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BYHAND

The Honorable David P. Boergers
Secretary
Federal Energy Regulatory Commission
888 First Street, NE, Room 1A
Washington, D.C. 20426

New York Independent System Operator, Inc.

Request to Modify the Transitional Installed Capacity Market Design.

Notice to the Federal Energy Regulatory Commission of the Continuation of the Transitional Installed Capacity Market Design, as Modified by this Request, through the 2001 Summer Capability Period.

Dear Mr. Boergers,

Pursuant to Section 205 of the Federal Power Act¹ and Section 35.13 of the Federal Energy Regulatory Commission's (the "Commission") regulations,² the New York Independent System Operator, Inc. (the "NYISO"), by counsel, requests that the Commission authorize it to modify the transitional Installed Capacity ("ICAP") market design. The NYISO respectfully submits proposed revisions to the Market Administration and Control Area Services Tariff (the "ISO Services Tariff") that would implement such modifications. The NYISO respectfully requests that the Commission issue an order making these revisions effective 60 days after the date of this filing (April 10, 2001).

In addition, the NYISO would like to take this opportunity to inform the Commission of its decision to continue the transitional ICAP market design through the 2001 Summer Capability Period, which will end on October 31, 2001. The NYISO hereby submits revisions to the ISO Services Tariff that reflect this continuation. This continuation, and all the ISO Services Tariff revisions hereby submitted, were approved in accordance with the NYISO's independent governance structure.

¹ 16 U.S.C. § 791a-825r.

² 18 C.F.R. § 35.13 (2000).

Unless otherwise defined, capitalized terms in this letter shall have the meaning set forth in the ISO Services Tariff as amended by the revisions submitted. Unless otherwise specified, all references to section numbers are references to the ISO Services Tariff as amended by the revisions submitted. References to Sections effective as of the date of this filing are preceded by the word “current.” (For example, “current Section 5.12.1.”)

I. Documents Submitted

The NYISO submits the following documents:

1. This filing letter;
2. Revised ISO Services Tariff sheets that reflect the revisions requested in this filing (Attachment I);
3. Blacklined revised ISO Services Tariff sheets that show the revisions requested in this filing (Attachment II); and
4. Draft *Federal Register* Notice (Attachment III).

II. Effective Date

Pursuant to Section 205 of the Federal Power Act and the Commission’s regulations and practices, the NYISO proposes to make this filing effective 60 days after the date of this filing (April 10, 2001).

III. Copies of Correspondence

Copies of correspondence concerning this filing should be served on:

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**IV. Names and Addresses of Persons to Whom a Copy
of this Filing Has Been Mailed**

A copy of this filing is being mailed to all signatories of the ISO Services Tariff. In addition, this filing is being posted on NYISO's website for access by all Market Participants⁴ and by members of the general public.

**V. Procedural Background on NYISO's Transitional
ICAP Market Design**

The revisions discussed in this filing pertain to Sections 5.9 through 5.16 of the ISO Services Tariff, which establish NYISO's transitional ICAP market design. The transitional ICAP market design was filed on February 1, 2000 (the "February 1, 2000 Filing"),⁵ and approved by the Commission on March 28, 2000, subject to conditions.⁶ On April 28, 2000, the NYISO submitted to the Commission a compliance filing, which mostly addressed the recall bid procedures (the "April 28, 2000 Filing").⁷

On August 22, 2000, the NYISO submitted to the Commission revisions to the ISO Services Tariff to implement a targeted rebate for In-City LSEs.⁸ The Commission accepted such revisions in

⁴ Section 2.103 of the ISO Services Tariff defines "Market Participant" as "[a]n entity, excluding the ISO, that produces, transmits, sells, and/or purchase for resale Capacity, Energy or Ancillary Services in the Wholesale Market. Market Participants include: Transmission Customers under the ISO OATT, Customers under the ISO Services Tariff, Power Exchanges, Transmission Owners, Primary Holders, LSEs, Suppliers and their designated agents. Market Participants also include entities buying or selling TCCs."

⁵ New York Independent System Operator, Inc., *Filing of Transitional Installed Capacity Market Design*, Docket Nos. ER97-1523-012, ER97-4234-009 and OA97-470-011.

