

April 10, 2009

By Hand

Hon. Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

**Re: Proposed Tariff Revisions Enabling Implementation of the Linden VFT
Scheduled Line of the New York Independent System Operator, Inc.;**
Docket No. ER09-___-000

Dear Secretary Bose:

Pursuant to Section 205 of the Federal Power Act, the New York Independent System Operator, Inc. ("NYISO") hereby submits proposed revisions to its Market Administration and Control Area Services Tariff ("Services Tariff") and to its Open Access Transmission Tariff ("OATT") (collectively, the "Tariffs") to implement the Linden VFT Scheduled Line.¹ Scheduled Lines are "controllable" transmission facilities that are approved for treatment as distinct scheduling paths for which transfer capability and prices are posted. The Linden VFT Scheduled Line will represent a new 300 MW interconnection between the New York Control Area ("NYCA") and the PJM Interconnection, LLC ("PJM") Control Area.

The proposed Tariff revisions: (a) identify new transmission capacity created by the Linden VFT Project as a Scheduled Line; and (b) set forth the market rules for scheduling energy transactions² that will apply at the Proxy Generator Bus associated with the proposed Linden VFT Scheduled Line. After the Tariff revisions proposed herein are accepted for filing by the Commission and all of the other prerequisites to commissioning the Linden VFT Scheduled Line have been satisfied, the NYISO will implement the new Scheduled Line in its market systems by adding a new Generator/Load Proxy bus pair which will be defined as the Linden VFT Proxy Generator Bus. This will enable the NYISO to schedule and price the Linden VFT Scheduled Line separate from the "primary" Proxy Generator Buses that represent the aggregated transfer capability of multiple transmission facilities that interconnect the NYCA with PJM. Initially, Market Participants will be able to schedule Import and Wheels-Through External Transactions³ at the new Proxy Generator Bus.

¹ Capitalized terms not specifically defined herein shall have the meaning set forth in the NYISO's Tariffs, as amended by the enclosed proposed revisions to the Tariffs.

² This filing does not address capacity matters, which are under review at this time.

³ As explained below, at the time of implementation, the Linden VFT Scheduled Line will not support Exports from New York to PJM.

Several Market Participants hold the long-term firm Advance Reservations over the Linden VFT Scheduled Line. The enhanced scheduling capability proposed in the attached Tariff provisions will allow those Market Participants to schedule transactions across the Linden VFT Scheduled Line, while at the same time allowing third-parties to schedule transactions using released Linden VFT Scheduled Line capacity. This will facilitate efficient inter-regional trading between PJM and New York, strengthening the integration of the two markets.

I. Documents Submitted

The NYISO submits the following documents:

1. This filing letter;
2. A clean version of the revised Services Tariff sheets (Attachment I);
3. A blacklined version of the revised Services Tariff sheets (Attachment II);
4. A clean version of the revised OATT sheets (Attachment III);
5. A blacklined version of the revised OATT sheets (Attachment IV); and
6. The Affidavit of Dr. David B. Patton addressing the application of the Special Pricing Rules to the Linden VFT Scheduled Line (Attachment V).

II. Copies of Correspondence

Copies of correspondence concerning this filing should be addressed to:

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III. Background

A. Proxy Generator Buses and Scheduled Lines

A Proxy Generator Bus is a Generator Bus located outside the NYCA that is used by the NYISO to represent a typical bus in an adjacent Control Area for which Locational Based

Marginal Prices (“LBMPs”) are calculated. Prior to the NYISO’s implementation of Scheduled Lines, Proxy Generator Buses ordinarily represented and accounted for the entire intertie capability between the NYISO and a neighboring Control Area. Implementation of the Scheduled Line Tariff provisions has enabled the NYISO to move away from relying on a single Proxy Generator Bus to represent and account for its entire interchange capability with each of its neighboring Control Areas. The NYISO is now able, on a case-by-case basis, to implement transmission facility specific Proxy Generator Buses that can be used to segregate and schedule External Transactions (Imports, Exports and Wheels-Through) over specific transmission facilities that comprise a portion of the overall interchange capability between Control Areas. This enables Market Participants to schedule External Transactions at the Proxy Generator Bus that is associated with a Scheduled Line both in the Day-Ahead and Real-Time Markets and enables the NYISO’s operators to separately monitor each Scheduled Line and curtail transactions on the line, should such actions prove necessary to ensure reliable system operation.

