

March 13, 2001

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By Hand

The Honorable David P. Boergers, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

New York Independent System Operator, Inc.
Filing of Attachment G to Services Tariff to Implement
Emergency Demand Response Program

Dear Mr. Boergers:

Pursuant to Section 205 of the Federal Power Act, the New York Independent System Operator, Inc. (“NYISO”), by counsel, hereby submits a new Attachment G to its Market Administration and Control Area Services Tariff (“Services Tariff”). Attachment G sets forth an Emergency Demand Response Program (“EDRP”) that the NYISO proposes to administer from May 1, 2001 until October 31, 2002. The EDRP is a voluntary program, modeled on initiatives adopted by other Independent System Operators last summer,¹ pursuant to which the NYISO will pay qualified program participants that respond to NYISO requests for demand reductions in emergency situations. The EDRP is one of three demand-side response mechanisms that the NYISO intends to implement prior to summer, in order to preserve reliability and enhance the performance of its markets.²

¹ The Commission approved similar programs developed by the California Independent System Operator, *California Independent System Operator, Corp.*, 91 FERC ¶ 61,256 (2000), the New England Power Pool, *New England Power Pool*, 91 FERC ¶ 61,203 (2000), and the PJM Interconnection, *PJM Interconnection, Inc.*, 92 FERC ¶ 61,059 (2000).

² In addition to the EDRP, the NYISO will make a separate filing to implement incentivized day-ahead demand reduction bidding rules pursuant to which demand-side resources (*i.e.*, curtailable loads and small generators) may submit bids into the NYISO’s day-ahead market specifying the price at which they will reduce demand. The NYISO is also completing software changes that will make zonal price capped load bidding, which permits

I. List of Documents Submitted

The NYISO submits the following documents:

1. This filing letter;
2. Clean tariff sheets containing proposed Attachment G to the Services Tariff and adding new definitions to Article II of the Services Tariff (Attachment A-1);
3. Redlined tariff sheets adding new definitions to Article II of the Services Tariff (Attachment A-2); and
4. A form of *Federal Register* Notice (Attachment B).

II. Copies of Correspondence

Copies of correspondence concerning this filing should be served on:

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General Counsel and Secretary
John P. Buechler
Director of Regulatory Affairs
Mollie Lampi, Senior Attorney
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III. Proposed Effective Date

The NYISO requests waiver of the 60-day notice period in order to make this filing effective on May 1, 2001, the first day of the NYISO's Summer Capability Period.³ The NYISO respectfully submits that there is good cause for granting a waiver in this instance because the EDRP is an integral part of the NYISO's effort to preserve reliability and enhance the performance of its markets this summer. The NYISO believes that there may be serious reliability and market consequences if the EDRP is not in place by May 1. Moreover, because

loads to specify the price above which they no longer wish to buy from the NYISO-administered markets, more widely available. Zonal price-capped load bidding was part of the NYISO's original market design and no tariff changes are needed to expand its availability.

³ Capitalized terms that are not defined herein are defined in Article 2 of the Services Tariff.

the EDRP has been developed through a lengthy, public process, no market participant will be prejudiced if a waiver is granted.

IV. Service List

The NYISO has mailed a copy of this filing to all parties that have executed Service Agreements under the NYISO's Open Access Transmission Tariff or Market Administration and Control Area Services Tariff, and on the electric utility regulatory agencies in New York, New Jersey, and Pennsylvania.

V. Reasons for Adopting the EDRP

The NYISO, the Commission,⁴ the New York State Public Service Commission ("PSC")⁵ and various other observers have all recognized that workable demand-side response mechanisms are essential to the proper functioning of electricity markets, and to maintaining reliability at times of peak demand. This is especially true with respect to the NYISO-administered markets where supply is sometimes only barely adequate to meet demand, transmission constraints pose frequent problems, and new generation and transmission infrastructure will not be in place for some time. Accordingly, in response to directives from the Commission, the NYISO's independent Board of Directors and the NYISO's Management Committee, the NYISO staff has worked for several months to develop a group of demand-side response mechanisms prior to Summer 2001. The NYISO staff hired an independent consultant to assist it with this project, and received substantial input from market participants through the specially formed Price Responsive Load Working Group (originally the "Dispatchable Load Working Group").