⁶ *Order Accepting Transitional Installed Capacity Market Design*, 90 FERC ¶ 61,319 (Mar. 28, 2000).

⁷ New York Independent System Operator, Inc., *Compliance Filing of New York Independent System Operator*, Docket No. ER00-1483-001 (Apr. 28, 2000).

⁸ New York Independent System Operator, Inc. *Request to Implement a Targeted Installed Capacity Rebate for New York City Load Serving Entities*, Docket No. ER00-3462-000 (Aug. 22, 2000).

its order issued October 11, 2000 (the “October 11, 2000 Order”).⁹

On September 22, 2000, the NYISO proposed to modify the recall bids procedures and make various conforming changes to the Tariff (the “September 22, 2000 Filing”).¹⁰ In the same filing, the NYISO also informed the Commission of its decision, supported by Market Participants, to continue the transitional ICAP market design through the 2000-2001 Winter Capability Period. The Commission accepted NYISO’s September 22, 2000 Filing on November 21, 2000, subject to conditions (the “November 21, 2000 Order”).¹¹ The Commission requested the NYISO to submit a compliance filing to include a specific ICAP Manual provision on the recall bid procedures in the ISO Services Tariff. The NYISO submitted such compliance filing to the Commission on January 22, 2001.¹²

VI. Overview and General Objectives of the Tariff Revisions

In this filing, the NYISO proposes revisions to the ISO Services Tariff to achieve four general objectives: (i) to revise the ISO Services Tariff to clearly indicate that the transitional ICAP market design will be continued during the 2000-2001 Winter Capability Period (section VI.1 of this filing); (ii) to request authorization from the Commission to revise the current ICAP recall procedures pending the implementation of a current ICAP market design (section VI.2 of this filing); (iii) to include provisions in the ISO Services Tariff that will allow the NYISO to implement the permanent ICAP market design in time for the 2001-2002 Winter Capability Period (section VI.3 of this filing); and (iv) to make various improvements to the transitional ICAP market design (section VI.4 of this filing.)

1. Continuation of the Transitional ICAP Market Design as Revised by this Filing

The proposed revisions to the ISO Services Tariff confirm the decision of the NYISO and the Market Participants to continue the transitional ICAP market design through the 2001 Summer Capability Period, which will end on October 31, 2001.¹³ Under current Section 5.9, the transitional

⁹ *New York Independent System Operator*, 93 FERC ¶ 61,034 (Oct. 11, 2000).

¹⁰ *New York Independent System Operator, Inc., Request to (1) Modify the Installed Capacity Procedures, and (2) Make Conforming Modifications to the Transitional Installed Capacity Market Design*, Docket No. ER00-3740-000.

¹¹ *New York Independent System Operator, Inc., et. al.*, 93 FERC ¶ 61,186 (Nov. 21, 2000).

¹² *New York Independent System Operator, Inc., Compliance Filing in Docket No. ER00-3740-000*, Docket No. ER00-3740-001 (Jan. 22, 2001).

¹³ Section 2.17a of the ISO Services Tariff defines a “Capability Year” as a “Summer Capability Period, followed by a Winter Capability Period.” Section 2.17 defines a “Capacity Period” as “[s]ix month periods which are established as follows: (1) from May 1 through October 31 of each year (“Summer Capability Period”); and (2) from November 1 of each year through April 30 of the following year (“Winter Capability Period”).”

ICAP market design governs ICAP requirements until April 30, 2001. The NYISO has the authority under Section 5.9, however, to continue Sections 5.10 through 5.15 until a permanent ICAP market design is in place.¹⁴ Notwithstanding this authority, the NYISO has obtained the support of Market Participants, through the NYISO committees, to continue the transitional market design (section VIII of this filing.)

