

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

New York Independent System Operator, Inc.) Docket No. ER13-909-001

ANSWER OF THE NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.

In accordance with Rule 213 of the Commission’s Rules of Practice and Procedure,¹ the New York Independent System Operator, Inc. (“NYISO”) respectfully submits this answer to the May 30 comments (“Comments”)² filed by the New York Transmission Owners (“NYTOs”).³ The Comments address NYISO’s May 9 *Response to Request for Further Information Proposed Tariff Amendments to Revise Ancillary Service Price Calculations During Period of Scarcity and Request for Commission Action no Later than July 1, 2013* (“May 9 Filing”).

For the reasons set forth below, the Commission should accept the revisions proposed for scarcity pricing in this docket, revisions that have been endorsed by the NYISO’s independent Market Monitoring Unit.⁴ These include revisions to the determination of scarcity conditions

¹ 18 C.F.R. § 385.213 (2013).

² *Comments of the New York Transmission Owners*, Docket ER13-909-001, (May 30, 2013). Because the NYTOs pleading is styled as “comments” the NYISO may answer it as a matter of right under Rule 213. To the extent that the Commission were to treat the Comments as tantamount to a protest, the NYISO respectfully asks that the Commission exercise its discretion and accept this answer because it will help to clarify complex issues and facilitate the Commission’s review.

³ The NYTOs are Central Hudson Gas & Electric Corporation, Consolidated Edison Company of New York, Inc., Long Island Power Authority, New York Power Authority, New York State Electric & Gas Corporation, Niagara Mohawk Power Corporation d/b/a National Grid (“Niagara Mohawk”), Orange and Rockland Utilities, Inc., and Rochester Gas and Electric Corporation.

⁴ *See: Motion to Intervene and Comments of the New York ISO’s Market Monitoring Unit*, Docket No. ER13-909-001 (May 30, 2013) (“MMU Comments”).

that would trigger a re-pricing of Operating Reserves and Regulation Service⁵ pursuant to the scarcity pricing methodologies currently set forth in the NYISO's Market Administration and Control Area Services Tariff ("Services Tariff"). The Commission should not accept the Comments' proposal that the May 9 Filing's revised trigger be treated as a "stopgap measure."⁶ Rather, the Commission should encourage the NYTOs to propose any changes that they may wish to see made to the NYISO's scarcity pricing rules in the NYISO stakeholder process instead of raising them at the Commission in the first instance.

I. ANSWER

A. It Is Vitally Important that the Commission Issue an Order by July 1, 2013 Accepting the Proposals Included in the May 9 Filing Without Imposing the NYTOs' Modifications or Treating the May 9 Filing as a "Stopgap Measure"

The NYISO has previously explained that the issuance of an order accepting its proposed enhancements to the scarcity pricing trigger and methodologies for LBMPs, and to the trigger for pricing Ancillary Services, is essential to the creation of appropriate, locationally specific, price signals to encourage existing Energy Suppliers to maximize their output during scarcity conditions and to attract new supply to areas that may be capacity short this summer.⁷ The NYISO has, more recently, discussed with its stakeholders the specific reliability threat that exists this summer in the Lower Hudson Valley under extreme weather conditions and the capacity issues, in general, facing the New York Control Area for this summer.⁸ Delaying the

⁵ Capitalized terms that are not otherwise defined herein shall have the meaning specified in Services Tariff.

⁶ See, e.g., Comments at 1, 4.

⁷ See: *Filing Letter to Secretary Bose*, Docket Docket No. ER13-909-000 (February 8, 2013), p. 3

⁸ See: *Southeast New York Load Pocket, Summer 2013*, presented and discussed with Market Participants at the March 27, 2013 Management Committee meeting under Agenda Item # 3 at:

implementation of the rules proposed in the May 9 Filing in order to consider the modifications proposed by the NYTOs could mean locational price signals that would otherwise indicate the existence of scarcity conditions and the value to system reliability of additional energy and demand response for this summer would be missing. Moreover, treating the May 9 Filing as a stop gap measure would undervalue the signal that appropriately set scarcity prices otherwise provide to investors who are considering making additional investments in the NYCA Load Zones that are prone to scarcity conditions.

The NYTOs' claims that the May 9 Filing should not be accepted, or should only be accepted on an interim basis, because its proposals are "defective" lack merit. As the Commission has acknowledged, when Special Case Resources and Emergency Demand Response Program Resources are called in New York, they are marginal resources and should set market-clearing prices as marginal resources.⁹ The enhancements proposed by the NYISO in this docket improve the link between the locations where these resources are marginal for Energy and the locations where they are eligible to set the Energy LBMP, a link that is muted in the NYISO's currently effective scarcity pricing rule-set.

By establishing a Load-Zone based rather than a regionally-based trigger for pricing LBMPs using scarcity pricing methodologies, the NYISO can better determine where these resources are marginal when called. These resources will be marginal, and will set scarcity

http://www.nyiso.com/public/webdocs/markets_operations/committees/mc/meeting_materials/2013-03-27/SENY_Load_Pocket_MC_3_27_2013.pdf; and *the 2013 Summer Capacity Outlook* presented and discussed with Market Participants at the May 29, 2013 Management Committee at: http://www.nyiso.com/public/webdocs/markets_operations/committees/mc/meeting_materials/2013-05-29/4_2013%20Summer%20Capacity%20Outlook_MC.pdf

⁹ *New York Independent System Operator, Inc.*, 102 FERC ¶ 61,313 at P 25(2003); and *New York Independent System Operator, Inc.* 103 FERC ¶ 61,339 (2003).

prices, when Available Reserves in any Load Zone for which their Load Reduction was needed to resolve a reliability need are less than the MW of Load Reduction they were called upon to provide. As Dr. Patton has determined:

this is a reasonable approach because when this occurs, it indicates that but-for the called upon Load Reductions, Available reserves would have been insufficient to address the reliability issue.¹⁰

Moreover, the May 9 Filing's enhancements to the triggering events pursuant to which Operating Reserves would be priced using scarcity pricing has also been endorsed by Dr. David Patton:

If statewide Available Reserves were adequate and the Load Zones identified with a reliability issue were exclusively located East of Central East, the NYISO proposal would retest the adequacy of Available Reserves in the area East of Central East. If Available Reserves East of Central East were less than the MW of called-upon SCR and EDRP Resources, the NYISO would re-price Operating Reserves using the scarcity pricing methodology in the tariff for Eastern scarcity (formerly known as Pricing Rule "B").

