NEW YORK INDEPENDENT SYSTEM OPERATOR SM

June 1, 2005

Electronically

The Honorable Magalie R. Salas, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

New York Independent System Operator, Inc.
Bi-Annual Compliance Report on Demand Response Programs
and the Addition of New Generation in Docket No. ER01-3001-00_

Dear Ms. Salas:

Pursuant to Ordering Paragraph "(B)" of the October 25, 2001 Order in this proceeding (the "Initial Order"),[1] Ordering Paragraph "(C)" of the July 19, 2002 Order in this proceeding (the "July 19, 2002 Order"),[2] paragraph 5 of the September 3, 2002 letter order in this proceeding (the "September 3, 2002 Order"),[3] and paragraph 7 of the October 24, 2003 Order in this Proceeding (the "October 24, 2003 Order),[4] the New York Independent System Operator, Inc. ("NYISO"), by counsel, hereby submits this report.

The report addresses, as of December 1, 2004: (i) the NYISO's demand response programs, the status of real-time demand response mechanisms, and the effects of demand response programs on wholesale prices; and (ii) the status of new generation resources in the New York Control Area ("NYCA").[5] This filing represents the NYISO's eighth bi-annual report to the Commission in compliance with the Initial Order and the subsequent orders listed above.

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1 *New York Independent System Operator, Inc.,* 97 FERC ¶ 61, 095 (2001).

2 *New York Independent System Operator, Inc.,* 100 FERC ¶ 61, 081 (2002).

3 *New York Independent System Operator, Inc.,* 100 FERC ¶ 61,243 (2002).

4 *New York Independent System Operator, Inc.,* 105 FERC ¶ 61,115 (2003).

5 Capitalized terms not otherwise defined herein shall have the meaning set forth in Article 2 of the NYISO's Market Administration and Control Area Services Tariff.

I. List of Documents Submitted

The NYISO submits the following documents:

1. This filing letter; and,

2. A report entitled "Bi-Annual Compliance Report on Demand Response Programs – June 1, 2005" ("Attachment I").

II. Copies of Correspondence

Copies of correspondence concerning this filing should be served on:

Robert E. Fernandez, General Counsel and Secretary
Elaine Robinson, Acting Director of Regulatory Affairs
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III. Service List

The NYISO respectfully requests a waiver of the requirements of Rule 2010 so that it may use electronic service methods. The NYISO will electronically serve a copy of this filing on the official representative of each of its Market Participants, on each participant in its stakeholder governance committees, on the New York Public Service Commission, and on the New Jersey Board of Public Utilities. The NYISO will provide the Pennsylvania Public Utility Commission with a hard copy of this filing, as request by that agency. The use of this procedure has been convenient for both the NYISO and for the recipients of this form of service, and to date, the procedure has engendered no complaints. Finally, allowing the use of electronic service would be consistent with the spirit of the Commission's recent Notice of Proposed Rulemaking regarding service and notification procedures.[6]

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[6] *Electronic Notification of Commission Issuances, Notice of Proposed rulemaking,* 107 FERC ¶ 61,311 (2004).

IV. Compliance Report

A. Status of NYISO Demand Response Programs for 2005

As previously reported to the Commission, the NYISO administers three demand response programs under its Market Administration and Control Area Services Tariff ("Services Tariff"). The three programs are: (i) the Emergency Demand Response Program ("EDRP"); (ii) the Day-Ahead Demand Response Program ("DADRP"); and, (iii) Installed Capacity/ Special Case Resources (ICAP/SCR) (all three programs also referred to, collectively, as ("Demand Response Programs").

The EDRP provides for payments to Curtailment Service Providers that voluntarily reduce their Loads at the NYISO's request to reduce demand in the NYCA during an Emergency condition.[7] The DADRP allows Demand Side Resources that are qualified to participate in the competitive Energy markets by bidding their Load reductions into the Day-Ahead Energy Market. For the purposes of establishing a Day-Ahead schedule and associated LBMPs, these Load reduction bids are then recognized and assessed by the NYISO's Security Constrained Unit Commitment software on the same footing as other competing supply resources, including potentially setting the market clearing price. Special Case Resources include interruptible loads and qualifying distributed generators through which some Demand Reduction Providers achieve the Load reductions that are made available to the NYISO.[8] Special Case Resources also qualify to be suppliers of Installed Capacity ("ICAP") in the NYISO's ICAP markets.

Attachment I to this filing is a report entitled "Bi-Annual Compliance Report on Demand Response Programs – June 1 2005" ("June 2005 DRP Report"). The June 2005 DRP Report summarizes the principal provisions of each of the three individual programs and program changes that have been implemented since the last bi-annual report, and describes the respective Market Participant registration levels for each program for the upcoming Summer 2005 Capability Period.