NYISO's objective to develop and implement a "permanent" ICAP market design originates from an order issued January 27, 1999 by the Commission, before the start of NYISO's operations (the "January 27, 1999 Order").¹⁵ The Commission considered at that time the criteria the NYISO would use to accredit generation in the NYCA.¹⁶ Some parties (*i.e.*, future Market Participants) wanted to use comparisons between different classes of generators. Others preferred comparisons between generators of the same class. The Commission ruled by referring the issue to a "public hearing" (January 27, 1999 Order, paras. 61,221 and 61,240). On July 29, 1999, the Commission again reviewed the issue of generator accreditation, but did not change its position.¹⁷

On November 17, 1999, the "Member Systems" of the New York Power Pool (the Transmission Owners under the ISO Services Tariff)¹⁸ filed with the Commission a "Joint Offer of Settlement" (the "Settlement").¹⁹ The Settlement provided that the Member Systems would review

¹⁴ Section 5.9 of the ISO Services Tariff provides that the "ISO Board shall have the unilateral right to continue the provisions of Sections 5.10 through 5.15 of this Tariff in effect until such time as a permanent Installed Capacity market design is in place."

¹⁵ *Order Conditionally Accepting Tariff and Market Rules, Approving Market-Based Rates, and Establishing Hearing and Settlement Judge Procedures*, 86 FERC ¶ 61,062 (Jan. 27, 1999).

¹⁶ Section 2.110 of the ISO Services Tariff defines "NYCA" as the "Control Area that is under the control of the ISO which includes transmission facilities listed in the ISO/TO Agreement Appendices A-1 and A-2, as amended from time-to-time, and Generation located outside the NYS Power System that is subject to protocols (*e.g.*, telemetry signal biasing) which allow the ISO and other Control Area operator(s) to treat some or all of that Generation as though it were part of the NYS Power System."

¹⁷ *Order Denying in Part and Granting in Part Rehearing and Clarification and Conditionally Accepting Compliance Filing*, 88 FERC ¶ 61,138 (July 29, 1999).

¹⁸ The "Member Systems" of the NYPP were: Central Hudson Gas and Electric Corporation, Consolidated Edison Company of New York, Inc., Long Island Power Authority, New York, Niagara Mohawk Power Corporation, Orange and Rockland Utilities, Inc., Power Authority of the State of New York, and Rochester Gas & Electric Corporation.

¹⁹ *Central Hudson Gas & Electric Corp., et al., Filing of a Negotiated Joint Offer of Settlement Concerning Ordering Paragraphs (P) and (Q) of the January 27, 1999 Order in Cases ER97-1523-000, OA97-470-000 and ER97-4234-000*, Docket Nos. ER97-1523-000, et al. (Nov. 17, 1999).

the accreditation standards and methodology, and file a proposal with the Commission by January 7, 2000 (Settlement, at 5). The NYISO then filed its February 1, 2000 Filing, which implements the “transitional” ICAP market design.

The main feature of NYISO’s permanent ICAP market design will be the application of an Unforced Capacity (“UCAP”) methodology to accredit Resources. A UCAP methodology is more complex than an ICAP methodology because it qualifies Resources not only on the basis of DMNC tests, but also on the basis of each Resource’s actual individual generating performance. As it reflects more accurately each Resource’s contribution to the market, it is expected that the UCAP methodology will improve market efficiency and provide an incentive for Resources to increase the reliability of their generating assets.

The decision of the NYISO and Market Participants to continue the transitional ICAP market design does not reflect a change in policies and objectives. Market Participants and the NYISO have invested a significant amount of time and resources to develop a permanent ICAP market design. For example, the members of the ICAP Working Group and NYISO staff had six (6) all-day meetings between October 1 and November 17, 2000 to develop a design.²⁰

By December 2000, the NYISO and Market Participants had reached agreement on many principles needed to implement a UCAP methodology in the NYCA. Members of the ICAP Working Group had approved revised ISO Services Tariff sheets prepared by the NYISO staff that would implement a UCAP methodology.

Revisions to the UCAP Manual, however, were still under review at the ICAP Working Group. It was the judgment of the Market Participants that the UCAP Manual ought to be complete before a Tariff could be approved.

