



290 Washington Avenue Extension, Albany, New York 12203

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July 6, 2004

BY HAND

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

**Compliance Filing of the New York Independent System Operator, Inc.  
in Docket No. ER03-836-001**

Dear Ms. Salas:

Pursuant to the Commission's May 7, 2004 *Order on Rehearing* ("May 7 Order")<sup>1</sup> in this proceeding, the New York Independent System Operator, Inc. ("NYISO") respectfully submits this compliance filing.

**I. List of Documents Submitted**

The NYISO submits the following documents:

1. This filing letter which provides a timetable setting forth a schedule for full implementation of a method for allowing customers to self-supply their own operating reserves.
2. A form of *Federal Register* Notice ("Attachment I").

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<sup>1</sup> *New York Independent System Operator, Inc.*, 107 FERC ¶ 61,129 (2004).

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## **II. Copies of Correspondence**

Copies of correspondence concerning this filing should be served on:

Robert E. Fernandez, General Counsel and Secretary  
Mollie Lampi, Assistant General Counsel  
Belinda F. Thornton, Director of Regulatory Affairs  
New York Independent System Operator, Inc.  
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Albany, NY 12203  
Tel: (518) 356-7661  
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## **III. Service List**

Copies of this filing are being served on all parties designated on the official service list maintained by the Secretary of the Commission in this proceeding. The NYISO is also serving a copy of this filing on the New York State Public Service Commission and the electric utility regulatory agencies in New Jersey and Pennsylvania.

## **IV. Background**

The May 7 Order directed the NYISO to file a schedule for providing its Market Participants with an option by which they can self-supply all or a portion of their Operating Reserves requirements from qualified units without being required to bid into the NYISO markets (“non-bid self-supply”).<sup>2</sup> The chief concern underlying the requirement for a non-bid self-supply option was “the potential lack of competitive alternatives” for non-synchronous reserves (“NSR”).<sup>3</sup> While acknowledging that improvements in the NSR market had warranted substantially removing the special NSR bid cap the previous year, the Commission reiterated its commitment to the principle that “a market participant should have the option of self-supplying without bidding [into the NYISO markets], when it believes it can self supply at a lower cost than the NYISO.”<sup>4</sup> Citing its belief that self-supply would not harm other customers, it directed the NYISO to provide customers with a self-supply option within a reasonable time period, but did not require the NYISO to delay implementation of its real-time system (“RTS”), and noted that RTS “will include a self-supply option”.<sup>5</sup> In the Commission’s view, Market Participants should be able to self-supply a given level of operating reserves without bidding, so long as they

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<sup>2</sup> May 7, Order at P. 10. Unless otherwise specified, capitalized terms have the meanings specified in the NYISO’s Market Administration and Control Area Services Tariff.

<sup>3</sup> *Id.*

<sup>4</sup> *Id.*

<sup>5</sup> May 7, Order at PP. 10 and 5. RTS implementation is currently expected after September 15, 2004 and on or after November 1, 2004.

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bear the costs of that decision, even if it is likely to be economically unattractive.<sup>6</sup> The opportunity to self-supply can include, however, an obligation for the customer to meet “all applicable technical requirements, including locational requirements.”<sup>7</sup> Thus, the non-bid self-supply option would only be available for a “qualified resource.”<sup>8</sup>

The NYISO has had discussions with its Market Participants concerning the conceptual outlines of an option that would allow LSEs desiring to meet all or a portion of their Operating Reserves obligations through self-supply from a qualified resource to do so without bidding the resource into the DAM.<sup>9</sup> Further discussions with stakeholders will be necessary to finalize the details of the proposal.

The NYISO is also continuing discussions, held at the request of several Market Participants, on financial options that would further address concerns with competitive alternatives in the NYISO NSR markets. These include a formula for allocating the costs of locational reserves to loads. The stakeholder input the NYISO has received to date indicates that these other financial options could, with minimal cost or software implications, directly address any remaining concerns of stakeholders in the financial (bid-based) self-supply available under RTS. We are planning to continue those discussions in parallel with the discussions of the self-supply option mandated in the May 7 Order. As is discussed in greater detail below, implementation of a non-bid self-supply option logically follows the NYISO’s implementation of its new RTS project and the enhancements that the Commission has indicated should be pursued.

The Commission is currently evaluating the NYISO’s Request for Rehearing and Clarification concerning a post-RTS enhancement to afford non-dispatchable generators greater flexibility in responding to price changes (“the post-RTS enhancement”). The NYISO had previously notified the Commission that the best option to provide non-dispatchable generators greater flexibility is to allow them to request that their schedules be set on a fifteen-minute basis.<sup>10</sup> In its Request for Rehearing and Clarification, the NYISO requested permission to adopt such a program 150 days after RTS was finally implemented. Assuming the NYISO implements RTS November 1, 2004, the NYISO would devote the software development and other resources necessary to ensuring that the 15 minute scheduling option would be available April 1, 2005.

