently engaged in, among other things, the transmission and distribution of electricity and the distribution of natural gas in New Jersey. PSE&G owns transmission facilities in PJM.

¹¹ See *Id.*; *Consolidated Edison Co. of New York, Inc. v. Public Service Electric & Gas Co.*, 99 FERC ¶ 63,028 (2002); and *Consolidated Edison Co. of New York, Inc. v. Public Service Electric & Gas Co.*, 101 FERC ¶ 61,282 (2002).

¹² See Attachment CC to the NYISO’s Open Access Transmission Tariff.

Filing that the Wheel Agreements and the RTOs' obligations thereunder were maintained while implementing a M2M process.

M2M and the Wheeling Agreements are independent tariff obligations that must each be satisfied. NYISO and PJM have undertaken extraordinary efforts to develop a M2M process that maintains the integrity of the Wheeling Agreements between ConEd and PJM. As the NYISO and PJM explained in their joint Compliance Filing, “[t]he RTOs have incorporated certain ConEd Wheel Agreement terms and conditions into the M2M rules that address the operation of the Ramapo PARs to ensure that the RTOs’ implementation of M2M will occur in a manner that is consistent with their preexisting regulatory obligations.”

The auto-correction mechanism, described in the Wheeling Agreements, is specifically considered by the RTOs in the proposed tariff revisions submitted with the Compliance Filing.¹³ The M2M Ramapo Target Value is based on both the PJM-NY Interchange Schedule and J/K and A/B/C desired flows.¹⁴ The auto-correction mechanism from the Wheeling Agreements is expressly accounted for when setting the Ramapo Target Value. The desired flow on both the J/K and A/B/C interfaces will consistently reflect the auto correction factor (if any) that the RTOs have set. The RTOs have made substantial efforts to maintain all aspects of the Wheeling Agreements while implementing a M2M process that is beneficial to all parties.

¹³ See Schedule D Section 7.2.1, Compliance Filing Attachment I, proposed revisions to NYISO/PJM Joint Operating Agreement.

¹⁴ *Id.*

III. Conclusion

WHEREFORE, the RTOs respectfully request that the Commission (i) accept this Response to the PSEG Protest, and (ii) accept the NYISO/PJM Compliance Filing.

Respectfully submitted,

/s/ Alex M. Schnell

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding in accordance with the requirements of Rule 2010 of the Rules of Practice and Procedure, 18 C.F.R. §385.2010.

Dated at Rensselaer, NY this 8th day of February, 2012.

/s/ Joy A. Zimmerlin

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