Scheduled Lines are distinct scheduling paths for which the NYISO posts Total Transfer Capability (“TTC”) and Available Transfer Capability (“ATC”). Each Scheduled Line is associated with a distinct Proxy Generator Bus. Transmission facilities for which Scheduled Line treatment may be appropriate include so-called “controllable” facilities that give the transmission system operators a significant degree of control over the power that flows (or does not flow) over the facility. The capability to maintain the Scheduled Line actual interchange at the Desired Net Interchange (“DNI”), or within the tolerances dictated by Good Utility Practice, is a necessary prerequisite. In this case, Linden VFT will use three *variable frequency transformers*⁴ to maintain the actual interchange over the Linden VFT Scheduled Line consistent with the DNI that PJM and the NYISO set for the facility.

It is not possible to make a blanket determination as to the facilities for which Scheduled Line treatment is appropriate. Many factors other than the ability to control flows must be considered when deciding whether a particular transmission facility should be broken out from the larger Control Area interface as a Scheduled Line. Relevant factors include (but are not limited to) the following: (a) the desires of the neighboring Control Area that is interconnected with the NYCA via the transmission facility that is being considered for Scheduled Line treatment; (b) differences or inconsistencies between the tariffs and/or market rules of the neighboring Control Area that interconnects to the NYCA via the Scheduled Line and the NYISO’s Tariff requirements or market rules; (c) the ability of the neighboring Control Area to support the existence of multiple Proxy Generator Buses representing its interfaces with the NYCA; (d) the occurrence of significant unscheduled flows over the relevant facilities; (e) the existence of inter-Control Area agreements, grandfathered rights, or other contractual arrangements that might be complicated or disrupted by treating a particular transmission facility

⁴A *variable frequency transformer* is proprietary technology and terminology for a system which allows fast responding continuous bidirectional power flow control using a rotary transformer positioned by a drive system which adjusts the angle and speed of the rotary transformer. *Variable frequency transformers* provide real power flow control, similar to that of a conventional phase angle regulating transformer, in a continuously controllable manner.

as a Scheduled Line; (f) the identity of the entity that possesses operational control over the transmission facility; (g) the desires of the entity or entities that own and/or operate the transmission facility; and (h) differences from, or inconsistencies between, the tariff and/or market rules applicable to the transmission facility that is a candidate for becoming a Scheduled Line and the NYISO's Tariff requirements and market rules.

Certain of the Tariff revisions supporting the Linden VFT Scheduled Line are required because "physical" Advance Reservations, rather than economic bids, are expected to be used as the primary method of allocating the Linden VFT Scheduled Line's transmission capacity. The proposed Tariff revisions that are attached to this transmittal letter include provisions that are designed to enable the NYISO to accommodate the "physical" nature of reservations over the Linden VFT Scheduled Line. The NYISO's proposed Tariff revisions are nearly identical to Tariff revisions addressing the Cross-Sound and Neptune Scheduled Lines that the Commission has previously accepted.⁵ The NYISO's software design, likewise, accommodates the implementation of the Linden VFT Scheduled Line, which allocates transmission capacity primarily via Advance Reservations rather than economic bids.

Customers seeking transmission service at Proxy Generator Buses that are associated with Scheduled Lines are able to take advantage of the full range of scheduling options currently offered at other Proxy Generator Buses in the NYISO market, except that they are not able to schedule Pre-Scheduled Transactions. Pre-Scheduled Transactions may be scheduled in New York up to eighteen months in advance and hold a super-priority over other types of transaction requests. For these reasons, Pre-Scheduled Transactions are only approved if they satisfy an "n-2" (two contingency) transfer capability analysis. It is unlikely that a transaction that flows across a discrete set of transmission facilities (e.g., a Scheduled Line) could satisfy an n-2 transfer capability analysis and be scheduled because at least one of the two contingencies analyzed would almost certainly be the outage of the Scheduled Line itself.