The NYISO is also continuing the stakeholder discussions, ordered by the Commission in the RTS Order, exploring how best to accommodate the special requirements of demand side resources without violating the fundamental design of RTS. The Commission has ordered tariff provisions effectuating resolution of these discussions 120 days following implementation.<sup>11</sup> In addition, the NYISO is continuing its Market Participant discussions and design efforts on

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<sup>6</sup> May 7, Order at P. 11.

<sup>7</sup> 91 FERC ¶ 61,218 at 61,806 (2000).

<sup>8</sup> May 7, Order at P. 11.

<sup>9</sup> May 10, 2004 Joint meeting of the Market Structures Working Group and the Scheduling and Pricing Working Group.

<sup>10</sup> See Compliance Filing and Notice of Implementation of the New York Independent System Operator, Inc., ER04-230-003, at pp. 3-5 (March 12, 2004).

<sup>11</sup> *New York Independent System Operator, Inc.*, 106 FERC ¶61,111 at P. 66.

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Virtual Regional Dispatch as well as several other RTS-related, Market Participant-requested enhancements, such as combined cycle modeling.

In light of these significant commitments for both the stakeholder process and the NYISO's software development and other resources, as shown on the attached schedule, the NYISO proposes to make the non-bid self-supply option available 150 days after implementation of the post-RTS enhancement project, or September 1, 2005. This will allow NYISO and its Market Participants sufficient time to conclude not only the post-RTS project but also the other significant design enhancements ordered by the Commission and strongly desired by the stakeholders.

The proposed time-line provides up to four months for stakeholder input following RTS implementation. There is great value in ensuring that all interested stakeholders have a chance to contribute to the design of a new self-supply option. Stakeholder input is needed on fundamental design issues and to enable the NYISO to learn more about the proposal's possible effects on specific stakeholders. It will also be important for this input to reflect meaningful experience with the operation of the RTS markets.

Following these substantive Market Participant discussions, the timeline provides two additional months for the NYISO to complete, with its stakeholders, the Concept of Operations, a key step in the design and implementation of market design changes. Following a complete Concept of Operations, the NYISO will develop the tariff language necessary to implement this self-supply option and finalize the functional specifications. By April, 2005, NYISO staff will be available to begin the software design work. In order to avoid unnecessary delay, NYISO intends to stage the self-supply design and implementation tasks to take advantage of NYISO staff as they become available following completion of their work on the price-chasing enhancement.<sup>12</sup>

**V. Timetable Setting Forth a Schedule for Full Implementation of a Method for Allowing Customers to Self-Supply Their Own Operating Reserves.**

<b>DATE</b>	<b>Activity</b>
May, 2004	Discussions began on providing an option allowing LSEs to self-supply reserves without being required to offer the resource in the NYISO markets.
September, 2004	Further Market Participant discussions and initial development of a Concept of Operations
March, 2005	Finalize the self-supply Concept of Operations with Market Participants and begin development of the Functional Requirements Specification ("FRS")
April, 2005	Submit self-scheduling tariff changes to FERC

<sup>12</sup> This assumes approval of NYISO's requested 150 days to complete this enhancement.

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June, 2005	IT Software development resources available to begin implementation.
August, 2005	Software development and testing complete, begin final Quality Assurance testing.
September 1, 2005	Production Software Deployment

**V. Federal Register Notice**

A form of *Federal Register* Notice is attached as Attachment I hereto.

**VI. Conclusion**

WHEREFORE, for the foregoing reasons, the New York Independent System Operator, Inc. respectfully requests that the Commission accept this compliance filing and notice.

Respectfully submitted,



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Mollie Lampi  
Assistant General Counsel  
New York Independent System Operator, Inc.  
3890 Carman Road  
Schenectady, NY 12303  
518-356-7530

Attachment

### **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 the above-captioned proceeding in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.2010 (2003). I have also served a copy of this filing upon the New York State Public Service Commission and the electric utility regulatory agencies in New Jersey and Pennsylvania.

Dated at Washington, D.C., this 6th day of July, 2004.

Catherine A. Karimi /s/  
Sr. Professional Assistant  
Hunton & Williams LLP  
1900 K Street, NW  
Washington, DC 20006-1109  
(202) 955-1500

**ATTACHMENT I**

UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

**New York Independent System Operator, Inc.**

**Docket Nos. ER03-836-001**

**NOTICE OF FILING**

Take notice that on July 6, 2004, the New York Independent System Operator, Inc. (“NYISO”) made a compliance filing in the above-captioned proceeding.

The NYISO has served a copy of this filing to all parties on the official service list in this proceeding, including the New York State Public Service Commission, and to the electric utility regulatory agencies in New Jersey and Pennsylvania.

Any person desiring to be heard or to protest this filing should file a motion to intervene or protest 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). All such motions or protests should be filed on or before the comment date. This filing is available for review at the Commission or may be viewed on the Commission’s website at [www.ferc.gov](http://www.ferc.gov), using the eLibrary (FERRIS) link. Enter the docket number excluding the last three digits in the docket number filed to access the document. For assistance, call (202) 502-8222 or TTY, (202) 208-1659. 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:

Magalie R. Salas  
Secretary



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