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May 24, 2002

FILE NO: 55430.000047

**BY HAND**

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

New York Independent System Operator, Inc.'s  
Filing of Tariff Revisions to Ensure the Deliverability of Energy from New York  
Generators that Have Supplied Installed Capacity to External Control Areas

Dear Ms. Salas:

Pursuant to Section 205 of the Federal Power Act,<sup>1</sup> the New York Independent System Operator, Inc. ("NYISO"), by counsel, hereby respectfully submits revisions to its Market Administration and Control Area Services Tariff ("Services Tariff") to ensure the deliverability of Energy from New York Generators<sup>2</sup> that have supplied Installed Capacity ("ICAP")<sup>3</sup> to External Control Areas. This filing is consistent with a recent agreement among the NYISO, ISO New England Inc. ("ISO-NE") and the PJM Interconnection, L.L.C. ("PJM") about the general principles that should govern ICAP Transactions. The NYISO understands that these principles have also been endorsed by the Ontario Independent Electricity Market Operator ("IMO"), although the IMO is not yet a signatory to the agreement because it does not currently have an ICAP market of its own.

This filing complements the NYISO's December 28, 2001 *Filing of Tariff Revisions to Implement the Pre-Scheduling of External Transactions and Wheels Through* which was accepted by the Commission in February.<sup>4</sup> Just as that filing promoted inter-ISO trade by resolving energy-related scheduling seams, this filing will foster a more seamless market for Capacity Transactions. In particular, the NYISO believes that this filing will address certain Capacity Transaction seams issues that have been of concern to PJM.<sup>5</sup>

## **I. List of Documents Submitted**

The NYISO submits the following documents:

1. This filing letter;
2. Clean revised sheets from the NYISO's Services Tariff depicting the changes proposed by the NYISO (Attachment I);
3. Redlined revised sheets from the Services Tariff depicting the changes proposed by the NYISO ("Attachment II"); and
4. A form of *Federal Register* Notice ("Attachment III").

## **II. Copies of Correspondence**

Copies of correspondence concerning this filing should be served on:

Robert Fernandez, General Counsel and Secretary  
Mollie Lampi, Assistant General Counsel  
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## **III. Proposed Effective Date**

The NYISO respectfully requests that the tariff revisions proposed in this filing become

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effective on July 1, 2002. The NYISO submits that there is good cause to request a waiver of the Commission's usual sixty-day notice period because the tariff revisions proposed herein resolve a significant seams issue, will resolve current inequities relating to the inability of resources located in New York to sell ICAP in the PJM market, and increase the reliability and security of the Northeast ISOs. In addition, acceptance of the proposed tariff revisions could potentially affect one or more Commission dockets.

In the event that it is not possible to grant this request, the NYISO asks that the Commission make this filing effective as soon as possible after July 1, 2002.

#### **IV. Service**

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 Services Tariff, to ISO-NE, PJM, the New York State Public Service Commission and to the electric utility regulatory agencies in New Jersey and Pennsylvania.

#### **V. Background**

The NYISO, ISO-NE, PJM and the IMO began work on the development of regional solutions to ICAP and ICAP deliverability issues in April, 2001 as part of the inter-ISO "Memorandum of Understanding" process.<sup>7</sup> Ultimately, the three ISOs and the IMO agreed on a set of governing principles for inter-ISO ICAP transactions that were designed to interfere as little as possible with existing market mechanisms. One of the agreement's core principles was that Energy from Generators that have supplied ICAP to loads in a different Control Area should be assured of delivery whenever that Control Area issued a notification that the Energy was needed, due, for example, to a system emergency. It was also agreed, however, that although the ISOs were to make sure that available Energy was delivered they were not responsible for enforcing Generators' commitments to External Control Areas to be available to run. Such Generators would instead be subject to the rules of the purchasing jurisdiction and whatever sanctions, or contractual remedies, were applicable to the Generator's violation of its commitment to the External Control Area. It was also agreed that although each ISO would be obliged to schedule Energy Exports from Generators supplying Installed Capacity to External Control Areas even during capacity shortage conditions the ISOs would be allowed to Curtail such Exports in order to prevent a violation of voltage, stability or thermal transmission limits. Finally, it was agreed that non-ICAP backed transactions need not be curtailed to make room for more expensive ICAP-backed transactions when the Control Area issues a notification that Energy is needed.

PJM has indicated that its acceptance of these ISO-NE procedures as satisfying PJM

ICAP deliverability requirements expires at the end of 2003. The New England Agreement to these procedures can be found in paragraphs 3 and 4 of the attached May 21, 2002 Memo from Paul Shortley to Mike Calimano.

