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May 31, 2002

FILE NO: 55430.44

BY HAND

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

New York Independent System Operator, Inc.'s
Filing of Tariff Revisions to Modify
Recovery of Charges Assessed Under Rate Schedule 1 of Its Open-Access
Transmission Tariff and Market Administration and Control Area Services Tariff

Dear Ms. Salas:

Pursuant to Section 205 of the Federal Power Act (“FPA”), the New York Independent System Operator, Inc. (“NYISO”), by counsel, hereby submits revisions to Rate Schedule 1 of its Open Access Transmission Tariff (“OATT”) and of its Market Administration and Control Area Services Tariff. The NYISO’s operating costs are currently recovered exclusively from Loads¹ within the New York Control Area (“NYCA”). The proposed tariff revisions re-allocate the responsibility for NYISO costs by assigning eighty-five (85) percent of the responsibility for paying for the NYISO’s budgeted annual operating costs and its Commission-assessed regulatory fees to Loads and other withdrawals of Energy from the NYCA and assigning fifteen (15) percent to all injections supplying Energy into the NYCA Locational-Based Marginal Price (“LBMP”) Market.

A majority of the New York Market Participants believe that the proposed new cost allocation methodology would be more equitable than the existing system. The NYISO has no financial interest in the allocation of charges among Market Participants, and does not believe that the allocation proposed herein will have an effect, positive or negative, on the efficiency of its markets. It is making this filing, however, to reflect the wishes of a majority of its Market Participants.

I. List of Documents Submitted

The NYISO submits the following documents:

1. this filing letter;
2. clean OATT sheets reflecting the revisions proposed herein (“Attachment I”);

3. redlined OATT sheets reflecting the revisions proposed herein (“Attachment II”);
4. clean Services Tariff sheets reflecting the revisions proposed herein (“Attachment III”);
5. redlined Services Tariff sheets reflecting the revisions proposed herein (“Attachment IV”);
and
6. a form of *Federal Register* Notice (“Attachment V”).

II. Copies of Correspondence

Copies of correspondence concerning this filing should be served on:

Robert E. Fernandez, General Counsel and Secretary
Belinda Thornton, Director of Regulatory Affairs
Gerald R. Deaver, Senior Attorney
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III. Proposed Effective Date

On May 2, 2002, the NYISO Management Committee, by a 59.15% affirmative vote, approved a motion asking that the NYISO seek an effective date of June 1, 2002, for the tariff revisions proposed in this filing. The Management Committee approved this motion knowing that the NYISO would not be in a position to implement the billing software changes necessary to apply the new cost allocation methodology proposed herein until sometime in the fourth quarter of 2002. Nevertheless, a majority of the Management Committee wanted the proposed tariff revisions be made effective on June 1, 2002, so that the NYISO could apply the new allocation methodology from that date forward through true-up billings starting in the fourth quarter of 2002. The NYISO submits, therefore, that there is good cause for a waiver of the Commission’s usual sixty-day notice period and respectfully requests that the tariff revisions proposed in this filing become effective on June 1, 2002.

IV. Service List

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

V. Description of and Purpose for Revisions to Services Tariff and OATT

Currently, the NYISO's annual budgeted operating costs and Commission-assessed regulatory fees are assessed to, and recovered from, Market Participants under Rate Schedule 1 of both the OATT and the Services Tariff. Costs recovered under the Services Tariff are those related to the functions that the NYISO performs under it, including the administration of the LBMP markets, ICAP requirements and the ICAP Markets, Control Area Services other than Ancillary Services provided under the OATT, Market Monitoring, and NYCA reliability functions.² All other NYISO operating costs are recovered under the OATT, including costs related to transmission operations, security constrained dispatch, billing and settlement, system studies, communications, dispute resolution, record keeping and auditing, training, system development, professional services, working capital and carrying costs, taxes, general and administrative functions, insurance, bad debts, and Commission-assessed regulatory fees.³ Under both current versions of Rate Schedule 1, the determinations of applicable billing units, and the computations of rates for recovering these costs, are currently based exclusively on energy withdrawals for serving loads in the NYCA or for exporting energy from the NYCA.