Since the Demand response programs were not activated during the just concluded winter Capability Period, the NYISO has no additional information to report to the Commission regarding the programs' effects on wholesale energy prices during this period. Accordingly, the NYISO again respectfully refers the Commission to the information concerning the price impacts of demand response programs during the Summer 2003 period, which was submitted in the NYISO's December 1, 2003 compliance report. Assuming that the programs are called upon

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[7] Under the EDRP, qualified demand resources are paid for reducing their energy consumption when the NYISO declares that an operating reserves deficiency or major emergency exists. There is, however, no obligation to respond to the NYISO's declaration. Participation in the program occurs through "Curtailment Services Providers," who are paid $500/MWh for verified load reductions.

[8] Under the ICAP/SCR, retail electricity customers are paid for making their load reduction capability available over a specified contract period. Thus, ICAP/SCR participants are paid in advance for agreeing in advance to curtail usage during times when the grid could be jeopardized. Unlike EDRP participants, ICAP/SCR participants are subject to penalties if they fail to curtail on the NYISO's request.

during the upcoming summer capability period, the NYISO will report the energy pricing impacts of such activations as a part of its December 1, 2005 compliance report.

B. Status of Addition of New Generation Resources

Similar to prior report formats, this report on the status and progress of the development of new generation resources in New York State includes three tables of data contained in Attachments II, III, and IV to this filing and discussed in more detail below. Attached to the NYISO's previous report was a presentation version of "*ISO Power Trends.*" *Power Trends* was released by the NYISO in May 2004, and was the fourth in a series of its annual assessments of energy issues facing New York State. The full text of this report is posted on the NYISO's web site at – www.nyiso.com.

1. Forecasted Load and Capacity Data

Table 1, below, presents the NYISO's most recent forecast of load and capacity data for New York Control Area ("NYCA") as a whole, and for the New York City and Long Island Load Zones (also referred to as "Localities"), for the Summer 2005 Capability Period. The second, third, and fourth tables in Attachment II identify new generating resources that are expected to be on line and available for service for the NYCA and the two localities for the Summer 2005 Capability Period.

The expected resource availabilities listed in Table 1 are provided by participants in the Installed Capacity ("ICAP") Subcommittee of the New York State Reliability Council ("NYSRC"). The information is included in the NYSRC's development of the Installed Reserve Margin ("IRM") for the 2005/2006 Capability Year. The IRM represents the amount of ICAP that the NYSRC will require the NYCA to have in place in the upcoming capability year in excess of forecasted peak demands. The IRM is currently set at 18%, which results in a Minimum ICAP Requirement of 118% of forecasted peak demand. The NYSRC sets the IRM on an annual basis pursuant to its responsibilities for establishing and enforcing Reliability Rules for the NYCA.

Table 1
NYCA & Localities Load and Capacity Outlook
For Summer 2005 (as of June 1, 2005)
In Megawatts (MW)

Statewide	**Total NYCA**	
Capacity Required (Load +Reserve)	**37,715**	
NYCA Available Generation	**37,263**	
Special Case Resources (SCRs)	**897**	
Total Resources	**38,160**	
Projected Surplus Above Summer 2005 Needs		**+445**
New York City		
Total Capacity Required	**11,315**	
Locational Requirements (80%)	**9,052**	
Available Generation & SCRs	**9,215**	
Projected Surplus Above Locational Requirement		**+163**
Long Island		
Total Capacity Required	**5,231**	
Locational Requirement (99%)	**5,179**	
Available Generation & SCRs	**5,259**	
Projected Surplus Above Locational Requirement		**+80**

As Table 1indicates, the NYISO currently anticipates that available internal NYCA supplies of 38,160 MW, which includes generation plus anticipated SCRs, will be 445 MW in excess of the NYCA Minimum ICAP Requirement for the Summer 2005 Capability Period. In addition to these supplies, the Bethlehem Energy Center should be available by July 2005, which will increase available capacity by an additional 750 MW for the balance of the summer capability period and beyond.

The Reliability Rules also mandate minimum Locational ICAP requirements, under which a minimum level of ICAP must be electrically located within the New York City and Long Island load zones. For this report, the NYISO is forecasting that New York City's available capacity supplies plus SCRs will exceed the In-city Locational ICAP requirement of 9,052 MW (80% of a total New York City IRM of 11,315 MW) by 163 MW. Table 1 also indicates that Long Island is currently forecasted to have 80 MW of resources in excess of its Summer 2005 Locational ICAP Requirement.