⁴ The Commission called for the development of demand-side response mechanisms in last year's *Notice of Interim Procedures to Support Industry Reliability Efforts and Request for Comments*, 91 FERC ¶ 61,189 (2000) ("Notice"), clarified, 91 FERC ¶ 61,310 (June 28, 2000). The Commission also emphasized the benefits of such mechanisms in its *Investigation of Bulk Power Markets: Northeast Region*, at 1-92-93 (November 1, 2000), and in its report on the Western Region power markets, *Staff Report to the Federal Regulatory Commission on Western Markets and the Causes of the Summer 2000 Price Abnormalities*, at 6-7 and 6-8 (November 1, 2000).

⁵ The New York Public Service Commission made DSM a centerpiece of its reliability recommendations in its *Order Requiring Filings and Reports on Utility Demand Response Programs*, Case 00-E-2054 (December 20, 2000). The Department Public Service also advocated price responsiveness and price sensitive bidding in its *Interim Pricing Report on New York State's Independent System Operator*, at 108-09 (December 2000).

The primary purpose of the EDRP is to preserve reliability by paying qualified “Curtailment Services Providers” to arrange demand reductions during NYISO-declared emergencies. The EDRP will also help the NYISO to avoid making extremely expensive emergency energy purchases from neighboring Control Areas.

The EDRP is an entirely voluntary program that will complement other demand-side response initiatives that are either already in place, or that will be implemented in the future by the NYISO, the PSC or individual Load-Serving Entities (“LSEs”). The NYISO anticipates that the EDRP will enable it to reduce demand by approximately 200-300 MW in emergencies, which will help to improve both reliability and market performance this summer.

VI. Stakeholder Review and Approval

The EDRP is the product of extensive discussion among the NYISO staff and New York market participants. More than a hundred market participants participated in its design over the course of nine meetings with the NYISO staff.⁶ The NYISO’s Management Committee approved the EDRP proposal at its January 10, 2001 meeting.

VII. Description of Proposed Tariff Changes

Pursuant to the EDRP, the NYISO will make payments to qualified Curtailment Services Providers that are able to reduce at least 100 kW of demand in a single load zone, on no more than two hours’ notice. Curtailment Services Providers may achieve demand reductions either by arranging for voluntary load curtailments or by using generators that are not then synchronized to a distribution system to serve Load that would otherwise be served over a distribution system.

The various provisions of proposed Attachment G are discussed in greater detail below.

A. Qualifying to Be a Curtailment Services Provider

Curtailment Services Providers must be Customers of the NYISO. An entity that would become a Customer of the NYISO solely for the purpose of participating in the EDRP may become a “Limited Customer” instead. The NYISO is preparing an Emergency Demand Response Program manual (“Manual”) that will specify how an entity may become a Limited Customer. In order to become a Curtailment Services Provider, Customers and Limited Customers must be capable of reducing load by at least 100 kW in a single New York Control

⁶ A number of New York market participants that are active in the markets administered by the PJM Interconnection, Inc. played a significant role in the EDRP’s development. In addition, the NYISO staff coordinated its EDRP development efforts with ISO-New England staff. Accordingly, NYISO staff expects that the EDRP will be consistent with demand side initiatives developed by the NYISO’s neighbors.

Area (“NYCA”) load zone within two hours of receiving the NYISO’s notice that the EDRP has been activated. LSEs may become Curtailment Services Providers on behalf of their own customers or the customers of another LSE provided that they can satisfy the demand reduction requirement and comply with the Manual’s registration requirements. Direct customers of the NYISO, Curtailment Customer Aggregators, Special Case Resources and end-users may also become Curtailment Services Providers if they satisfy these standards.

B. Prohibition of Multiple Subscriptions by Loads

The EDRP will be compatible with other demand side reduction programs developed by the NYISO, the PSC, and LSEs. Curtailment Services Providers may participate in the EDRP and other demand side management mechanisms at the same time. However, the NYISO will not pay more than once for a given MWh of demand reduction. Curtailment Services Providers are not allowed to offer to reduce NYCA loads in the EDRP that have already been subscribed by another Curtailment Services Provider.

C. Activation of the Emergency Demand Reduction Program

The NYISO will have the discretion to activate the EDRP whenever it experiences a Real-Time locational or statewide operating reserve shortage, forecasts a locational or system-wide operating reserves shortage, declares a Major Emergency State, or in the event of a NYCA or zonal emergency. Whenever the NYISO instructs Special Case Resources⁷ to reduce their consumption of Energy it will simultaneously activate the EDRP. It is expected that the EDRP will normally be invoked before the NYISO purchases emergency energy from neighboring control areas, but the NYISO will retain discretion to act in any way that will enhance reliability.

