

February 17, 2009

**ELECTRONICALLY SUBMITTED**

Kimberly D. Bose  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, D.C. 20426

Re: New York Independent System Operator, Inc.'s 90 Day Report On Efforts to Develop Long-Term Solutions To Lake Erie Circulation and Inter-ISO/RTO Congestion Management Processes In Docket No. ER09-198-\_\_\_\_.

Dear Secretary Bose:

In accordance with paragraph 20 and ordering paragraph "B" of the Federal Energy Regulatory Commission's ("Commission's") November 17, 2008 Order in Docket Nos. ER09-198-000 and 001 ("November Order")<sup>1</sup>, the New York Independent System Operator, Inc. ("NYISO"), hereby submits this *90 Day Report On Efforts to Develop Long-Term Solutions To Lake Erie Circulation and Inter-ISO/RTO Congestion Management Processes* ("Report"). Consistent with the Commission's instructions, this Report describes the NYISO's efforts to work toward developing a long-term solution to unscheduled, circulating power flows around Lake Erie (hereafter, for purposes of this report, "Loop Flows"), and to address the largely unrelated topic of implementing a congestion management regimen at the border between the New York Control Area ("NYCA") and the Control Area operated by PJM Interconnection, LLC ("PJM").

Loop Flows around Lake Erie were a concern decades before the NYISO came into existence. To date, no successful method of resolving them has been identified. The NYISO is not prepared to recommend a solution to Lake Erie Loop Flow in this Report. Rather, this Report focuses on describing the NYISO's efforts to begin discussions with its stakeholders, and with its neighboring ISOs and RTOs, to identify solutions that may ultimately permit the ISOs and RTOs around Lake Erie to adequately address or mitigate the impact of Lake Erie Loop Flows. Consistent with the Commission's instructions, this Report also addresses the NYISO's ongoing efforts to engage PJM and its stakeholders in discussions regarding the development of a joint congestion management process with PJM.

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<sup>1</sup> *New York Independent System Operator, Inc.*, 125 FERC ¶ 61,184.

## **I. Reporting Obligation**

After encouraging the operation of the Michigan/Ontario phase angle regulators (“PARs”) to align actual power flows with schedules at the border between the Midwest Independent System Operator, Inc. (“MISO”) and the Independent Electricity System Operator of Ontario (“IESO”), paragraph 20 of the Commission’s November Order instructed the NYISO to:

...work with its market participants, NERC, and neighboring RTOs to develop potential solutions to the loop-flow problem through a collaborative process. Moreover, while PJM states that it has had only limited success in discussing congestion management procedures, the Commission directs parties to continue to address these matters on a comprehensive basis. Accordingly, the Commission directs the NYISO, within 90 days of the date of this order, to file a status report on its progress in developing solutions to the loop flow problem, including an inter-RTO congestion management process.

Consistent with the quoted provisions of paragraph 20, ordering paragraph (B) of the November Order instructed the NYISO to “file a status report 90 days from the date of this order on the development of solutions to the loop flow problem and inter-RTO congestion management processes.” This Report is submitted in compliance with the Commission’s instructions.

## **II. Activities the NYISO Has Undertaken To Address Lake Erie Loop Flows and Related Stakeholder Concerns**

### **A. Stakeholder Discussions**

Since November of 2008, the NYISO has provided the following information and engaged in the following discussions with its stakeholders that are directly or indirectly related to Lake Erie Loop Flow concerns. In each instance where the discussions with stakeholders included a presentation by the NYISO, the NYISO includes a link to its presentation in the footnotes to this Report.

1. On November 3, 2008 the NYISO gave a presentation to its Market Issues Working Group (“MIWG”) addressing a request by numerous stakeholders that the NYISO propose additional Tariff rules to clarify that violations of the Commission’s regulations addressing electric market manipulation,<sup>2</sup> and/or violations of the Commission’s market behavior rules<sup>3</sup> that apply to jurisdictional sellers, also violate the NYISO’s Tariffs. The

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<sup>2</sup> 18 CFR § 1c.2 (2008).

<sup>3</sup> 18 CFR § 35.41 (2008).

NYISO's presentation clarified the scope of the Commission's remedial authority in the context of discussing a Tariff revision proposed by a stakeholder.<sup>4</sup>

2. On December 16, 2008 the NYISO presented the first in a series of discussions on Long Term Solutions to Loop Flow Concerns to its MIWG members.<sup>5</sup> The presentation provided numerous examples of various types of transactions that could have been, or were scheduled around Lake Erie. In discussing the examples, the NYISO explained (a) how each type of transaction appeared to the NYISO (which schedules and flows were visible to the NYISO), (b) how each type of transaction affected the NYCA before the Commission authorized the NYISO to preclude scheduling over the eight circuitous scheduling paths, and (c) how the NYISO priced the transactions using its existing pricing method.