Consequently, the NYISO agreed to modify its Services Tariff in order to ensure that New York Generators which supplied ICAP to External Control Areas would be able to deliver available Energy when the External Control Area required it. PJM and ISO-NE already had market rules that allowed them to guarantee such deliveries and thus have not had to file corresponding tariff revisions.

In addition, the NYISO has agreed with a PJM request to allow PJM to audit the records and procedures of the NYISO in the event of a curtailment or inability to schedule the NY ICAP resource into PJM in order to verify that the agreed-upon processes and procedures were, in fact, followed. The NYISO will coordinate with PJM any confidentiality waiver that may be necessary from Generators that have supplied ICAP to PJM, if PJM desires to see, for instance, the ICAP Supplier's bidding behavior in these circumstances.

## **VI. Description of Proposal**

The NYISO proposes to revise Articles 4.13 and 4.14 of the Services Tariff in order to ensure the deliverability of Energy by Generators that supply Installed Capacity to External Control Areas and that have Available Generating Capacity. Specifically, it would add language to Original Sheet No. 96A stating that the NYISO shall "take action," including, if necessary "manual intervention, to schedule Export Transactions from Generators that have Available Generating Capacity and that have supplied Installed Capacity to entities serving Load located in an External Control Area when the External Control Area issues a notification requiring such Generators to supply Energy . . . ." An example of such a notification would be a declaration by PJM of a "Maximum Generation Emergency."<sup>8</sup> If a Generator is only available to provide a portion of the Energy it committed to provide when it supplied ICAP to an External Control Area, the NYISO will ensure that whatever Energy the Generator has available is delivered. Similarly, if a Generator has committed to supply Capacity to more than one External Control Area, and has less Available Generating Capacity than it has committed to provide at the time that a Control Areas issues a notification, the NYISO will ensure that the appropriate *pro rata* share of Energy from that Generator is supplied to the External Control Area that issued the notification.

The NYISO would leave in place existing language in Original Sheet No. 96A which states that "any Transaction may be Curtailed in response to the invocation of Transmission Loading Relief [TLR] procedures by the ISO." TLRs are extremely rare in New York, due to the NYISO's re-dispatching practices. Nevertheless, it would be consistent with the ISOs'

agreement for the NYISO to curtail Exports of Energy from Generators supplying ICAP in the event that it was forced to issue a TLR to avoid a violation of voltage, stability or thermal transmission limits. However, Exports of Energy from Generators supplying ICAP would receive the highest curtailment priority during a TLR event.

Similarly, the NYISO proposes to add language to Original Sheet No. 96A to clarify the provision authorizing the NYISO to purchase Energy, in emergency situations, that is being sold outside of the New York Control Area (“NYCA”) by New York Generators that are not supplying ICAP in New York. The new language would specify that the NYISO may not exercise this option to purchase Energy sold by New York Generators that supply ICAP to External Control Areas and are responding to a notification by that Control Area at times when the NYCA is experiencing a capacity resource emergency. Consistent with the ISOs’ agreement, however, the proposed language would allow the NYISO to purchase such Energy in order to avoid a security-related emergency that does not involve a reserves shortage.

In addition, the NYISO would amend Second Revised Sheet No. 97 to require Generators with Available Generating Capacity that have supplied ICAP to entities serving Load in External Control Areas to “submit an Hour-Ahead Bid priced to provide the highest economic priority available to schedule an Export Transaction” and to “supply a quantity of Energy for a given dispatch hour(s) . . . immediately following the issuance of a notification by the External Control Area that require such Generators to supply Energy . . . .” The proposed tariff revision notes that the specific procedures governing the submission of the required bids and the supply of the required energy will be set forth in the NYISO manuals and the corresponding technical rules documentation of the External Control Area. If Generators comply with these requirements the NYISO’s Balancing Market Evaluation (“BME”) software should schedule the Generator to supply Energy and should schedule the Export Transaction. In virtually all circumstances, BME’s scheduling decision should ensure that the Export Transactions will flow in real-time. This provision therefore establishes the mechanism by which the NYISO will normally ensure the deliverability of External ICAP. However, the NYISO’s proposed revisions to Original Sheet No. 96A, which state that the NYISO will “take action, including manual intervention” to ensure that External ICAP is delivered whenever an External Control Area issues a notification, guarantee that the transactions will flow in real time, if BME fails to schedule them because the NYCA is experiencing a reserves shortage.