B. The Linden VFT Scheduled Line

The "Linden VFT Project" consists of: (a) three 100 MW *variable frequency transformers*; (b) an air-cooled system for cooling the dielectric fluid circulated through the annular space surrounding an 8,500 foot radial 345 kV underground oil-filled cable that connects the Linden Cogeneration Facility, in Linden New Jersey to the Consolidated Edison Company of New York, Inc. ("Con Edison") transmission system (the "Existing Line");⁶ (c) a new 230 kV

⁵ See, *New York Independent System Operator, Inc.*, 111 FERC ¶ 61,238 (2005) (accepting the Tariff sheet modifications for the Cross-Sound Scheduled Line); and *New York Independent System Operator, Inc.*, Letter Order, Docket No. ER07-570-000 (April 17, 2007) (accepting Tariff sheet modifications, subject to a further compliance filing, for the Neptune Scheduled Line).

⁶ The portion of the Existing Line that is located in New Jersey is owned by Cogen Technologies Linden Venture, LP ("Linden Cogen"). Linden Cogen is an affiliate of Linden VFT. The portion of the Existing Line that is located in New York is owned by Con Edison.

three-breaker ring bus switchyard connecting the *variable frequency transformers* to PJM's transmission grid; and (d) approximately 1,000 feet of new 345 kV transmission cable connecting the Linden VFT Project to a spare breaker position in the Linden Cogeneration Facility's 345 kV ring bus.

The Linden VFT Project is owned by Linden VFT, LLC ("Linden VFT") and will be operated and scheduled by PJM pursuant to the terms and conditions of the PJM Open Access Transmission Tariff (including Section 38 - Service on Merchant Transmission Facilities and a separate service schedule that will pertain specifically to Linden VFT), the PJM Amended and Restated Operating Agreement, and the PJM Consolidated Transmission Owners Agreement. The Linden VFT Project will interconnect the Existing Line to the PJM transmission system and enable the 300 MW of new transfer capability to be offered to third parties on an open-access basis. All of the transmission capacity on the Linden VFT Scheduled Line has been allocated pursuant to an open season process approved by the Commission.⁷ Initially, the Linden VFT Scheduled Line will only support External Transactions from PJM to New York. Given sufficient notice, the NYISO expects that it will be able to support bi-directional External Transactions over the Linden VFT Scheduled Line using its existing software and the Tariff authority that is requested in this filing.⁸

As explained above, a regime of "physical" Advance Reservations will apply to the Linden VFT Scheduled Line. In order to accommodate implementation of the Linden VFT Scheduled Line several Tariff revisions and changes to the NYISO's market rules and operating practices must be made.

First, both the NYISO's Day-Ahead Market ("DAM") and Real-Time Market ("RTM") will close ten minutes early to bid submissions for External Transactions over the Linden VFT Scheduled Line. Market Participants desiring to submit bids to schedule External Transactions over the Linden VFT Scheduled Line in the New York DAM will be required to have: (a) an Advance Reservation on the Linden VFT node of the PJM OASIS; (b) a valid NERC E-Tag that specifically identifies the Advance Reservation that is supporting the proposed External Transaction; and (c) a bid submitted to the NYISO's Market Information System ("MIS") by 4:50 a.m., instead of 5:00 a.m., of the day prior to the Dispatch Day in question. Similar requirements will apply to bids seeking to schedule Real-Time External Transactions, which must be submitted at least eighty five minutes prior, instead of seventy five minutes prior, to the relevant dispatch hour.

⁷ See, *Linden VFT, LLC*, 119 FERC ¶ 61,066 (2007), *clarified*, 120 FERC ¶ 61,242 (2007) (accepting Linden VFT's Open Season process which sold all 300 MWs of transmission scheduling rights over the Linden VFT to four Market Participants).

⁸ See, *New York Independent System Operator, Inc.*, Letter Order, Docket No. ER07-570-000 (April 17, 2007) (accepting similar conditions upon initial implementation of the Neptune Scheduled Line).