2. Table of NYPSC "Article X" Proceedings

The NYISO has previously indicated to the Commission that, prior to its expiration in December 2002, Article X of the New York State Public Service Law provided a "one-stop" avenue for the New York State Public Service Commission's ("NYPSC") review and approval of new power plant siting proposals in New York State. Sitting applications that were submitted prior to Article X's expiration remain pending before the NYPSC. For the Commission's information, Table 2, below, indicates the hose pending applications. This table is reproduced from *ISO Power Trends 2005,* discussed further below. Table 2 indicates that four previously authorized projects totaling 2,038 MW of capacity are under currently under construction. The most recent estimates of in-service years are range from 2005 for Bethlehem Energy Center, East River Repowering, and the NYPS Project, to 2007 for the SCS Astoria Energy Phase I project. These projections of in-service dates are provided by the project developers. Based on all other publicly available information, the NYISO has no reason at this time to anticipate that the listed projects will not achieve their forecasted in-service years.

Table 2

Generation Projects Subject to Article X
Top of the Queue

Project Name	Owner/ Developer	Size (MW)	Connecting Utility	Date of NYISO Application	Status of Article X	Proposed In-Service
Bethlehem Energy Center	PSEG Power NY	750	NM-NG	04/27/98	Certified 2/28/02	2005
East River Repowering	Consolidated Edison of NY	288	CONED	08/10/99	Certified 8/30/01	2005
NYPA Project	NYPA	500	CONED	04/30/99	Certified 10/2/02	2005
SCS Astoria Energy Phase I	SCS Energy LLC	500	CONED	11/16/99	Certified 11/21/01	2007
Under Construction - TOTAL		**2,038**				
Brookhaven Energy	American National Power	540	LIPA	11/22/99	Certified 08/14/02	
Bowline Point Unit 3	Mirant	750	CONED	10/13/99	Certified 3/25/02	
Spagnoli Road CC Unit	Keyspan Energy, Inc.	250	LIPA	05/17/99	Certified 05/08/03	
Wawayanda Energy Center	Calpine Eastern Corporation	540	NYPA	06/10/99	Certified 10/22/02	
Astoria Repowering Phase I	Reliant Energy	367 net	CONED	07/13/99	Certified 06/25/03	
Astoria Repowering Phase II	Reliant Energy	173 net	CONED	08/18/00	Certified 06/25/03	
SCS Astoria Energy Phase II	SCS Energy LLC	500	CONED	11/16/99	Certified 11/22/01	
Empire State Newsprint	Besicorp/Empire State	505	NM-NG	07/14/00	Certified 09/21/04	
Approved - TOTAL		**3,625**				
TransGas Energy	TransGas Energy, LLC	1,100	CONED	10/05/01	Appl accepted 6/05/03	
Projects with Applications Pending - TOTAL		**1,100**				
GRAND TOTAL MW Proposed Projects		**6,763**				

under construction	approved	application pending	

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3. Status of Development of New Generation Resources

On April 20, 2005, the NYISO released *ISO Power Trends 2005* ("*Power Trends 2005*"), which is the fifth in a series of annual "state-of-the-grid" reports. Full texts of *Power Trends 2005* and a presentation version are available on the NYISO website.[9]

Summarizing the report here, the NYISO attributes the somewhat larger reserve margins that will be available in New York for the Summer 2005 Capability Period to four contributing factors. These include the role of price signals in the New York wholesale electric markets that have encouraged energy infrastructure investments in the localities where they have been required, the siting application streamlining advantages of Article X, the emergency construction of new generation in 2001 by the New York Power Authority, and the emergence of contracting arrangements between utilities and project developers in recent years. In addition to these new generation additions, the NYISO indicates that downstate transmission system upgrades are nearing completion which, in conjunction with the operation of the Cross Sound Cable, will provide significant economic and reliability support for the critical New York City and Long Island load zones during this summer's peak demands.

Power Trends 2005 provides the NYISO's conclusions and recommendations for enhancing system reliability and continuing the development of cost competitive wholesale electric markets in the future. As the report's first recommendation, the NYISO staff and New York stakeholders should use the recently adopted Comprehensive Reliability Planning Process and other market mechanisms to ensure the development of needed generation, transmission, and demand side resources when and, importantly, where appropriate. For example, while upstate New York's near-term supply of capacity appears to be sufficient, the NYISO continues to foresee the need for additional generation on an ongoing basis in response to a projected annual load growth rate of 1.7% for New York City and Long Island. The need to continue to develop markets that provide efficient and appropriate price signals to potential project developers was highlighted by a *2004 State of the Market Report – New York Electricity Markets* recently presented by the NYISO's independent Market Advisor, Dr. David B. Patton at the May 25, 2005, meeting of the NYISO Management Committee.[10] Dr. Patton concluded that the markets in 2004 did not produce sufficient net revenues to support investments in new simple- or combined-cycle combustion turbines in either the New York City or the Capitol load zones.