In order to more broadly assign responsibility for the NYISO's costs among Market Participants, the Management Committee adopted a motion asking the NYISO to amend both versions of Rate Schedule 1 so that all Market Participants would pay a portion of the NYISO's fixed annual operating budget and Commission-assessed regulatory fees on the basis of Energy Transactions. Under the proposed methodology, which a majority of the Management Committee considered more equitable than the existing system, Energy injections and sales to the LBMP Market would bear fifteen percent of the total charges and Energy withdrawals from the market for Loads or Exports would assume eighty-five percent.

Accordingly, this filing proposes the following amendments to implement the recovery of NYISO operating costs from both energy injections and energy withdrawals under Rate Schedule 1 of the OATT and the Services Tariff.

A. Applicability of Rate Schedule 1 Charges

In order to implement the proposed cost allocation methodology while ensuring that

the entire NYISO fixed budget is fully recovered, the NYISO proposes to revise the applicability provisions of Rate Schedule 1 in both the OATT and the Services Tariff. The proposed amendments to Section 1 of OATT Rate Schedule 1 specify that Transmission Customers taking service exclusively under the OATT will pay "ISO Services Charges" for a portion of the NYISO's budget costs and Commission-assessed regulatory fees, the Residual Adjustment Charge, and the bid production guarantee entirely under the OATT. Transmission Customers taking both OATT and Services Tariff service would pay a portion of NYISO annual budgeted operating costs and Commission-assessed regulatory fees determined pursuant to proposed Sections 3.A through 3.C of the Services Tariff and would pay their Residual Adjustment Charge and bid production guarantee charges under the OATT.

Consistent with the proposed OATT amendments, Market Participants taking service under both tariffs will pay a portion of the NYISO's budgeted annual operating costs and Commission-assessed regulatory fees determined under the proposed Section 3.A through 3.C of the Services Tariff Rate Schedule 1 and will continue to pay for Residual Adjustment Charges and bid production guarantees charges according to the OATT. The amendments to Section 1 of Services Tariff Rate Schedule 1 reiterate that OATT-only Customers shall pay ISO Services Charges determined under the OATT.

B. Billing Units and Calculation of Rates

Under the existing Rate Schedules, the rates for collecting OATT and Services Tariff charges are determined by and billed according to energy withdrawals only. These withdrawals are presently comprised of actual withdrawals of Energy to supply Load in the NYCA and scheduled Energy Wheels Through and Exports from the NYCA.

As part of the proposed new cost allocation methodology the NYISO proposes to calculate rates and bills on the basis of both Energy injections and Energy withdrawals by amending the language governing the determination of billing units under both Rate Schedules. Section 2 and 2.A of the OATT Rate Schedule 1 would be amended to provide that withdrawal billing units for the NYISO's budgeted annual operating costs and Commission-assessed regulatory fees will be comprised of Actual Energy Withdrawals to supply Load, schedule Energy Wheels Through, and Exports. The proposed amendments further specify that injection billing units will consist of "Scheduled Energy Injections" to supply LBMP Market Energy in the NYCA. A further proposed amendment to Section 2.A specifies that billing units for ISO operating costs not included in the fixed annual budget will continue to be recovered exclusively on the basis of Energy withdrawals, reflecting the fact that the Management Committee did not ask the NYISO to alter current cost recovery mechanisms for non-fixed budget costs.

Identical billing unit-related amendments are proposed to Section 2 of the Services Tariff Rate Schedule 1.