Upon activation of EDRP, each Curtailment Services Provider may choose to participate by reducing demand. Curtailment Services Providers are not required to reduce demand for any minimum period of time but will only be paid to the extent that they actually reduce demand, subject to the conditions described in Section G below.

D. Notification Process

Whenever possible, the NYISO shall provide day-ahead notice to Curtailment Services Providers that it is considering activating the EDRP. The NYISO shall, when possible, provide Curtailment Services Providers with a minimum of two hours’ advance notice of its activation of EDRP. The NYISO’s notice will specify the time the requested demand reductions should begin, and, if possible, the time when the need for demand reductions will end. The NYISO may request Curtailment Services Providers to provide demand reduction as soon as possible in the event of a Real-Time locational or statewide operating reserve shortage or emergency.

⁷ Special Case Resources are a category of Installed Capacity Suppliers that includes load capable of being interrupted on demand. *See* Services Tariff § 2.172a.

E. Voluntariness of the EDRP

Participation in the EDRP is entirely voluntary. Further, the NYISO shall not penalize Curtailment Services Providers that choose not to reduce demand when the EDRP is activated.

F. Metering and Verification of Demand Reductions

Curtailment Services Providers must provide hourly interval metering data to allow for verification of their demand reductions. The Manual contains more detailed information regarding metering data requirements.

Curtailment Services Providers shall provide their interval metering data to the NYISO within 45 days of their participation in EDRP in order to verify their demand reduction performance. If the Curtailment Services Provider fails to provide the interval metering data within the 45 day period, the ISO will have the right to refuse to pay the Curtailment Services Provider for the claimed demand reductions. All such load reduction data are subject to audit by the NYISO and its market monitoring unit. Upon determination by the ISO that it has made an erroneous payment to a Curtailment Services Provider, the ISO may recover that payment by reducing future payments to the Curtailment Services Provider, or by any other lawful means.

G. Payment for Verified Demand Reductions

The NYISO will make payments to Curtailment Services Providers that produce a verified demand reduction in response to the NYISO's activation of the EDRP. If the NYISO activates the EDRP, it shall pay Curtailment Services Providers for four hours of demand reduction, or for the period of time that the EDRP is activated, whichever is greater.

If the NYISO activates the EDRP for more than four hours, each Curtailment Services Provider shall be paid the higher of \$500/MWh, or the zonal Real-Time Locational Based Marginal Price ("LBMP") per MWh, of demand reduced, starting with the hour specified by the NYISO as the starting time of the activation, or, when the NYISO specifies that demand reduction should begin as soon as possible, starting with the hour that the Curtailment Services Provider began its response.

If the NYISO activates the EDRP for four hours or less, the NYISO shall pay each Curtailment Services Provider for a minimum four hour demand reduction. The NYISO shall pay the higher of \$500/MWh, or the zonal Real-Time LBMP per MWh of demand reduced, for the duration of the ISO activation of the EDRP or two hours, whichever is greater, starting with the hour specified by the NYISO as the hour of activation, or, if the NYISO specified that demand reduction should begin as soon as possible, then starting with the hour that the Curtailment Service Provider began its response. If the NYISO activates the EDRP for fewer than four hours, it shall pay each Curtailment Services Provider the zonal Real-Time LBMP per

MWh for the remainder of the four hour minimum payment period, provided that a verified demand reduction was effectuated by the time specified in the NYISO's notice.

The NYISO believes that its proposal to pay either \$500 or the Real-Time LBMP per MWh of reduced demand is just and reasonable. The Commission approved the same payment structure when it approved the PJM Interconnection, Inc's ("PJM") demand reduction program.⁸ The Commission has also approved similar prices for the New England Power Pool in 1999, when it accepted a load response program which paid \$8/kWh of reduced demand,⁹ and again last year when it accepted a proposal to pay \$500, \$750, or \$1000 per MWh for separate 200 MW blocks of interrupted demand.¹⁰ The NYISO understands that both PJM and the New England Power Pool intend to continue to make payments at these levels to the extent that they re-institute their emergency demand response programs.

H. Allocation of EDRP Costs

The costs incurred by the NYISO in connection with the EDRP shall be allocated differently based upon whether activation of the EDRP was in response to a statewide emergency or a zonal emergency.