The NYCA ICAP market has now reached a certain maturity that allows for some stability, predictability, and reliability. The NYISO believes that implementing a UCAP methodology without providing sufficient time for Market Participants to develop some comfort with the details of the methodology could actually adversely disrupt the ICAP market. This outcome is highly undesirable, especially when the UCAP methodology would be implemented for the first time during a Summer Capability Period. Considering these circumstances, Market Participants and the NYISO decided to postpone the implementation of the permanent market design until the 2001-2002 Winter Capability Period, allowing time to finalize the details of the UCAP methodology. The NYISO respectfully submits that this decision is just and reasonable.

2. Prepare for the Implementation of a Permanent ICAP Market Design based on a UCAP Methodology

The NYISO proposes revisions to the ISO Services Tariff to prepare for the implementation by November 1, 2001 of a permanent market design based on a UCAP methodology. As soon as

²⁰ The ICAP Working Group met on October 2, 10, 24, and 27, and on November 8 and 16.

April 20, 2001, the NYISO must start collecting data from Resources to complete all relevant UCAP calculations and translations in time for the 2001-2002 Winter Capability Period auction. The NYISO will conduct this auction no later than October 1, 2001. (Section 5.13.2.)

Currently, the NYISO determines the amount of ICAP that each Resource may supply to the NYCA on the basis of seasonal DMNC²¹ tests or historical data (current Section 5.12.5.) Under a UCAP methodology, however, each Resource would supply an amount of UCAP based on its equivalent demand forced outage rate (“EFORD”). The concept of EFORD takes into account the portion of time a Resource is in demand, but unavailable due to a forced outage. To calculate a Resource’s EFORD, the NYISO expects to compile and keep current a 12-month rolling average of Operating Data. Operating Data is data collected and submitted by individual Resources to the NYISO that pertains to availability and outages. (Section 2.128b.) They are similar, but will differ depending on specific Resources, to the data submitted by Generators to the North American Electric Reliability Council for inclusion in the Generating Availability Data System (GADS).

Thus, the NYISO proposes to require that each Resource submit by April 20, 2001 Operating Data pertaining to the months of January 2000 to March 2001. From the month of April 2001 forward, Resources will have to submit Operating Data on a monthly basis. (See Sections 5.12.1(viii) and 5.12.5, and the discussion in this filing regarding each Section.²²)

3. Replace the Recall Bid Procedures

The NYISO proposes to replace the recall bid procedures established under current Section 5.12.7. Under these procedures, the NYISO has the ability to recall at any time ICAP that is scheduled to supply Energy outside of the NYCA. Such recalls are based on the “recall bids” that each Resource submits to the NYISO when it schedules an External Transaction.²³ In the past, the NYISO has had technical problems implementing the recall bid procedures, especially with the automatic evaluation of the recall bids. (See April 28, 2000 Filing and September 22, 2000 Filing.)

Proposed Section 5.12.10 describes the practice that the NYISO has developed and followed to address shortages in operating reserves. All ICAP that is not scheduled to serve the

²¹ Section 2.40 of the ISO Services Tariff defines “Dependable Maximum Net Capability (“DMNC”)” as “[t]he sustained maximum net output of a Generator, as demonstrated by the performance of a test or through actual operation, averaged over a continuous time period as defined in the ISO Procedures.”

²² The ISO ICAP Manual requires Resources to submit Operating Data to the ISO on the 20th day of each month.

²³ Section 2.55 of the ISO Services Tariff defines “External Transactions” as “[p]urchases, sales or exchanges of Energy, Capacity or Ancillary Services for which either the Point of Injection (“POI”) or Point of Withdrawal (“POW”) or both are located outside the NYCA (*i.e.*, Exports, Imports or Wheels Through).”

Internal NYCA Load in the Day-Ahead Market may be scheduled to supply Energy for use in External Transactions. Such External Transactions, however, are subject to Curtailment within the hour, consistent with ISO Procedures. If an ICAP Supplier's Exports are Curtailed in-hour, the NYISO proposes that the Transmission Customer scheduling such Exports be paid, for the remainder of the hour, the higher of the Real-Time LBMP at the New York proxy bus associated with the Exports, or the real-time price at the relevant proxy bus used by the External Control Area for Transactions with New York.