3. On December 16, 2008 the NYISO also presented a report to its MIWG addressing the effectiveness of transaction scheduling in the NYISO's Real-Time Market at the Keystone Proxy Generator Bus that represents an interface between the NYCA and the PJM Control Area. This report was a follow-up on two earlier reports that the NYISO presented to the MIWG on September 5, 2008 and October 10, 2008, addressing the effectiveness of transaction scheduling in the NYISO's Real-Time Markets at the Sandy Pond Proxy Generator Bus that represents an interface between the NYCA and the ISO New England Control Area.<sup>6</sup> The focus of this series of reports is to look at the ability of the NYISO's Real-Time Commitment ("RTC") software, which schedules External Transactions based on its expectation of conditions for the upcoming hour, to foresee real-time system conditions. The NYISO does not consider these presentations relevant to solving the problem posed by Lake Erie Loop Flows.<sup>7</sup> However, a small number of the NYISO's stakeholders have taken the position that these presentations may inform the NYISO's efforts to develop a long-term solution to Lake Erie Loop Flows. The NYISO plans to discuss the proposal advocated by these stakeholders at its March MIWG meeting.

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<sup>4</sup> [http://www.nyiso.com/public/webdocs/committees/bic\\_miwg/meeting\\_materials/2008-11-03/MIWGpresent.pdf](http://www.nyiso.com/public/webdocs/committees/bic_miwg/meeting_materials/2008-11-03/MIWGpresent.pdf)

<sup>5</sup> [http://www.nyiso.com/public/webdocs/committees/bic\\_miwg/meeting\\_materials/2008-12-16/scheduling\\_modeling\\_practices\\_lt\\_solutions.pdf](http://www.nyiso.com/public/webdocs/committees/bic_miwg/meeting_materials/2008-12-16/scheduling_modeling_practices_lt_solutions.pdf)

<sup>6</sup> [http://www.nyiso.com/public/webdocs/committees/bic\\_miwg/meeting\\_materials/2008-09-05/RT\\_Rules\\_Assessment\\_RTC\\_RTD.pdf](http://www.nyiso.com/public/webdocs/committees/bic_miwg/meeting_materials/2008-09-05/RT_Rules_Assessment_RTC_RTD.pdf)

[http://www.nyiso.com/public/webdocs/committees/bic\\_miwg/meeting\\_materials/2008-10-10/Real-Time\\_Rules\\_Assessment.pdf](http://www.nyiso.com/public/webdocs/committees/bic_miwg/meeting_materials/2008-10-10/Real-Time_Rules_Assessment.pdf)

[http://www.nyiso.com/public/webdocs/committees/bic\\_miwg/meeting\\_materials/2008-12-16/Real-Time\\_Rules\\_Assessment\\_MIWG\\_-\\_2008-12-16\\_rtc\\_rtd\\_v3.ppt](http://www.nyiso.com/public/webdocs/committees/bic_miwg/meeting_materials/2008-12-16/Real-Time_Rules_Assessment_MIWG_-_2008-12-16_rtc_rtd_v3.ppt)

<sup>7</sup> The NYISO's analysis has not identified Loop Flows as a significant contributor to divergences between RTC External Transaction schedules and real-time system conditions. The NYISO's analysis indicates that the major contributors to such divergence are unexpected real-time events that are difficult or impossible to forecast, such as in-hour transaction curtailments, facility losses or thunderstorm alerts.

4. On January 27, 2009 the NYISO provided to stakeholders its first Balancing Market Congestion Residual Report covering the month of December 2008. The report is included as the last three pages of the NYISO President's Report for January 2009.<sup>8</sup> The report identifies the causes of certain categories of uplift costs affecting the NYCA. Balancing market congestion residuals are the difference between the congestion monies collected and disbursed by the NYISO for financial settlement of the Real-Time Market. "Positive" balancing market congestion residual values indicate an under-collection and primarily reflect the cost of the resources that are needed in real-time when the transfer capability that is available in real-time is less than was expected in the Day-Ahead Market. The report is prepared by the newly constituted Operations Analysis & Services Group in the NYISO's Operations Department that is tasked with daily review and evaluation of day-ahead and real-time market outcomes, including review of uplift charges, to identify unusual or inefficient market outcomes. The Balancing Market Congestion Residual Report was created in response to stakeholder requests for greater transparency regarding the causes of uplift. The second report, covering January 2009, will be provided to the NYISO's Management Committee in time for its February 25, 2009 meeting.

