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FEDERAL ENERGY  
REGULATORY COMMISSION

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FILE NO: 55430.000051

July 22, 2004

**BY HAND**

The Honorable Magalie R. Salas  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, NE  
Washington, DC 20426

**Compliance Report of the New York Independent System Operator, Inc.  
in Docket No. EL04-110-001**

Dear Ms. Salas:

Pursuant to Ordering Paragraph C of the Commission's June 22, 2004 order ("Cancellation Order")<sup>1</sup> in this proceeding, the New York Independent System Operator, Inc. ("NYISO"), by counsel, respectfully submits this compliance Report. This compliance filing details the status of the NYISO's efforts to implement short- and long-term steps to ensure that errors involving the administration of the Transmission Congestion Contract ("TCC")<sup>2</sup> auctions do not recur in the future.

**I. List of Documents Submitted**

The NYISO submits the following documents.

1. This letter;
2. a form of *Federal Register* Notice ("Attachment F")

<sup>1</sup> *New York Independent System Operator, Inc.*, 107 FERC ¶ 61,292 (2004).

<sup>2</sup> Capitalized terms not otherwise defined herein shall have the meaning specified in Article II of the Services Tariff.

*Disk / TCC*



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**II. Communications**

Communications regarding this proceeding should be addressed to:

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**III. Service**

The NYISO is serving a copy of this filing on the official representative of each of its customers, on each participant in its stakeholder committees, and on the New York State Public Service Commission. The NYISO requests that the Commission waive Rule 2010, and to the extent necessary, so that it may serve this filing electronically. As has been its practice, the NYISO will electronically serve this filing on the official representative of each of its customers, on each participant in its stakeholder committees, and on the New York State Public Service Commission. The NYISO has successfully used electronic service methods in several recent proceedings without engendering any stakeholder complaints. Electronic service is also consistent with the spirit of the Commission’s recent notice of proposed rulemaking on service and notification procedures.<sup>3</sup>

**IV. Background**

On June 17, 2004, the NYISO filed an emergency request (“Emergency Request”) for waiver of certain provisions of its Open Access Transmission Tariff (“OATT”) and Market

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<sup>3</sup> See *Electronic Notification of Commission Issuances, Notice of Proposed Rulemaking*, 107 FERC ¶ 61,311 (June 23, 2004).

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Administration and Services Tariff ("Services Tariff") in order to allow the NYISO to cancel the July 2004 TCC Reconfiguration Auction. The filing was necessitated by the NYISO's discovery of a transcription error in the NYISO's Billing and Accounting System TCC Contract Database ("TCC Database") that led to the sale of excess TCCs over the current Capability Period, as well as for historical periods dating back to 2002.<sup>4</sup> While the NYISO took immediate action to attempt to remedy the problems resulting from the transcription error, it soon became clear that canceling the July Reconfiguration Auction would be necessary to avoid exacerbating the problem.

The Commission issued the Cancellation Order soon thereafter, which allowed the NYISO to waive the relevant OATT and Services Tariff provisions and cancel the July Reconfiguration Auction. Although it recognized that this action was necessary in order for the NYISO and its stakeholders to continue working on resolving the issues surrounding the sale of the excess TCCs, the Commission was also concerned that the problem existed in the first place, "and the fact that the error remained undiscovered for so long." Cancellation Order at P 14. The Commission directed the NYISO to submit a compliance filing detailing its efforts in developing "internal controls that are being placed into effect to ensure that these types of errors do not occur again." *Id.* The NYISO was required to file a report "specifying the status of the efforts to resolve, correct or mitigate the database transcription error... In that report, the NYISO should also state how it plans to conduct future reconfiguration auctions given the database transcription error." *Id.* at P 15.

**V. Status Report**

In compliance with the Cancellation Order's direction to describe the NYISO's efforts to ensure that the problems that occurred in the TCC auction process will not arise in the future, the NYISO describes below: (i) a two-step, independent review of the TCC Database to ensure its accuracy; (ii) an independent review of its process controls to ensure that they will adequately prevent future errors; and (iii) planned future enhancements to automate the TCC process, eliminate existing manual procedures, and to augment NYISO's oversight of data management through the addition of dedicated staff. The NYISO also describes its plans for future reconfiguration auctions.

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<sup>4</sup>A single 912 MW transmission contract was reserved by a New York Transmission Owner in the form of a grandfathered TCC and was thus not available for sale in the TCC auction. However, because of the transcription error, the 912 MW was released for sale in the TCC auction while at the same time being classified as a grandfathered TCC.



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As an initial matter, the NYISO points out that through successful settlement negotiations with its stakeholders, the NYISO and affected Market Participants executed an Offer of Settlement which was submitted to the Commission on July 13, 2004.<sup>5</sup> If approved without modification or condition by the Commission, the Offer of Settlement will resolve all outstanding issues in this docket, as well as all issues in Docket Nos. EL04-113-000, EL04-115-000 and ER04-983-000.<sup>6</sup> The NYISO believes that its submission of the Offer of Settlement satisfies its compliance obligation to explain how it would “resolve” or “mitigate” the error.