4. Various Proposed Improvements to the ISO Services Tariff

The NYISO proposes various improvements to the ISO Services Tariff to reflect the experience gained since the implementation of the transitional ICAP market design in May 2000. The NYISO proposes to move to the ICAP Manual and other ISO Manuals all dates included in Sections 5.09 through 5.16 of the ISO Services Tariff. The specific dates of routine information submission requirements and other technical requirements would be included in the ISO Procedures, under the authority of an enabling provision in the ISO Services Tariff. This proposed modification is consistent with general legislative drafting techniques. This revision should improve the efficiency of the ICAP market in providing greater flexibility to Market Participants and the NYISO.

The NYISO also proposes to resolve disputes arising out of Sections 5.9 through 5.15 more rapidly. Such disputes are currently subject to the general ISO Dispute Resolution Procedures established under Article 11 of ISO Services Tariff. Article 11 procedures may take up to three months, and the NYISO and Market Participants believe that the ICAP market warrants a more streamlined approach. Thus, the proposed revisions refer Sections 5.9 through 5.15 disputes to the new "Expedited" Dispute Resolution Procedures established under proposed Section 5.16. This modification ensures that any dispute will be resolved fairly and efficiently within 25 days. The Load Forecasting Working Group developed these procedures, and the ISO Committees²⁴ adopted them. (See below under section VII.5.16 of this filing for a description of differences between Article 11 and Section 5.16 dispute resolution procedures.)

Finally, the NYISO hereby submits several revisions to the targeted ICAP rebate. These revisions were developed by Market Participants and approved by the various ISO Committees. The Commission approved the current targeted ICAP rebate in its October 11, 2000 Order for implementation during the 2000 Summer Capability Period only. The revisions developed and adopted by Market Participants would continue the targeted ICAP rebate until an ICAP surplus is

²⁴ The "ISO Committees" refer to the various committees established under the ISO governance structures that provides the opportunity for various stakeholders to participate in NYISO's decision making process. These committees include the Management Committee, the Business Issues Committee, the ICAP Working Group of the Business Issues Committee, and the Load Forecasting Working Group of the ICAP Working Group. See <http://www.nyiso.com/services/documents/groups/index.html>.

forecasted at the beginning of each of two consecutive Summer Capability Periods. The revision would also extend the targeted ICAP rebate to the Long Island Locality. The Market Participants also propose revisions that would modify the way the targeted ICAP rebate is calculated and allocated among LSEs. (See below under section VII.5.14.3 of this filing for a brief description of the revisions proposed by Market Participants.)

VII. Brief Description of the Tariff Revisions and Statement of the Reasons for such Revisions

This section provides a description of the substantive modifications to the ISO Services Tariff, and the reasons for those modifications.

2.2a Adjusted Actual Peak Load

The NYISO proposes to correct an omission that was inadvertently made at the time Section 2.2.a was included in the ISO Services Tariff. This modification will not impact the NYCA ICAP market as it conforms this Section 2.2a with NYISO's practice.

The "Adjusted Actual Peak Load" is the NYCA "actual peak Load" adjusted to take into account factors that would otherwise prevent the NYISO from accurately forecasting the demand for Energy in the NYCA. This calculation is important because the NYISO uses the Adjusted Actual Peak Load to determine the NYCA ICAP requirement, and each individual LSE's ICAP requirement (Section 5.10). Factors that impact the actual peak Load include, for example, peak Load reductions provided by Interruptible Load Resources (Section 2.2a(ii)). Because Interruptible Load Resources supply ICAP to the NYCA by reducing their demand, their contribution is not factored into the actual peak Load. When the NYISO forecasts the demand for Energy in the NYCA, it must therefore adjust the actual peak Load to reflect the reductions provided by Interruptible Load Resources.

The NYISO proposes to revise Section 2.2a so that the adjustments to the actual peak Load also take into account the reductions in demand provided by Special Case Resources. Some Special Case Resources actually are a specific type of Interruptible Load Resource that contribute to the NYCA ICAP market by reducing their demand. In forecasting the NYCA peak Load, the NYISO must compensate for such demand reduction.