As its second recommendation, the NYISO notes that, to ensure that sufficient amounts of in-state generation resources are available, New York State needs to site a significant level of new generation additions, commencing immediately, to meet New York capacity requirements in the 2008 to 2011 time frame.

The third recommendation in *Power Trends 2005* repeats admonitions from the NYISO's prior annual reports that the New York State Legislature should promptly re-enact the lapsed Article X siting law. As reported in previous filings with the Commission, the expiration of

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[9] See full text and presentation versions of *Power Trends 2005* on the NYISO website at: http://www.nyiso.com/public/newsroom/current_issues/index.jsp

[10] See full text of Dr. Patton's report in the Management Committee meeting materials on the NYISO website at: http://www.nyiso.com/public/committees/documents.jsp?com=mc&directory=2005-05-25

Article X has been a principal impediment to efficiently and more quickly developing new resources. Without this law, New York lacks a clear and timely mechanism for securing the necessary permits and approvals that are required to build generating stations in New York.

As its fourth recommendation, the NYISO notes that new generating plants are being fueled primarily by natural gas, largely for environmental reasons and the advantages of lower initial capital costs. The NYISO recommends that the Northeast in particular, and the nation as a whole, must fashion an effective fuel diversification strategy to address this increased usage of natural gas and the inevitable strain that dwindling domestic reserves will place on price and availability.

In the report's fifth and final recommendation, the NYISO urges Congress to act promptly to pass electric reliability legislation that includes mandatory reliability standards.

Respectfully submitted,

/s/ Gerald R. Deaver
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cc: Daniel L. Larcamp
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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person that has executed a Service Agreement under the NYISO's Open Access Transmission Tariff or Market Administration and Control Area Services Tariff, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.2010 (20001).

Dated at Albany, N.Y., this 2nd day of June, 2005.

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Gerald R. Deaver
Counsel for New York Independent
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290 Washington Ave. Extension
Albany, New York 12203

ATTACHMENT I

New York Independent System Operator, Inc.
Docket No. 01-3001-

Attachment I - Bi-Annual Compliance Report
On Demand Response Programs
June 1, 2005

I. Summary of Programs

Currently, the New York Independent System Operator, Inc. ("NYISO") offers three demand response programs:

- ICAP Special Case Resources[11] ("SCR")
- Emergency Demand Response program ("EDRP")
- Day-Ahead Demand Response program ("DADRP")

The ICAP SCR program pays retail electricity customers to provide their load reduction capability for a specified contract period. Program participants receive payments in exchange for an agreement to curtail a prescribed amount of load during times when the electric grid could be in jeopardy. Based upon system condition forecasts, participants are notified to curtail this claimed "capacity," either through the use of on-site generation and/or reducing electricity consumption to a firm power level. Customers register for the program through Responsible Interface Parties ("RIPs"). RIPs are provided with an ICAP credit value, in MWs, which they may sell or use to offset their own ICAP obligation. In addition, when called upon, RIPs will be paid for verified load reduction at the rate of the Real-Time zonal locational-based marginal price ("LBMP"), or a self-submitted strike price between $0 and $500/MWh, whichever is greater

EDRP allows participants to be paid for reducing their energy consumption upon notice from the NYISO that an operating reserves deficiency or major emergency exists. The program is open to interruptible loads or local "behind-the-fence" generation greater than or equal to 100 kW per Load Zone. Loads register for the program through Curtailment Service Providers ("CSPs"). When called upon, CSPs will be paid for verified load reduction at the greater of $500/MWhr or the Real-Time LBMP.

DADRP allows loads, through their Load Serving Entities ("LSEs") or through third-party Demand Reduction Providers ("DRPs"), to bid load reduction into the Day-Ahead energy market. Load reduction bids are evaluated along with generation supplier bids as part of the NYISO's Security Constrained Unit Commitment ("SCUC") program. If scheduled through SCUC, DRPs are paid Day-Ahead LBMPs for the scheduled demand reduction, the LSE of the participating load is also paid an incentive (equal to the Day-Ahead LBMP for the scheduled

[11] Capitalized terms that are not otherwise defined in this Attachment I are intended to have the same meaning as is set forth for the term in Article 2 of the NYISO's Market Administration and Control Area Services Tariff.

demand reduction). The load also avoids the retail rate that would otherwise be paid for the actual load reduction provided in real time. If the full scheduled load reduction is not provided in real time, the DRP must settle the imbalance amount at the greater of Day-Ahead or Real-Time LBMP.