Second, the NYISO must limit each NERC E-Tag that supports an External Transaction at the Proxy Generator Bus that is associated with the Linden VFT Scheduled Line, to referencing no more than one Linden VFT Scheduled Line Advance Reservation ID from the PJM OASIS. This requirement is necessary to permit the NYISO to programmatically search the PJM OASIS for an Advance Reservation and tie the Advance Reservation back to a New York MIS bid.

Third, Linden VFT and PJM will implement an Advance Reservation regime that limits reservations (and resulting schedules) over the Linden VFT Scheduled Line to 300 MW in each hour. The operation of the Advance Reservation process is explained in greater detail in the attached Affidavit of Dr. David B. Patton ("Affidavit"). The NYISO will only evaluate bids submitted by the holders of Advance Reservations, which can limit competition. The NYISO is thus proposing to apply the "Special Pricing Rules"⁹ to the Linden VFT Scheduled Line. The Linden VFT Scheduled Line should be subject to the Special Pricing Rules because, at times when a constraint on Imports or Exports over the Linden VFT Scheduled Line is binding (*i.e.*, the interface is congested), prices could diverge significantly from competitive price levels. As the Affidavit explains, the competitive concern arises because the Advance Reservation requirements can limit the competition among participants to provide real-time counterflow transactions or to cancel DAM schedules to resolve congestion on the Scheduled Line. In some circumstances, there may be only one Market Participant that can provide the necessary relief to resolve the congestion. Application of the Special Pricing Rules to the Linden VFT Scheduled Line will prevent gaming or the exercise of market power by Market Participants.

Fourth, because the Linden VFT Scheduled Line is under the operational control of PJM, the NYISO has determined that it will not derate the Linden VFT Scheduled Line based on system conditions in the PJM Control Area. The NYISO will leave these operating decisions to PJM. The NYISO will have authority to reduce transactions scheduled over the Linden VFT Scheduled Line to preserve the reliability of the New York system, such as when derating the Linden VFT Scheduled Line is necessary to prevent the imminent loss of a generation or transmission facility, or to prevent the loss of service to New York loads. Additional procedures governing responses to specific pre-contingency and contingency conditions and the exchange of information among the NYISO, PJM, Linden VFT, Linden Cogen, and Con Edison that address the special circumstances of the Linden VFT Scheduled Line will be set forth in a Joint Operating Protocol for the Linden VFT Interconnection ("Joint Operating Protocol"). Consistent with the expressed desire of its Management Committee, the NYISO will not permit the scheduling of External Transactions (including test energy) over the Linden VFT Scheduled Line until an acceptable and effective Joint Operating Protocol is in place, in order to ensure that the introduction of the Linden VFT Scheduled Line will not compromise reliability.

⁹ The Special Pricing Rules are set forth in Section I.F.3 of Attachment J to the OATT and Attachment B to the Services Tariff.

Fifth, to the extent possible, curtailments by the NYISO of External Transactions at the Proxy Generator Bus that is associated with the Linden VFT Scheduled Line will be based on the transmission priority of the associated Advance Reservation on the PJM OASIS and NERC transmission priority will be used to determine the order of curtailments. Firm or non-firm transactions that share the same NERC priority will be curtailed *pro rata*. Similar to its determination regarding the derating of the Linden VFT Scheduled Line for scheduling purposes, the NYISO will not curtail transactions over the Linden VFT Scheduled Line based on system conditions in PJM, or on the Linden VFT Scheduled Line itself, but may curtail transactions over the Linden VFT Scheduled Line when system conditions in New York require in-hour curtailment.

Sixth, where Linden VFT Scheduled Line transactions are reduced or eliminated because the Linden VFT Project facilities or the Existing Line are not available, parties that scheduled Imports to the NYCA at the Proxy Generator Bus that is associated with the Linden VFT Scheduled Line will not be eligible for compensation pursuant to Section 4.5(C)(2) of the Services Tariff, which provides compensation to Import transactions that are "Curtailed at the request of the [NYISO]." Because the NYISO does not operate or secure the Linden VFT Project facilities or the Existing Line, its actions will be consistent with Section 4.5(C)(2), no Tariff revision is needed to ensure this result.

