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February 14, 2003

ELECTRONIC FILING

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
Explanation of the Non-Applicability of Day-Ahead Margin Assurance Payments to
Off-Dispatch Generators Under Certain Conditions
Docket No. ER03-238-000**

Dear Ms. Salas:

Pursuant to P 19 and Ordering Paragraph D of the Commission's January 30, 2003, Order in this proceeding ("January 30 Order"),¹ the New York Independent System Operator, Inc. ("NYISO"), by counsel, respectfully submits its explanation of why Reliant Resources Inc.'s ("Reliant") gas-turbine units were not eligible for Day-Ahead Margin Assurance payments in the situations discussed in the January 30 Order..²

¹ *New York Independent System Operator, Inc.*, 102 FERC ¶ 61, 096 (2003).

² Unless otherwise defined, capitalized terms in this filing letter shall have the meaning set forth in OATT and Services Tariff as amended by the revisions submitted herewith.



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I. Copies of Correspondence

Copies of correspondence concerning this filing should be served on:

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II. Service List

The NYISO has mailed a copy of this filing to all persons on the official service list maintained by the Commission for Docket No. ER03-238-000. The NYISO has also served copies of this filing upon all parties that have executed service agreements under the NYISO's Open Access Transmission Tariff or the Market Administration and Control Area Services Tariff and upon the New York State Public Service Commission.

III. Explanation of Policy

In the time since the issuance of the January 30 Order, the NYISO and Reliant have discussed the specific instances, alluded to in Reliant's protest, in which Reliant did not receive Day-Ahead Margin Assurance payments. These discussions have confirmed that Reliant's thirty minute gas turbine units were Off-Dispatch³ and were treated the same as other Off-

³ In the NYISO system, an "Off-Dispatch" unit is a unit that opts to accept hourly scheduling changes instead of Real-Time schedule changes every five minutes from the

(continued...)

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Dispatch units during the relevant time periods.⁴ Reliant's units would have been eligible to receive Day-Ahead Margin Assurance payments if the NYISO had directed them to reduce their scheduled output in Real-Time for security reasons. The NYISO and Reliant are discussing Reliant's claims that it was erroneously not paid Day-Ahead Margin Assurance payments. Based on the information it has received to date, the NYISO has determined that the units in question deviated from their Day-Ahead schedules for reasons other than security-related instructions from the NYISO. Thus, in each instance, the Reliant units did not receive Day-Ahead Margin Assurance payments because they did not meet the eligibility criteria for such payments. The NYISO and Reliant are continuing their discussions to ensure that this assessment is accurate in every case. The NYISO will take appropriate action if it concludes that there was an instance in which Reliant should have received a Day-Ahead Margin Assurance payment.

The NYISO wishes to clarify a point that may not have been clear in its original filing. On-Dispatch and Off-Dispatch units are eligible for Day-Ahead Margin Assurance payments under almost all of the same circumstances. They are both eligible for payments if the NYISO takes them off of their Day-Ahead schedules for security reasons or to permit the procurement of Operating Reserves. The only situation in which On-Dispatch units would be paid a Day-Ahead Margin Assurance Payment when an Off-Dispatch unit would not be is when an On-Dispatch unit is operating, pursuant to NYISO dispatch instructions, below its Day-Ahead schedule (for non-security reasons) and the Real-Time Locational-Based Marginal Price ("LBMP") exceeds the Day-Ahead LBMP.

Unlike On-Dispatch units, which increase or decrease production only in response to the NYISO's Real-Time dispatch signals, Off-Dispatch units have the ability to change their

NYISO. An "On-Dispatch" unit is a unit willing to change its output pursuant to Real-Time instructions that the NYISO sends every five minutes.

⁴ The NYISO's answer in this proceeding appears to have created confusion on this point. In the NYISO system all thirty minute gas turbines are always treated as Off-Dispatch units but are treated as "must run" in the sense that they will not be backed off of their Day-Ahead schedules as a result of the economic analysis that the NYISO conducts in its hour-ahead Balancing Market Evaluation. The NYISO's point in its answer, as here, was that the NYISO did not dispatch the Reliant units below their Day-Ahead schedule for security reasons and that the Reliant units were therefore not eligible for Day-Ahead Margin Assurance payments even though they ran at a level below their Day-Ahead schedules.



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level of production based on their assessment of the way prices are likely to move. If an Off-Dispatch unit guesses right, it can increase its production above its Day-Ahead schedule to take advantage of high Real-Time prices. Similarly, it can reduce its output below its Day-Ahead schedule when it sees prices drop and take an opportunity cost by selling back its energy at a low LBMP. However, if it has “chased prices down” only to find that Real-Time LBMPs are climbing faster than the unit can increase its output, it may find itself “behind the ramp” and exposed to an expensive balancing obligation.

An On-Dispatch unit that is dispatched below its Day-Ahead schedule in Real-Time, is insured against Real-Time price spikes by the Day-Ahead Margin Assurance payment. It would be inappropriate to similarly insure Off-Dispatch units. No generator should be protected against the downside risks of price spikes when they are free to reap the profits from such spikes on the upside. Having an insurance policy would also give all generation owners an incentive to take their units off-dispatch, undermining the NYISO’s ability to reliably operate the system. The Commission therefore should not make Off-Dispatch units eligible for Day-Ahead Margin Assurance payments if they do not satisfy the criteria proposed by the NYISO.

Respectfully submitted,

/s/ Ted J. Murphy

Counsel for

New York Independent Systems Operator, Inc.

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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. § 2010 (2002).

Dated at Washington, D.C. this 14th day of February, 2003.

/s/ Ted J. Murphy
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