C. Computation of Rates Under Rate Schedule 1

The proposed methodology for calculating the rates to allocate the NYISO's budgeted annual operating costs and Commission-assessed regulatory fees between Energy injections and Energy withdrawals appears as a new Section 2.B.1.a through 2.B.1.c in OATT Rate Schedule 1 and as a new Section 3.A.1 through 3.A.3 in Services Tariff Rate Schedule 1. Under the proposed OATT Section 2.A.1.a and Services Tariff Section 3.A.1 respectively, the 15% of the responsibility for budgeted annual operating costs and Commission-assessed regulatory fees shall be allocated to Energy injection billing units and 85% of the responsibility shall be allocated to Energy withdrawal billing units.

Under proposed Sections 2.B.1.b and 3.A.2 of Rate Schedule 1 of the OATT and the Services Tariff, respectively, the rate to apply to Energy injections for individual Market Participants is the quotient of the 15% annual budgeted operating cost and Commission-assessed regulatory fees allocation divided by the total annual estimated Energy injection billing units. Similarly, the proposed rate to apply to Energy withdrawals is the quotient of the 85% annual budgeted operating costs and Commission-assessed regulatory fees allocation divided by the total annual estimated withdrawal billing units.

Under the proposed Sections 2.B.1.c and 3.A.2 of Rate Schedule 1 of the OATT and the Services Tariff, respectively, the rates derived in Sections 2.B.1.b and 3.A.2 would then be multiplied by each Market Participant's Energy injection and Energy withdrawal billing units, as appropriate, for the month.

Under new Section 2.B.2 of OATT Rate Schedule 1 and Section 3.b of Services Tariff Rate Schedule 1, the NYISO will continue to recover its start up and formation costs. However, the NYISO is proposing to revise these provisions so that these costs will be assessed exclusively to withdrawal billing units.

The existing Residual Adjustment Charge and bid production guarantees charge cost recovery provisions, which would not be amended under this filing, are retained under new Section 2.B.3. of the OATT version of Rate Schedule 1.

VI. Requisite Stakeholder Approval

The NYISO's Management Committee approved the revision to the Services Tariff

proposed herein by an affirmative vote of 61.38%.

VII. 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.

VIII. Federal Register Notice

A form of *Federal Register* Notice is provided herewith. A diskette of the Notice is also provided in WordPerfect format.

Respectfully submitted,

Counsel for
New York Independent System Operator, Inc.

cc: Mr. Daniel L. Larcamp, Director, Office of Markets, Tariffs and Rates, Room 8A-01,
Tel. (202) 208-2088
Ms. Alice M. Fernandez, Director Office of Markets, Tariffs and Rates - East Division,
Room 82-15, Tel. (202) 208-0089
Ms. Andrea Wolfman, Office of the General Counsel, Room 101-29,
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Mr. Stanley Wolf, Office of the General Counsel, Room 102-37,
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Mr. Michael Bardee, Office of the General Counsel, Room 101-09
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UNITED STATES OF AMERICA
BEFORE THE

FEDERAL ENERGY REGULATORY COMMISSION

New York Independent System Operator, Inc.) Docket No.

NOTICE OF FILING

Take notice that on May 31, 2002 the New York Independent System Operator, Inc. (“NYISO”) filed revisions to its Open-Access Transmission Tariff (“OATT”) and Market Administration and Control Area Services (“Services Tariff”) to implement a new cost allocation methodology under Rate Schedule 1 of each tariff. The NYISO has requested an effective date of June 1, 2002 for the filing.

The NYISO has served a copy of this filing upon all parties that have executed service agreements under the NYISO’s OATT and Services Tariff and on the electric utility regulatory agencies of 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.

Magalie R. Salas
Secretary

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person that has executed a Service Agreement under the NYISO's Open Access Transmission Tariff or Market Administration and Control Area Services Tariff and on the electric utility regulatory agencies of New York, New Jersey and Pennsylvania, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 2010 (1999).

Dated at Washington, D.C. this 31st day of May, 2002.

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Capitalized terms not otherwise defined herein have the meaning ascribed to them in Article 1 of the OATT, or Article 2 of the Services Tariff.

- 1 Services Tariff, Rate Schedule 1, Section 4.
- 2 OATT, Rate Schedule 1, Section 4.A.