

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

New York Independent System Operator, Inc.)

Docket No. ER03-836-004

**NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.’S MOTION TO
TEMPORARILY DEFER ADDITIONAL DEVELOPMENT WORK RELATED TO A
“NON-BID BASED SELF-SUPPLY” OPTION FOR OPERATING RESERVE**

Pursuant to Rule 212 of the Commission’s Rules of Procedure, the New York Independent System Operator, Inc. (“NYISO”), respectfully requests a temporary deferral of the schedule set forth in its July 6, 2004 compliance filing (“July schedule”) in this proceeding for the implementation of a non-bid based self-supply option for Operating Reserve. The NYISO submitted its proposed schedule in compliance with the Commission’s May 7, 2004 *Order on Rehearing* (“May 7 Order”)¹ in this proceeding. The requested deferral is the result of extensive discussions between the NYISO and its Market Participants and has been unanimously endorsed with abstentions by the NYISO’s Management Committee.

¹ *New York Independent System Operator, Inc.*, 107 FERC ¶ 61,129 (2004).

I. Copies of Correspondence

Copies of correspondence concerning this motion should be served on:

Robert E. Fernandez, General Counsel and Secretary
Mollie Lampi, Assistant General Counsel
Elaine Robinson, Acting Director of Regulatory Affairs
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II. Service List

The NYISO has electronically served this filing upon the official representative of each of its customers, on each participant in its stakeholder committees, and on the New York State Public Service Commission. The NYISO has also served a copy of the filing on the electric utility regulatory agencies in New Jersey and Pennsylvania. A copy of this filing will also be posted on the NYISO's website.

III. Background

The May 7 Order directed the NYISO to file a schedule for providing its Market Participants with the option to self-supply all or a portion of their Operating Reserve requirements from qualified units without being required to bid into the NYISO markets (“reserves self-supply”).² While acknowledging that the market for non-synchronous reserves

² May 7, Order at P. 10. Unless otherwise specified, capitalized terms have the meanings specified in the NYISO's Market Administration and Control Area Services Tariff.

(“NSR”) had improved, the Commission noted “the potential lack of competitive alternatives,” for NSR and reiterated its commitment to the principle that “a market participant should have the option of self-supplying without bidding [into the NYISO markets], when it believes it can self-supply at a lower cost than the NYISO.”³ Citing its belief that reserves self-supply would not harm other customers, the Commission directed the NYISO to provide customers with a self-supply option within a reasonable time period, but did not require the NYISO to delay implementation of its real-time system (“RTS”). The Commission also noted that RTS “will include a self-supply option.”⁴

The previously submitted July schedule indicated that a reserves self-supply option could be in place 150 days after the implementation of post-RTS enhancements. In July, 2004, when the July schedule was submitted, RTS was scheduled to be implemented November 1, 2004 and post-RTS enhancements were limited to the addition of an option to allow non-dispatchable generators to request that their schedules be set on a fifteen-minute basis.⁵ Several events, including a delay in RTS implementation and a subsequent Commission decision requiring an additional post-RTS enhancement, have rendered the July schedule obsolete. For these and other reasons, as discussed more fully herein, the NYISO is requesting

³ *Id.*

⁴ *Id.* at PP. 10 and 5.

⁵ See *Compliance Filing and Notice of Implementation of the New York Independent System Operator*, (March 12, 2004).

that the next stage in the development and implementation of a reserves self-supply option be deferred until the third quarter of 2005.⁶

IV. Revised Schedule

The NYISO is requesting this deferral for two reasons: (i) delayed implementation of RTS (currently scheduled to go-live February 1, 2005) and additional post-RTS project deployments require a revision in the July schedule; and (ii) the Market Participants, by a unanimous vote of the Management Committee on November 10, 2004, requested that the NYISO delay its reserves self-supply development and design efforts until at least September 1, 2005.

