

119 FERC ¶ 61, 237
FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

June 5, 2007

In Reply Refer To:
New York Independent System Operator, Inc.
Docket No. ER07-720-000

New York Independent System Operator, Inc.
Attn: Mollie Lampi, Esq.
Assistant General Counsel
10 Krey Boulevard
Rensselaer, NY 12144

Dear Ms. Lampi:

1. On April 5, 2007, you filed, on behalf of the New York Independent System Operator, Inc. (NYISO), proposed revisions to the NYISO's Market Administration and Control Area Services Tariff (Services Tariff) and Open Access Transmission Tariff (OATT). The revisions would establish a \$4,000 per MWh upper bound on the "Shadow Prices" that will be reflected in Locational Based Marginal Costs ("LBMP") during transmission shortages.¹ The NYISO explains that these revisions will reduce inefficient dispatch, produce more accurate prices, and reduce the need for operator intervention and price corrections during such constraints. As discussed below, the proposed revisions are accepted effective June 6, 2007, subject to refund and condition.
2. The NYISO states that it conducted a rigorous reliability analysis to ensure that the proposed \$4,000 threshold would not introduce reliability problems on the New York bulk transmission system, would allow dispatch of the highest cost energy offers if necessary to resolve constraints, and would not produce conflicting prices or otherwise interfere in the implementation of the ancillary services demand curves. Further, the NYISO states that its independent market advisor supports the establishment of a \$4,000 per MWh upper bound on Shadow Prices.
3. To accomplish these changes, the NYISO proposes to modify the Services Tariff, at section 2.171a, and the OATT, at section 1.14a.1, by clarifying the term "Shadow Price," a component used in calculating LBMP. Specifically, the NYISO proposes to modify the term "Shadow Price" to mean the marginal value of relieving a particular

¹ The current upper bound on Shadow Prices is a multiplier of the highest energy supplier's offer and can exceed \$4,000 per MWh.

constraint which is determined by the reduction in system cost that results from an incremental relaxation of the constraint. The NYISO also proposes to add a new term, "Transmission Shortage Cost," to section 2.191a of the Services Tariff and section 1.48b of the OATT which would be defined as the maximum reduction in system costs resulting from an incremental relaxation of a particular constraint, as used in calculating the LBMP, and would be set at \$4000 per MWh (a reduction in the currently effective value).² Under this proposal, Shadow Prices during transmission constraints could not exceed the \$4,000 Transmission Shortage Cost. The NYISO also proposes related changes to the LBMP equation.

4. Finally, the NYISO proposes to add tariff language to give the NYISO the authority under certain circumstances, to temporarily change (for up to 90 days), the \$4,000 per MWh threshold to respond to operational or reliability problems.³ The NYISO states that it needs this authority to avoid being vulnerable for an indefinite period with a price that is too high or too low if unanticipated system changes were to invalidate assumptions underlying the \$4,000 threshold. The NYISO asserts that the time required to develop a tariff filing and obtain Commission approval would simply be too long to leave in place an inappropriate Transmission Shortage Cost.

5. Notice of the filing was published in the *Federal Register*, 72 Fed. Reg. 18,974 (2007), with interventions and protests due on or before April 26, 2007. Motions to intervene raising no substantive issues were filed by NRG Companies and the New York Transmission Owners. No protests were filed. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R § 385.214 (2007), timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

6. We find that the proposed tariff changes limiting the upper bound of Shadow Prices to \$4,000 will assist the NYISO in avoiding a more costly redispatch during transmission constraints. Currently, by contrast, the NYISO may incur much higher

² The NYISO states that setting this value at \$4000 per MWh is appropriate based on its review of historical transmission constraint pricing outcomes and studies examining operational and market impacts. The NYISO also states that it will continue to have, at its discretion, in cases where the upper bound does not meet a constraint, the option to manually redispatch its system to comply with operational limitations and reliability standards.

³ See NYISO Service Tariff at Attachment B, section D and NYISO OATT at Attachment J, section B. This provision would require the NYISO to consult with its stakeholders and regulators prior to changing the Transmission Shortage Cost, where time permits, and to consult with these entities as soon as reasonably possible after implementing a temporary modification.

redispatch costs to relieve a constraint. We also agree with the NYISO that the \$4,000 per MWh limit is reasonable for the reason articulated by NYISO's independent market advisor, *i.e.*, because the \$4,000 per MWh limit will prevent costly redispatch in situations where there is little or no reliability benefit. In addition, we find that the proposed tariff changes are generally appropriate in order to provide better LBMP calculation consistency during transmission shortage events.

7. However, the NYISO's proposed authority to modify the Transmission Shortage Cost under certain unspecified operational or reliability problems without Commission approval, requires revision. Specifically, the NYISO must specify in its Services Tariff and OATT the conditions under which it proposes to exercise such authority and state when it will file, under section 205, for approval of any change in the Transmission Shortage Cost. Accordingly, we accept the proposed Tariff sheets for filing, subject to refund and condition, to become effective June 6, 2007, as requested. The NYISO is directed to make a compliance filing within 30 days of the date of this order.

By direction of the Commission.

Kimberly D. Bose,
Secretary.