IV. Description of Proposed Tariff Revisions

All of the NYISO's proposed Tariff revisions are consistent with similar Tariff revisions that were accepted for filing by the Commission to implement the Cross-Sound and Neptune Scheduled Lines.¹⁰ Specifically, the following modifications have been made to the OATT and Services Tariff:

A. Definitions

The NYISO is proposing to revise Article 2 of the Services Tariff, and Article 1 of the OATT, to include new, or modify existing, defined terms related to the implementation of Linden VFT as a Scheduled Line. The new or modified terms are: (i) "Advance Reservation" (OATT § 1.0b, Services Tariff § 2.1.2); (ii) "Linden VFT Scheduled Line" (OATT § 1.15i.1, Services Tariff § 2.88e); (iii) "Real-Time Bid" (OATT § 1.36d.1, Services Tariff § 2.153a); and (iv) "Scheduled Line" (OATT § 1.39d.02, Services Tariff § 2.161a).

The NYISO proposes to expand the term "Advance Reservation" to include reservations of transmission service over the Linden VFT Scheduled Line that must be obtained from the

¹⁰ See, *New York Independent System Operator, Inc.*, 111 FERC ¶ 61,238 (2005) (accepting the Tariff sheet modifications for the Cross-Sound Scheduled Line); and *New York Independent System Operator, Inc.*, Letter Order, Docket No. ER07-570-000 (April 17, 2007) (accepting Tariff sheet modifications, subject to a further compliance filing, for the Neptune Scheduled Line).

PJM OASIS in accordance with all applicable PJM tariff requirements. Linden VFT joins Cross-Sound, Neptune, Dennison, and Northport Norwalk on the list of "Scheduled Lines." The definition of a Real-Time Bid notes that bids seeking to schedule External Transactions at the Proxy Generator Bus that is associated with the Linden VFT Scheduled Line must be submitted no later than eighty-five minutes prior to the operating hour (same as the Cross-Sound and Neptune Scheduled Lines).

B. Body of the OATT

In addition to the definitions identified above, proposed revisions to the body of the OATT are as follows:

- a. A reference in the Preamble to Section II stating that the requirements of Attachment N to the Services Tariff shall apply to External Transactions at the Proxy Generator Bus that is associated with the Linden VFT Scheduled Line; and
- b. A statement in Section 13.6 indicating that Curtailment of External Transactions at the Proxy Generator Bus that is associated with the Linden VFT Scheduled Line shall be based on the transmission priority of the appropriate associated Advance Reservation. Where possible, the NERC transmission priority of the associated Advance Reservation will be used to determine the order of curtailments. Firm or non-firm transactions that share the same NERC priority will be curtailed *pro rata*. The proposed language conforms to the language that is already in place for the Cross-Sound and Neptune Scheduled Lines.

C. Body of the Services Tariff

In addition to the definitions identified above, proposed revisions to the body of the Services Tariff are as follows:

- a. Modification of Section 4.2.2(A) to provide that Eligible Customers seeking to schedule External Transactions in the DAM at the Proxy Generator Bus that is associated with the Linden VFT Scheduled Line must submit their transactions by 4:50 a.m.; and
- b. Modification of Section 4.4.2(B) to note that bids seeking to schedule External Transactions at the Proxy Generator Bus that is associated with the Linden VFT Scheduled Line must be submitted no later than eighty-five minutes prior to the operating hour. Bids must be submitted ten minutes earlier than usual in order to permit the NYISO to perform a programmatic query of the relevant portions of the PJM OASIS to ensure that the proposed External Transactions over the Linden VFT Scheduled Line are adequately supported by Advance Reservations.

D. Services Tariff Attachment B and OATT Attachment J

Sections I.F.3 of Services Tariff Attachment B and OATT Attachment J have been revised to designate the Proxy Generator Bus that is associated with the Linden VFT Scheduled Line as being subject to the Special Pricing Rule. As was discussed in Section III.B of this transmittal letter, the Affidavit explains the need to apply the Special Pricing Rules to the Linden VFT Scheduled Line.