The NYISO originally scheduled reserves self-supply to become effective September 1, 2005, or 150 days after implementation of fifteen-minute scheduling, based on an RTS go-live date of November 1, 2004 and a single post-RTS enhancement. The three-month delay in RTS implementation would require a similar three-month extension in the reserves self-supply implementation date. However, the Commission's August 10, 2004 order requiring the NYISO to pursue a second post-RTS enhancement within 150 days of RTS implementation complicates NYISO's ability to implement reserves self-supply even on a three-month extended schedule.⁷

⁶ See *Revised Table*, at p. 8, *infra*.

⁷ 108 FERC ¶61,188 (August order). The second post-RTS enhancement requires that the NYISO modify its software to allow greater bidding and scheduling flexibility for combined cycle generation units.

In its Request for Rehearing and Clarification of the August order, the NYISO requested permission to initiate fifteen-minute scheduling 150 days after RTS implementation and to delay implementation of the combined cycle modeling enhancement for at least 150 days following implementation of the fifteen-minute scheduling option.⁸ The Commission has not yet acted on that request.

Whatever the Commission's decision on the NYISO's Request for Rehearing and Clarification, however, the need to involve development and design personnel on the project to pursue combined cycle modeling in mid-2005 would require the NYISO to delay completion of the reserves self-supply FRS, currently scheduled for March, 2005, to no earlier than October 1, 2005.⁹ More importantly, the Market Participants have requested that the NYISO delay further development work on the reserves self-supply option until at least the third quarter of 2005 to give them an opportunity to evaluate reserves pricing and availability under RTS.

At an August 4, 2004 Scheduling and Pricing Working Group ("S&P WG"), the NYISO provided its preliminary design of a reserves self-supply option to the market Participants.¹⁰ Market Participants and the NYISO also discussed (i) transmission optimization

⁸ *Request for Rehearing of the New York Independent System Operator, Inc.* (September 9, 2004).

⁹ See *Revised Table* at p. 8, *infra*.

¹⁰ Further information is available at: http://mdex.nyiso.com/Committees?id=15&com=Scheduling%20and%20Pricing%20Working%20Group&dir=1bf320_fe1152c3bf_-7fd60a03015d. Discussions began at the May 10, 2004 Joint meeting of the Market Structures Working Group and the Scheduling and Pricing Working Group.

which would facilitate greater use of Western New York reserves supply and (ii) reserves cost redistribution, a major driver of earlier Market Participant interest in the reserves self-supply option.

By the October 8, 2004 Scheduling and Pricing Working Group meeting, it had become clear that implementation of even the simplest of non-bid based self-supply solutions would not be trivial. Both design development and software coding costs could be significant and could require a delay in other market improvements. Discussions also revealed a general perception among NYISO staff and Market Participants that the risk of a reserve market failure was remote. In addition, NYISO and its Market Participants were in general agreement that the risk of expensive locational Operating reserve prices had become insignificant.

Several Market Participants had actively sought a self-supply option for acquiring operating reserves to avoid a potential exposure to expensive locational Operating Reserve costs. However, Market Participant observations and NYISO research has revealed that the difference in cost between Western, Eastern, NYC and Long Island reserves has been insignificant.¹¹ The NYISO also examined the historical shadow prices associated with reserve constraints to determine the likely effect of RTS reserve pricing logic on East/West reserve price differentials. No increase in reserve price differentials was observed. Thus the threat of an exposure to expensive locational Operating Reserve costs also appears to be nearly non-existent.

¹¹ See “Reserve Optimization Cost Savings” at: http://mdex.nyiso.com/Committees?id=15&com=Scheduling%20and%20Pricing%20Working%20Group&dir=1bf320_fe1152c3bf_-7fd60a03015d

Following general concurrence with these sentiments at the Business Issues Committee meeting October 27, 2004, the Management Committee voted (unanimously, with abstentions, at its November 10, 2004 meeting) to request that the Commission accept a revised schedule which would defer all remaining preliminary work on the reserves self-supply option until after RTS had been in place for the summer months of 2005. By the close of the 2005 summer season, the Market Participants believed that they would be able to analyze whether the insignificant price differential among locational reserves they had observed pre-RTS implementation had held in RTS. As well, the NYISO could evaluate how robust the Operating Reserve market was in terms of locational diversity and price.