II. Program Changes to EDRP/SCR for 2004 and 2005

A. EDRP Changes

There were no significant changes to the EDRP program in 2004.

However, as the program is currently scheduled to sunset on October 31, 2005, the NYISO plans to present its Market Participants with a proposal to eliminate the sunset date and make EDRP a permanent part of the NYISO market structure. In keeping with the Commission's prior directives, the NYISO will prepare an assessment that demonstrates the cost effectiveness of this proposal.

B. SCR Changes

The NYISO made no significant changes to the SCR program in 2004.

For 2005, minor changes concerning the frequency and timing of SCR tests, as well as allowable metering configurations for load reductions backed by distributed generation are contemplated and are in the early stages of discussions with Market Participants. To the extent that such changes require approvals by Market Participant and/or the Commission, they will be brought forward through the normal NYISO governance process.

C. DADRP Changes

The NYISO proposed a number of changes to the DADRP during 2004. The most significant of these was the proposal, approved unanimously by Market Participants (with abstentions) to remove the October 31, 2004 sunset date from the program, effectively making it a permanent feature of the NYISO markets. The Commission rejected this proposal, however, and directed the NYISO to provide additional information and support before it would consider whether the program should be made permanent.[12] Instead, the Commission approved a one-year extension of the program, until October 31, 2005. The NYISO is currently in the process of developing the supporting information ordered by the Commission and plans to again submit its request to eliminate the DADRP sunset date later this (2005) summer, following review and approval by Market Participants.

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12 *New York Independent System Operator, Inc.,* 109 FERC ¶ 61,101 (2004).

III. Preparations for Summer 2005 Capability Period

As part of the NYISO's outreach to RIPs, CSPs, DRPs and end-use customers, the NYISO collaborated with the PSC and the New York State Energy Research & Development Authority ("NYSERDA") to present three workshops on demand response programs. Workshops were held in March 2005 in New York City, and in April 2005 in Albany and Rochester, to acquaint participants with the NYISO's three demand response programs and NYSERDA's associated program opportunities. The workshops were extremely successful and attracted a total attendance of over 550 persons.

Current Registration Status

Table 1 shows the registration, as of May 25, 2005, by Zone for the ICAP SCR program. There are currently a total of 27 active RIPs acting as intermediaries between the NYISO and end-use customers.

Table 1 – SCR Registration by Zone (as of 5/25/2005)

Zone	MW Registered	# Customers Registered
A	330.2	116
B	64.5	26
C	92.9	39
D	85.4	6
E	5.8	11
F	56.0	19
G	2.4	3
H	0.7	1
I	10.5	13
J	242.7	834
K	84.2	29
Total	***975.4***	***1097***

Similar information is provided for the EDRP program in Table 2; a total of 18 CSPs are currently registered of which 9 are active, with resources in the program as of May 25, 2005.

Table 2 – EDRP Registration by Zone (as of 5/25/2005)

Zone	MW Registered	# Customers Registered
A	34.5	24
B	6.1	10
C	28.3	81
D	105	13
E	50.1	46
F	41.7	42
G	36.4	25
H	6.1	7
I	2.1	2
J	114.7	67
K	1.8	1
Total	***426.9***	***318***

The registration process is ongoing, with roughly 300 MW of 2004 EDRP resources (primarily those located in Zone K) not confirmed in either program as of the date of this report.

Compared to figures reported in the NYISO's December 1, 2004 semi-annual report, the current registration numbers represent a significant increase in SCR participation and a slight decrease in EDRP registration, assuming that most 2004 EDRP resources not yet accounted for choose to remain in the program. This is not surprising given the fact that the EDRP program was not called in 2004 and, in light of current load and capacity balances, is unlikely to be called upon in 2005. The SCR program, with its revenues being available even when the program is not called, has become relatively more attractive.

IV. 2005 Demand Response Program Evaluation Efforts

As in the past, the NYISO plans to evaluate its demand response programs, as presently configured and deployed, during 2005. In addition, the NYISO will be working with Market Participants to develop options for demand response resources to participate in the reserves markets, as discussed above.

The NYISO's 2005 evaluation effort will expand upon the use of the registration database developed in 2003 to track participation and the migration of participants from one program to another, and will strive to identify, where possible, the reasons that customers join, switch, or leave the programs.

Evaluation efforts during 2005 will also continue the analyses of prior years, all of which have sought to provide estimates of the reliability and market impacts of demand response programs, including revising the estimated reliability benefits of EDRP and SCR, as well as the collateral and hedging benefits of DADRP.