Finally, it should be noted that the NYISO does not intend for BME to substitute an ICAP-backed Energy Export for a more economic Energy Transaction that is flowing, or that will flow, to the External Control Area. BME will schedule Transactions that have been bid to provide the highest economic priority available to the full extent of the Transfer Capability between the NYISO and the External Control Area. If an Energy Export by a New York Generator supplying ICAP to an External Control Area is less economic than other scheduled

Transactions but there is sufficient Transfer Capability to schedule the ICAP-backed Export then that ICAP-backed Export will be scheduled. If, however, the interface with the External Control Area is fully subscribed, BME will not “bump” more economic Transactions in order to permit an ICAP-backed Export to flow. When the interface with the External Control Area is fully subscribed, the External Control Area should be indifferent to BME’s scheduling decision because it will still be receiving the maximum possible amount of Energy from New York Generators, which would, by definition, be at least equal to the amount of Capacity purchased from New York Generators. By contrast, if the NYISO were to substitute less economic ICAP-backed Exports for more economic Exports in this situation additional costs would be imposed on New York Market Participants without any corresponding benefit to the External Control Area.

### **VII. Stakeholder Review and Approval**

The tariff revisions proposed in this filing were approved, in concept, by the NYISO’s Management Committee. Consistent with Management Committee rules, the NYISO has discussed the tariff language proposed herein with members of the NYISO’s Installed Capacity Working Group. The Chairs and Vice-Chairs of the NYISO’s Management Committee and Business Issues Committee have also given their approval.

### **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 IV hereto. A diskette of the Notice is also provided in WordPerfect format.

### **IX. Conclusion**

WHEREFORE, for the foregoing reasons, the New York Independent System Operator, Inc., respectfully requests that the Commission accept the tariff revisions proposed herein and grant the requested effective date.

Respectfully submitted,

The Honorable Magalie R. Salas, Esq.  
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Counsel for  
New York Independent System  
Operator, Inc.

cc: Daniel L. Larcamp, Director Office of Markets, Tariffs and Rates, Room 8A-01,  
Tel. (202) 208-2088  
Alice M. Fernandez, Director Office of Markets, Tariffs and Rates -- East  
Division, Room 71-31, Tel. (202) 208-0089  
Andrea C. Wolfman, Lead Counsel for Market Oversight and Enforcement,  
Room 9E-01, Tel. (202) 208-2097  
Michael A. Bardee, Lead Counsel for Markets, Tariffs and Rates, Room 101-09,  
Tel. (202) 208-2068  
Stanley P. Wolf, Office of the General Counsel, Room 101-03,  
Tel. (202) 208-0891

## ATTACHMENT I

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## ATTACHMENT II

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## ATTACHMENT III

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

**New York Independent System Operator, Inc. )      Docket No. ER02-\_\_\_\_-000**

**NOTICE OF FILING**

Take notice that on May 24, 2002, the New York Independent System Operator, Inc. (“NYISO”) filed revisions to its Market Administration and Control Area Services Tariff (“Services Tariff”) in order to ensure the deliverability of energy from New York generators that have committed to supply installed capacity to external control areas.

The NYISO has served a copy of this filing to all parties that have executed Service Agreements under the NYISO’s Open-Access Transmission Tariff or Services Tariff, to ISO New England Inc., the PJM Interconnection, L.L.C., 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, 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.

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Secretary

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**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon all parties that have executed Service Agreements under the NYISO's Open-Access Transmission Tariff or Market Administration and Control Area Services Tariff, ISO New England Inc, PJM Interconnection, L.L.C., the New York State Public Service Commission and to the electric utility regulatory agencies in 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 (2001).

Dated at Washington, D.C. this 24th day of May, 2002.

Ted J. Murphy  
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16 U.S.C. § 824d (1994).

<sup>1</sup> Capitalized terms that are not otherwise defined herein shall have the meaning specified in Article 2 of the Services Tariff.

<sup>2</sup> For purposes of this filing letter, only references to ICAP that is being supplied in New York shall have the meaning specified in Article 2.74 of the Services Tariff. References to ICAP that is supplied to External Control Areas shall be understood as describing a capacity product that complies with the External Control Area's definition of "Installed Capacity" but that does not necessarily comply with the NYISO definition.

<sup>3</sup> *New York Independent System Operator, Inc.*, 98 FERC ¶ 61,189 (2002).

<sup>4</sup> *See Motion to Intervene of PJM Interconnection, L.L.C.*, Docket No. ER02-638-000 (January 18, 2002).

<sup>5</sup> The NYISO respectfully request a waiver of §385.203 of the Commission's regulations to allow the inclusion of NYISO counsel in both New York City and Washington, D.C., on the service list in this proceeding.

<sup>6</sup> *See, e.g.*, <[http://www.isomou.com/working\\_groups/operations/operations.html](http://www.isomou.com/working_groups/operations/operations.html)>, which provides links to various MOU ICAP documents, including the agreed upon ICAP principles (most recently revised in January, 2002), and notes from the April 11, 2001 meeting of the MOU Operations Working Group, which is where regional ICAP issues were first discussed.

<sup>7</sup> *See Amended and Restated Operating Agreement of PJM Interconnection, L.L.C.*, Schedule 1, Section 1.3.13 (defining "Maximum Generation Emergency.")