The Management Committee also requested the NYISO to inform FERC that the NYISO may make a filing in the third quarter of 2005 addressing the implementation of a physical self-supply option or an alternative market mechanism for New York's markets. Tariff amendments may be necessary to memorialize this sentiment. The text of the NYISO Management Committee Motion is attached as Attachment II.

Therefore, the NYISO hereby submits a schedule deferring all further work on implementation of a reserves self-supply option until the third quarter 2005 and requests that the Commission accept it. By the close of the third quarter, 2005, the NYISO will file either a revised schedule showing that work has resumed and providing a new in-service date for reserve self-supply, or a filing further addressing the implementation of a self-supply option in the New York market.

V. Revised Timetable Setting Forth a Schedule for Implementation of a Non-Bid Based Operating Reserves Self-Supply Option.

DATE	Activity
May, 2004 COMPLETE	Discussions began on providing an option allowing LSEs to self-supply reserves without being required to offer the resource in the NYISO markets.
September, 2004 COMPLETE	Further Market Participant discussions and initial development of a Concept of Operations.
No earlier than October 1, 2005	Finalize the self-supply Concept of Operations with Market Participants and begin development of the Functional Requirements Specification ("FRS")
Deferred	Submit self-scheduling tariff changes to FERC
Deferred	IT Software development resources available to begin implementation.
Deferred	Software development and testing complete, begin final Quality Assurance testing.
Deferred	Production Software Deployment

VI. Federal Register Notice

A form of *Federal Register* Notice is attached as Attachment III hereto. In addition, the *Federal Register* Notice has been provided in Microsoft Word format on the attached diskette.

VII. Conclusion

WHEREFORE, for the foregoing reasons, the New York Independent System Operator, Inc. respectfully requests that the Commission grant the relief requested in this motion and endorse the revised schedule set forth above.

Respectfully submitted,



Mollie Lampi
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New York Independent System Operator, Inc.
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518-356-7530

January 14, 2005
Attachments

ATTACHMENT I

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

New York Independent System Operator, Inc.

Docket Nos. ER03-836-004

NOTICE OF FILING

Take notice that on January 14, 2005, the New York Independent System Operator, Inc. (“NYISO”) submitted a motion requesting a temporary deferral of the compliance schedule in the above-captioned proceeding.

The NYISO has served a copy of this filing to all parties on the official service list in this proceeding, including 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, N.E., Washington, D.C. 20426, in accordance with Rules 211 and 214 of the Commission’s Rules of Practice and Procedure (18 CFR §§ 385.211 and 385.214). All such motions or protests should be filed on or before the comment date. This filing is available for review at the Commission or may be viewed on the Commission’s website at www.ferc.gov, using the eLibrary (FERRIS) link. Enter the docket number excluding the last three digits in the docket number filed to access the document. For assistance, call (202) 502-8222 or TTY, (202) 208-1659. Protests and interventions may be filed electronically via the Internet in lieu of paper. *See*, 18 CFR 385.2001(a)(1)(iii) and the instructions on the Commission’s Web site under the “e-filing” link. The Commission strongly encourages electronic filings.

Comment Date:

Magalie R. Salas
Secretary

ATTACHMENT II

NYISO Management Committee Meeting

November 10, 2004

Albany, NY

MOTIONS FROM THE MEETING

Motion #3:

The Management Committee requests NYISO staff to inform the FERC of the conclusions and recommendations contained in this presentation and advise the FERC that it is deferring the schedule for implementing a physical self supply option. The Committee also recommends that the NYISO further inform the FERC that the NYISO may be making a filing in the third quarter of 2005 addressing the implementation of a physical self supply option in New York's markets or the implementation of alternative market mechanisms.

(Motion passed unanimously by show of hands with abstentions)

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in the above-captioned proceeding in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.2010 (2004). I have also served a copy of this filing upon the New York State Public Service Commission and the electric utility regulatory agencies in New Jersey and Pennsylvania.

Dated at Washington, D.C., this 14th day of January, 2005.



Mollie Lampi
Assistant General Counsel