5. On February 6, 2009 the NYISO presented the second in a series of discussions on Long Term Solutions to Loop Flow Concerns to its MIWG members.<sup>9</sup> The second presentation examined the potential benefits of changing the NYISO's pricing method for External Transactions to contract sink pricing, a change that the NYISO was asked to consider by certain of its stakeholders.

6. On February 6, 2009 the NYISO also returned to the MIWG to present proposed Tariff revisions that were developed at the request of its stakeholders to clarify that violations of the Commission's regulations addressing electric market manipulation and violations of the Commission's market behavior rules that apply to jurisdictional sellers, also violate the NYISO's Tariffs.<sup>10</sup> The NYISO received comments from its stakeholders regarding its proposed Tariff revisions and plans to return to its stakeholders with a modified proposal after considering the comments it received.

The above list of Lake Erie Loop Flow-related activities indicates that the NYISO is diligently working to identify opportunities to better manage the Lake Erie Loop Flow problem.

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<sup>8</sup> [http://www.nyiso.com/public/webdocs/committees/mc/meeting\\_materials/2009-01-27/Presidents\\_MC\\_Rpt\\_01.27.09.pdf](http://www.nyiso.com/public/webdocs/committees/mc/meeting_materials/2009-01-27/Presidents_MC_Rpt_01.27.09.pdf)

<sup>9</sup> [http://www.nyiso.com/public/webdocs/committees/bic\\_miwg/meeting\\_materials/2009-02-06/Scheduling\\_and\\_Modeling\\_Practices.pdf](http://www.nyiso.com/public/webdocs/committees/bic_miwg/meeting_materials/2009-02-06/Scheduling_and_Modeling_Practices.pdf)

<sup>10</sup> [http://www.nyiso.com/public/webdocs/committees/bic\\_miwg/meeting\\_materials/2009-02-06/Tariff\\_Remedies.pdf](http://www.nyiso.com/public/webdocs/committees/bic_miwg/meeting_materials/2009-02-06/Tariff_Remedies.pdf)

## **B. Scheduled Meeting with PJM and its Market Monitor to Discuss External Pricing and Scheduling Issues**

In addition to the discussions that occurred in the NYISO's stakeholder process that are described above, in March the NYISO (including representatives from both its internal Market Monitoring Department and its Market Advisor) has scheduled a face-to-face meeting with PJM and its Market Monitor to discuss the benefits and detriments of various possible methods of pricing and scheduling External Transactions. Once the NYISO and PJM are able to discuss and, hopefully, reach agreement regarding the benefits and detriments of various alternatives for external transaction pricing and scheduling, the NYISO plans to invite all of the ISOs and RTOs that surround Lake Erie, plus ISO New England, to a meeting to discuss inter-Control Area transaction pricing and scheduling practices.<sup>11</sup> In order to keep its meetings with neighboring ISOs and RTOs tightly focused, the NYISO has not yet attempted to schedule a meeting that both the ISOs/RTOs and their stakeholders are invited to attend. The NYISO anticipates scheduling broader meetings that include representatives of both its neighboring ISOs/RTOs and interested stakeholders in the third quarter of this year.

## **III. Implementation of a Joint NYISO/PJM Congestion Management Regime Will Not Solve the Lake Erie Loop Flow Problem**

On page 4 of the Comments that PJM submitted in Docket No. ER09-198-001 on November 10, 2008 PJM suggested that the coordinated congestion management proposal it is in the process of negotiating with the NYISO presents a "comprehensive solution" to address unscheduled circulating power flows around Lake Erie. PJM's suggestion vastly overstated both the scope and purpose of its coordinated congestion management proposal. The congestion management proposal that PJM is discussing with the NYISO is limited to redispatching internal NYCA generation or PJM Control Area generation to address power flows affecting transmission constraints in the neighboring (other) Control Area. While redispatching New York generation can, under some circumstances, relieve transmission congestion in PJM's Control Area (or *vice-versa*), the scope of relief that is provided under PJM's congestion management proposal would be limited to relieving congestion on specified transmission facilities. The congestion management proposal is neither designed nor intended to address unscheduled power flows that result from interregional transaction scheduling around Lake Erie. That said, the NYISO agrees with PJM that there are market efficiencies to be gained by implementing a joint congestion management proposal and the NYISO is working with PJM to develop a mutually acceptable method of implementing congestion management at the NYCA/PJM Control Area border.

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<sup>11</sup> Members of the NYISO's internal Market Monitoring Department and other members of the NYISO staff have informally discussed inter-Control Area transaction scheduling and pricing issues with employees of ISOs and RTOs other than PJM since the Commission issued its November Order.