We believe that this is appropriate because it assures that scarcity pricing will only be reflected in areas where NYISO is truly short. Currently, its locational operating reserve requirements generally pertain to NYCA or to Eastern New York. In reality, however, the SCRs or EDRPs may be called for reliability needs in zones that are a subset of these areas. When this happens, it is important not to reprice reserves in other zones outside of where the reliability need exists. This is accomplished under the NYISO proposal described above.¹¹

Accordingly, the Commission should refrain from imposing the further revisions recommended by the NYTOs. It should instead accept the amendments proposed in the May 9 Filing as of their proposed July 8, 2013 effective date.

¹⁰ MMU Comments at 2.

¹¹ MMU Comments at 3.

B. The Commission Should Require the NYTOs to Pursue their Preferred Market Rule Changes Through the NYISO Stakeholder Process Rather than Unilaterally Raising them Before the Commission in the First Instance

Although the NYTOs acknowledged the improvements made in the NYISO's May 9 Filing they continue to urge the Commission to impose their own preferred tariff changes to allow Ancillary Service prices to "clear the market."¹² The Commission should follow its precedents discouraging individual parties from making "end-runs" around ISO/RTO stakeholder processes¹³ and encourage the NYTOs to bring their proposals to the NYISO stakeholder process. The NYTOs have acknowledged in this proceeding that they did not identify their concerns before the NYISO made its February 8 filing, and thus never raised them with other stakeholders.¹⁴ Most of the NYTOs also recently, and correctly, argued in another proceeding that it was improper for parties to attempt to "circumvent" the stakeholder process.¹⁵

¹² See, e.g., Comments at 3

¹³ See, e.g., *ISO New England Inc.*, 130 FERC ¶ 61,145, at P 34 (2010) ("we encourage parties to participate in the stakeholder process if they seek to change the market rules..."); *ISO New England Inc.*, 125 FERC ¶ 61,154 at P 39 (2008) (directing that unresolved issues be addressed through the stakeholder process); *ISO New England*, 128 FERC ¶ 61,266 at P 55 (2009) (declining to grant a party's specific request for relief because the Commission "will not ... circumvent that stakeholder process"); *New York Independent System Operator, Inc., New York Transmission Owners*, 126 FERC ¶ 61,046, at PP 53-54 (2009) (directing that a proposal be "presented to and discussed among ... stakeholders and filed as a section 205 proposal, not unilaterally presented to the Commission"); *New England Power Pool*, 107 FERC ¶ 61,135 at PP 20, 24 (2004) (declining to accept changes proposed for the first time in a FERC proceeding by an entity that participated in the stakeholder process because the "suggested revisions have not been vetted through the stakeholder process and could impact various participants").

¹⁴ See: *Motion to Intervene and Protest of the New York Transmission Owners*, Docket ER13-909-000, (March 1, 2013), p. 5

¹⁵ See *Protest of the Indicated New York Transmission Owners*, Docket No. EL13-62-000 (May 30, 2013) at Section II.A ("Stakeholders often bring issues related to the tariffs governing the NYISO markets to the NYISO stakeholder process for collective consideration. Indeed, many such issues are pending currently before the NYISO. IPPNY has not explained why it should be entitled to bypass that logical prerequisite. Indeed, the Commission can rightly avoid issues that have not been fully considered

The May 9 Filing indicated that several issues that had surfaced since the NYISO made its original filing in February 2013 should be the subject of further stakeholder discussion.

Therefore, as the NYISO explained in its May 9 Filing, it is committed to conduct, by the second quarter of 2014, a comprehensive evaluation, stakeholder review, assessment and prioritization of the following issues:

- (i) the locations for which reserves are procured;
- (ii) the reserves (type and amount) procured for those locations;
- (iii) the reserve demand curve MW and value set points; and
- (iv) the implementation and triggering of scarcity pricing.¹⁶

The appropriate avenue for the advancement of the NYTOs' alternative Operating Reserves scarcity pricing design is this stakeholder review where all stakeholders will have the opportunity to participate. This review will also allow stakeholders to evaluate Dr. Patton's recommendation that the NYISO consider whether any changes in its locational reserve requirements are warranted.¹⁷ If this review produces revisions that are supported by the NYISO's stakeholder Management Committee and its independent Board of Directors, further revisions to the NYISO's scarcity pricing provisions would be presented to the Commission for its review and action. The NYTOs should be encouraged to participate in this process.

III. Conclusion

For the reasons set forth above, the NYISO, respectfully requests that the Commission issue an order no later than July 1, 2013, accepting the proposed tariff amendments that were

by requiring that parties make use of the stakeholder process before seeking Commission intervention.") All of the NYTOs except for Niagara Mohawk, were signatories to this filing.

¹⁶ May 9 Filing at 3.

¹⁷ MMU Comments at 4.

originally included in its February 8 filing in this proceeding, as amended by the May 9 Filing, and make them effective on July 8, 2013, without imposing any of the conditions or modifications proposed by the NYTOs in their Comments.

Respectfully submitted,

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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 12th day of June, 2013.

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