If the EDRP was activated in response to a NYCA or statewide emergency, a Real-Time, statewide Operating Reserve shortage, or a forecast statewide Operating Reserve shortage, the cost of paying Curtailment Services Providers shall be recovered from all Transmission Customers on a statewide basis. The NYISO will calculate, and Transmission Customers shall pay, the monthly charge equal to the product of (A) payments made to Curtailment Services Providers that month and (B) the ratio of (i) the Transmission Customer's billing units for the month to (ii) the sum of all billing units for the month. Under this rule, EDRP costs are allocated based on each Transmission Customer's share of the total amount of Energy sold and transmitted each month. Billing units shall be based on the Actual Energy Withdrawals for all Transmission Service to supply Load in the NYCA, and hourly Energy schedules for all Wheels Through and Exports.

If the EDRP was activated in response to an emergency, a Real-Time Operating Reserve shortage, or a peak forecast of an Operating Reserve shortage in a particular zone or zones, including when the activation is requested by a transmission owner to meet an emergency associated with a Local Reliability Rule, the billing units for such charges will be based on the Actual Energy Withdrawals in the affected zones or sub-zone(s) for the hours in which the EDRP was activated.

⁸ *PJM Interconnection, Inc.* 92 FERC at 61,151-52.

⁹ *New England Power Pool*, 88 FERC ¶ 61,304 (1999).

¹⁰ *New England Power Pool*, 91 FERC at 61,711 (2000).

LSEs shall be required to pay the monthly charges calculated above for the Transmission Customers which the LSE serves as retail access customers.

The NYISO's cost allocation methodology is consistent with the NYISO's current method for allocating costs under its tariffs, particularly Schedule 1 of the NYISO's Open Access Transmission Tariff. It therefore complies with the Commission's holdings, in its orders approving PJM's and the California Independent System Operator's demand side response programs, that it is reasonable to allocate the costs of such programs pursuant to an Independent System Operator's normal cost allocation methodology.¹¹

The NYISO's cost allocation proposal is also in keeping with the cost causation principle. When a statewide emergency causes the activation of EDRP, the costs of the program will be allocated to purchasers of energy in proportion to their energy purchases in the market during periods when demand reductions are needed. By contrast, when a zonal emergency causes the activation of EDRP, the costs of the program will be allocated to purchasers of energy within the affected zones in proportion to their purchase of energy in those zones when demand reductions are needed.

I. Duration of the EDRP

The EDRP shall remain in effect until the end of the 2002 Summer Capability Period, *i.e.*, October 31, 2002. The NYISO hopes that there will be a sufficient new supply and demand-side resources in New York by that date to permit the EDRP to expire. At the end of each Capability Period, the NYISO will review the EDRP's performance and will determine whether any changes are necessary.

VIII. No Costs Relating to Discriminatory Employment Practices

The NYISO has no expenses or costs that have been alleged or judged to be illegal, duplicate, or unnecessary costs that are demonstrably the product of discriminatory employment practices.

IX. Federal Register Notice

A form of *Federal Register* Notice is provided as Attachment B hereto. A diskette of the Notice is also provided in WordPerfect format.

Respectfully submitted,

¹¹ *PJM Interconnection, Inc.* 92 FERC at 61,151-52; *California Independent System Operator, Corp.*, 91 FERC ¶ 61,256 at 61,897 (2000).

The Honorable David P. Boergers, Secretary
March 13, 2001
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March 13, 2001

cc: Mr. Joshua Z. Rokach, Advisor to Chairman Hebert, Suite 11-E,
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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

New York Independent System Operator, Inc.) Docket No. ER01-____-000

NOTICE OF FILING

Take notice that on March 13, 2001, the New York Independent System Operator, Inc. (“NYISO”) filed a new Attachment G to its Market Administration and Control Area Services Tariff (“Services Tariff”) in order to implement an Emergency Demand Response Program. The NYISO has requested an effective date of May 1, 2001 for the filing and a waiver of the Commission’s notice requirements.

The NYISO has served a copy of this filing upon all on all parties that have executed Service Agreements under the NYISO’s Open Access Transmission Tariff or Market Administration and Control Area Services Tariff, and on the electric utility regulatory agencies in New York, 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, NE, Washington, DC 20426, in accordance with Rules 211 and 214 of the Commission’s Rules of Practice and Procedure (18 C.F.R. §§ 385.211 and 385-214). All such motions or protests should be filed on or before _____. 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. Copies of this application are on file with the Commission and are available for public inspection.

David P. Boergers
Secretary

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon each party that has executed a Service Agreement under the New York Independent System Operator, Inc.'s Open Access Transmission Tariff or Market Administration and Control Area Services Tariff in accordance with the Commission's Rules and Procedures.

Dated at Washington, DC, this 13th day of March, 2001.

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