#### **IV. NYISO Efforts to Work with PJM to Develop a Joint Congestion Management Process**

Although the NYISO does not expect that the development and implementation of a joint congestion management process with PJM presents a viable long-term solution to the Lake Erie Loop Flow problem, implementing a joint congestion management process could benefit both the New York and PJM Control Areas. The NYISO is working with PJM to develop a mutually acceptable congestion management process and has engaged its stakeholders in discussions regarding the parties' negotiations.

1. On December 12, 2008 NYISO representatives met via teleconference with PJM representatives to discuss how settlements associated with a joint congestion management protocol would work, as well as to further discuss the parties' differing views on the concept of entitlements to use the neighboring transmission system. At the meeting, PJM and the NYISO agreed that additional data on market flows was necessary to inform the entitlements discussion. A follow-up meeting was proposed to discuss in greater detail the data elements needed to perform market flow calculations.

2. An overview of the concepts involved in the NYISO/PJM Congestion Management Process was presented to the NYISO's MIWG on December 16, 2008.<sup>12</sup> It described the procedure that the NYISO and PJM are in the process of negotiating, provided an example of how the process might work, and identified "sticking points" in the ongoing negotiations.

3. On February 4, 2009 the NYISO met via teleconference with PJM representatives to discuss the method and technologies that PJM and the MISO use to calculate market flow, which is an essential element of their joint congestion management process. The NYISO and PJM representatives reviewed the data elements PJM uses and the reasons that PJM and MISO rely on particular data elements to determine the market flow. A timeline for scheduling a series of subsequent meetings was also discussed. Issues that the NYISO is following up on after the meeting include determining the methodology for the NYISO/PJM market flow calculation, and technical issues related to calculation of the market flow and storing the necessary data. The NYISO has agreed to schedule a follow-up call with PJM next month to discuss sharing of data and whether any Tariff revisions will be necessary to permit the necessary data sharing arrangements.

4. On February 12, 2009 the NYISO held a Technical Conference for its stakeholders at its facility in Rensselaer, New York, in which representatives of PJM, the Midwest Independent Transmission System Operator ("MISO"), IESO and ISO-New England

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<sup>12</sup> [http://www.nyiso.com/public/webdocs/committees/bic\\_miwg/meeting\\_materials/2008-12-16/MIWG\\_CongestionMgtProcess\\_121608.pdf](http://www.nyiso.com/public/webdocs/committees/bic_miwg/meeting_materials/2008-12-16/MIWG_CongestionMgtProcess_121608.pdf)

participated. The Technical Conference included a presentation by PJM and MISO representatives on how their congestion management process works.<sup>13</sup> The NYISO then gave a presentation describing the congestion management process that is being developed in its negotiations with PJM.<sup>14</sup> The NYISO's presentation described the primary sticking points in the parties' negotiations. Stakeholders were given the opportunity to pose questions to representatives of all participating ISOs and RTOs. A primary purpose of the technical conference was to educate the NYISO's stakeholders on the congestion management process, and on the areas where the NYISO and PJM were having difficulty reaching agreement in their negotiations.

As is clear from the above list of activities, the NYISO is participating in earnest in technical discussions and negotiations with PJM to develop a mutually acceptable congestion management process that is likely to benefit both the New York and PJM Control Areas.

## **V. Service**

The NYISO will electronically send a copy of or link to this filing to every party included on the Secretary's official service list in Docket Nos. ER08-1281-000 and ER09-198-000, 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](http://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 the Commission's Regulations to permit it to provide service in this manner.

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<sup>13</sup> [http://www.nyiso.com/public/webdocs/committees/bic\\_icapwg/meeting\\_materials/2009-02-12/PJM\\_MISO\\_NYSIO\\_Stakeholder\\_Meeting\\_Marekt\\_to\\_Market\\_Overview.pdf](http://www.nyiso.com/public/webdocs/committees/bic_icapwg/meeting_materials/2009-02-12/PJM_MISO_NYSIO_Stakeholder_Meeting_Marekt_to_Market_Overview.pdf)

<sup>14</sup> [http://www.nyiso.com/public/webdocs/committees/bic\\_icapwg/meeting\\_materials/2009-02-12/Congestion\\_Management\\_Process\\_21209.pdf](http://www.nyiso.com/public/webdocs/committees/bic_icapwg/meeting_materials/2009-02-12/Congestion_Management_Process_21209.pdf)

## **VI. Conclusion**

The NYISO respectfully requests that the Commission accept this Report as satisfying the requirements set forth in the Commission's November Order.

Respectfully submitted,

*/s/ Alex M. Schnell*

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February 17, 2009



## CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service lists compiled by the Secretary in this proceeding in accordance with the requirements of Rule 2010 of the Rules of Practice and Procedure, 18 C.F.R. § 385.2010.

Dated at Rensselaer, New York this 17<sup>th</sup> day of February, 2009.

/s/ Alex M. Schnell

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