The NYISO has also identified the changes necessary in the TCC Database to correct the specific transcription error at issue in this proceeding and will enter those changes as part of its TCC Database update on Friday July 23, 2004. Once the corrected data is entered, the NYISO will have accounted for the failure to correctly classify the grandfathered TCC contract, the capacity associated with which was improperly released for sale in the TCC auction. Therefore, the specific transcription error will not recur in future auctions.

#### **A. Two-Step Independent Data Review**

The NYISO has instituted a two-step, independent review of the TCC Database to ensure its accuracy. The first step was the retention of an outside, expert firm to evaluate and validate the TCC Database for both current and historical Capability Periods. This review was meant to ensure that the TCC Database is accurate prior to the start of the August Reconfiguration Auction. This review was concluded on July 19, 2004, and the outside firm submitted its findings to the NYISO. The NYISO and the outside firm are evaluating the results of the audit and will be updating the TCC Database with the audit results, as necessary, on July 23, 2004.

The second step of this independent review effort involved implementation of a “database self-verification” program. Under this program, the NYISO reviewed the TCC

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<sup>5</sup> The NYISO requested Commission action on the settlement no later than July 22, 2004.

<sup>6</sup> In Docket No. EL04-113-000, certain Transmission Owners filed a complaint against the NYISO concerning the transcription error. In Docket Nos. EL04-115-000 and ER04-983-000, the NYISO requested that the Commission initiate settlement discussions between the NYISO and its stakeholders to resolve this issue or, failing that, authorize the NYISO to implement a comprehensive remedial package designed to correct the effects of the error.

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Database and determined which Market Participants were holders of TCCs, Grandfathered Rights or grandfathered TCCs. It then sent a letter with an attached spreadsheet containing the relevant data to an officer of each Market Participant. If the information was accurate, the officer was asked to inform the NYISO of that fact. If, on the other hand, the information was not accurate, the officer was asked to supply the NYISO with that Market Participant's understanding of the TCCs, Grandfathered Rights and/or grandfathered TCCs it holds. The NYISO sent the first self-verification letter to eligible Market Participants on July 14, 2004, with responses required within one week. This self-verification process will be employed in June and December of each year and will further ensure that the TCC Database remains accurate.

The NYISO will work closely with an outside firm to oversee changes to the TCC Database that are necessary to correct for the original database error and to input the results of the two-step independent review of the TCC Database. The outside firm will also oversee changes to the TCC Database that are necessary to implement appropriate portions of the Offer of Settlement, if it is approved by the Commission. A second independent audit firm will confirm that all changes to the TCC Database are accurate, prior to the August Reconfiguration Auction.

**B. Process Controls Review**

The NYISO has asked the independent firm that conducted the initial TCC Database review to review and evaluate the process and controls involved in administering TCC auctions. This work is currently underway and a final report will be drafted prior to the start of the Autumn 2004 Centralized TCC Auction. The goal of this review process is to identify areas in the auction administration process that should be modified and to determine whether additional procedures and controls would be necessary.<sup>7</sup>

Both the two-step, independent review of the existing TCC Database and the process and controls review will immediately correct any problems that may arise as a result of simple inputting or similar errors and will ensure that the TCC Database remains accurate. The primary means of achieving this goal is through enhanced market participant involvement and independent review. Under these measures, Market Participants would be able to review the information pertaining to any TCCs, Grandfathered Rights or grandfathered TCCs that they

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<sup>7</sup> The error in the TCC Database and the impact of this error has also led the NYISO to conduct a review of the other databases it maintains to ensure that the data inputted into those systems are accurate as well. This review will be completed over the next several months.



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may hold, and inform the NYISO of any errors in this information. The bi-annual application of the self-verification program will further ensure that the information is accurate and up-to-date. The outside audit of the TCC Database will provide an additional guarantee that all of the existing data inputs are accurate. Finally, review of the procedures governing the administration of TCC auctions will ensure that the most effective controls are in place to help prevent future errors.

### **C. Future Enhancements**

The NYISO recognizes that although the shorter-term steps will significantly improve the administration of the TCC auction process, it must also develop a longer-term solution. Long-term steps will provide the overarching structural support necessary for ensuring that the TCC auction process is free of error in the future.

The NYISO is moving ahead with the development and implementation of an automated auction process, which would replace the currently used manual system. The NYISO believes that an automated process will help eliminate the human error that can occur with the current TCC auction process that, at its base, involves the manual entry of data into the TCC Database. This process would be developed and implemented as soon as is practicable.

The implementation of the automated process is, as noted, a longer-term solution. As discussed above, it is first necessary for the NYISO to review the data that is inputted in the currently used manual process. Once the NYISO sets those short-term solutions into place, it can then move to develop and implement the automated process. The ultimate result of this work will be better controls and processes, and more transparency.