Additionally, Section III.3.6 of Services Tariff Attachment B and Section III.5.0 of OATT Attachment J have been modified to:

- a. Repeat the language contained in Section 13.6 of the body of the OATT addressing the curtailment of schedules over the Linden VFT Scheduled Line; and
- b. State that the requirements of Attachment N to the Services Tariff will apply to External Transactions at the Proxy Generator Bus that is associated with the Linden VFT Scheduled Line.

E. Attachment N to Services Tariff

A set of rules addressing the scheduling of transactions at the Proxy Generator Buses associated with the Cross-Sound and Neptune Scheduled Lines are set forth in Attachment N to the NYISO's Services Tariff. The NYISO proposes to modify the provisions of Attachment N so that they apply to the Linden VFT Scheduled Line as well as the Cross-Sound and Neptune Scheduled Lines.

F. Ministerial Modifications

The NYISO is also proposing several ministerial modifications to correct internal references in Services Tariff Attachment B and OATT Attachment J. Additionally, Services Tariff Article 2, Section 2.1.2 and OATT Article 1, Section 1.0b have been modified to provide that a right to schedule transmission services over the Neptune Scheduled Line is now obtained in accordance with Section 38, not Section 44B, of the PJM OATT.

V. Requested Effective Date

The NYISO respectfully requests that the Commission permit its proposed Tariff revisions to become effective sixty days after the date of this filing, *i.e.*, on June 9, 2009. The NYISO anticipates that all necessary arrangements will be in place for it to implement the Linden VFT Scheduled Line at some point in June. However, consistent with the expressed desire of its Management Committee as evidenced in the Management Committee's February 25, 2009 motion, the NYISO will not permit the scheduling of External Transactions (including test energy) over the Linden VFT Scheduled Line until an acceptable and effective Joint Operating

Protocol is in place, in order to ensure that the introduction of the Linden VFT Scheduled Line will not compromise reliability.

From the date that the proposed Tariff revisions become effective to the date that the NYISO implements the Linden VFT Scheduled Line, the NYISO will ordinarily post TTC and ATC of zero for the facility, indicating that it is not available.¹¹ The NYISO commits to provide at least two weeks notice to the Commission, to PJM, and to all Market Participants before it fully implements the Linden VFT Scheduled Line in its markets.

VI. Stakeholder Review

On February 25, 2009, a motion authorizing the NYISO to file the attached Tariff revisions was unanimously approved by the NYISO's Management Committee. The Management Committee's motion included a condition that the Linden VFT Scheduled Line not be permitted to transmit power until an effective Joint Operating Protocol is in place.

VII. Service

The NYISO will electronically send a link to this filing to the official representative of each of its customers, to each participant on its stakeholder committees, to the New York Public Service Commission, and to the electric utility regulatory agencies of New Jersey and Pennsylvania. In addition, the complete filing will be posted on the NYISO's website at www.nyiso.com. The NYISO will also make a paper copy available to any interested party that requests one. To the extent necessary, the NYISO requests waiver of the requirements of Section 35.2(d) of the Commission's Regulations¹² to permit it to provide service in this manner.

VIII. Conclusion

WHEREFORE, for the foregoing reasons, the NYISO respectfully requests that the Commission accept for filing the proposed Tariff modifications that are attached hereto and grant

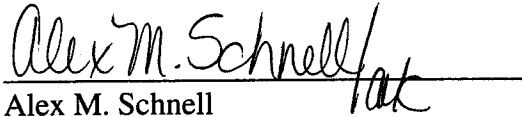
¹¹ The NYISO may post an ATC or TTC greater than zero following the effective date of the proposed Tariff revisions attached hereto, but prior to full market implementation of the facilities in order to test the new Scheduled Lines and associated Proxy Generator Bus. During scheduled tests the NYISO will post a notice on its website that, while prices are being posted for the Proxy Generator Bus that is associated with the Linden VFT Scheduled Line, it is not available for the submission of market transactions. Transactions that are not part of the approved test schedule will be rejected or cut.

¹² 18 C.F.R. § 35.2(d) (2009).

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any waivers that may be required to permit the NYISO to provide service in the manner described in Section VII hereof.

Respectfully submitted,

A handwritten signature in cursive script that reads "Alex M. Schnell". The signature is written over a horizontal line.

Alex M. Schnell
New York Independent System Operator, Inc.