The NYISO is also adding a new staff position reporting to the Director of Corporate and Market Risk Oversight to oversee the database validation and process-review work. This new position will handle the function of Data and Process Risk Oversight and will further ensure that all data and data handling processes are appropriate and accurate.

### **D. Future Reconfiguration Auctions**

The Cancellation Order also asked the NYISO to discuss how it would conduct future Reconfiguration Auctions given the transcription error. As indicated in the Explanatory Statement to the Offer of Settlement, it is important that future Reconfiguration Auctions occur, including the upcoming August Reconfiguration Auction.<sup>8</sup> As noted above, the Offer

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<sup>8</sup> See generally Explanatory Statement to Offer of Settlement at 17-21.

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of Settlement would resolve all issues in those dockets if approved by the Commission. Under the Offer of Settlement, the remaining Reconfiguration Auctions in the current Capability Period will be conducted with any remaining infeasibility, attributable to the excess sales that may still exist after the terms of the settlement are carried out, included.<sup>9</sup> The Offer of Settlement states that the NYISO is seeking all tariff waivers necessary to conduct the August Reconfiguration Auction (and, if necessary, other Reconfiguration Auctions in the current Capability Period) with any remaining infeasibility included.

If the Commission does not approve the Offer of Settlement in time for the August Reconfiguration Auction, currently scheduled for July 26, 2003, the NYISO has advised the Commission that it would like permission to run the auction with all the infeasibility included in it.<sup>10</sup>

Therefore, no future Reconfiguration Auctions will be canceled as a result of the transcription error, particularly if the Commission approves the Offer of Settlement. Moreover, the NYISO believes that implementation of the steps outlined above will prevent such an error from occurring in future Capability Periods, starting with the Winter 2004 Capability Period. Therefore, future Reconfiguration Auctions should proceed as scheduled.

## VI. Federal Register Notice

A form of notice suitable for publication in the *Federal Register* is attached as Attachment I. In addition, a Microsoft Word version of the notice is included on the enclosed diskette.

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<sup>9</sup> See Explanatory Statement to Offer of Settlement at 17-18.

<sup>10</sup> See *id.* at 19 -21.

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**VII. Conclusion**

Wherefore, for the foregoing reasons, the NYISO respectfully requests that the Commission accept its compliance filing.

Respectfully submitted,

NEW YORK INDEPENDENT  
SYSTEM OPERATOR, INC.

By   
Counsel

Arnold H. Quint  
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Of Counsel

July 22, 2004

- cc: Daniel L. Larcamp, Director Office of Markets, Tariffs and Rates, Room 8A-01,  
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- Connie Caldwell, Room 52-55, Tel. (202) 502-6489
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# **Attachment I**

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

New York Independent System Operator, Inc.           )           Docket No. EL04-110-001

**NOTICE OF FILING**

Take notice that on July 22, 2004, the New York Independent System Operator, Inc. ("NYISO") has filed a report in compliance with the June 22, 2004 order in the above-captioned proceeding detailing the status of efforts to correct a Transmission Congestion Contract ("TCC") database transcription error. The status report also describes the NYISO's plans for future TCC Reconfiguration Auctions.

The NYISO has electronically served a copy of this filing on the official representative of each of its customers, on each participant in its stakeholder committees, and on the New York State Public Service Commission.

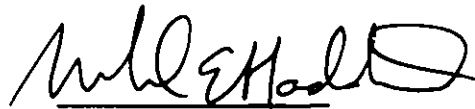
Any person desiring to intervene or to protest this filing should file with the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426, in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedure (18 CFR 385.211 and 385.214). Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make protestants parties to the proceeding. Any person wishing to become a party must file a motion to intervene. All such motions or protests should be filed on or before the comment date, and, to the extent applicable, must be served on the applicant and on any other person designated on the official service list. This filing is available for review at the Commission or may be viewed on the Commission's web site at <http://www.ferc.gov>, using the eLibrary (FERRIS) link. Enter the docket number excluding the last three digits in the docket number field to access the document. For assistance, please contact FERC Online Support at [FERCOnlineSupport@ferc.gov](mailto:FERCOnlineSupport@ferc.gov) or toll-free at (866)208-3676, or for TTY, contact (202)502-8659. Protests and interventions may be filed electronically via the Internet in lieu of paper; see 18 CFR 385.2001(a)(1)(iii) and the instructions on the Commission's web site under the "e-Filing" link. The Commission strongly encourages electronic filings.

Comment Date:

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day electronically served the foregoing document upon the official representative of each of its customers, on each participant in its stakeholder committees, and on the New York State Public Service Commission.

Dated at Washington, D.C., this 22nd day of July, 2004.

A handwritten signature in black ink, appearing to read "Michael E. Haddad", with a stylized flourish at the end.

Michael E. Haddad  
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