2.18a CARL Data

CARL Data is operating data that the ISO currently uses to calculate the amount of ICAP that Control Area System Resources may supply to the NYCA. (Section 4.6.3, ISO ICAP Manual (the "ICAP Manual").²⁵) Under Section 5.12.5, however, all Resources will have to submit some type of operating data to the NYISO beginning April 20, 2001. (Section 5.12.5.) In the interest of clarity, the NYISO proposes to distinguish between data already submitted by Control Area System

²⁵ New York Independent System Operator, Installed Capacity Manual, http://www.nyiso.com/markets/icapinfo.html#winter_2000-01 (posted Mar. 31, 2000).

Resources (CARL Data), and data that will be submitted by other Resources starting April 2001 (data such as GADS Data), by adding a definition for CARL Data.

2.32a Control Area System Resources

The term “Control Area System Resource” defines a specific subset of System Resources “that also are operators of Control Areas.” The ISO Services Tariff and the ISO ICAP Manual already use the term to refer to these entities.²⁶ (*See, e.g.*, the last paragraph of Section 5.12.1.) Defining the term will clarify Tariff provisions.

2.38a Deficiency Procurement Auction

The current ISO Services Tariff makes numerous references to “deficiency procurement auctions,” without defining it. (*See, e.g.*, current Section 5.14.1(a).) This new definition will clarify Tariff provisions.

2.46a DMNC Test Period

Current Section 2.46 incorrectly suggests that only Generators, System Resources, and Special Case Resources must conduct a DMNC test to allow the NYISO to determine the amount of ICAP that those Resources may supply to the NYCA. The proposed revisions clarify that all “Resources required to do so” shall conduct their DMNC tests during the periods established in the ISO Procedures. The requirements applicable to DMNC tests are provided in the ISO Procedures, particularly in the ICAP Manual.

2.52a Expedited Dispute Resolution Procedures

This proposed definition helps distinguishing the new “Expedited Dispute Resolution Procedures” of Section 5.16 from the general “ISO dispute resolution procedures” provided in Article 11 of the ISO Services Tariff. The definition refers to Section 5.16, which describes the new Expedited Dispute Resolution Procedures in detail. (*See* the discussion in this filing regarding Section 5.16.)

2.59b GADS Data

To prepare for the transition to the UCAP methodology, the ISO needs Operating Data from all the Resources that want to qualify as ICAP Suppliers in the NYCA beginning with the 2001-2002 Winter Capability Period. (*See* Section 5.12.5.) GADS Data is one type of Operating Data that some Resources will submit to the ISO. GADS Data is data submitted to the North American Electric Reliability Council (the “NERC”) for collection in the Generating Availability Data System. The definition of GADS Data has been added.

²⁶ In practice, the only Resource that currently meets the definition of “Control Area System Resource” is Hydro-Quebec.

2.74 Installed Capacity

The current Tariff definition states that “Installed Capacity” is Capacity that is “continuously” made available. This statement is not entirely accurate because some Resources, such as Intermittent Power Resources that depend on wind or solar energy, do not supply ICAP on a continuous basis. The proposed modifications to the definition refer to the ISO Procedures, where specific requirements applicable to each Resource are set out. If the Capacity is made available in accordance with these ISO Procedures, it qualifies as ICAP and can be used by LSEs to meet their requirements.

2.74b Installed Capacity Marketer

The current definition of ICAP Marketer provides that ICAP Marketers may only purchase ICAP from ICAP Suppliers. The proposed modification would allow them to also purchase ICAP from LSEs that have excess ICAP.

2.74c Installed Capacity Supplier

The proposed revisions ensure that the definition of “Installed Capacity Supplier” mirrors the definition of “Resource.” Conceptually, both definitions encompass all the entities that can supply ICAP to the NYCA. The difference between the two terms, however, is that an “ICAP Supplier” is a “Resource” that meets the basic requirements of the ISO Services Tariff to supply ICAP in the NYCA. (*See* Section 5.12.1.)

The proposed modifications add the following Resources to the definition of ICAP Supplier: (1) Intermittent Power Resources, a newly defined Resource under this filing; (2) Control Area System Resources, previously included in the definition of “System Resource;” and (3) municipally-owned generation that can also qualify as ICAP Suppliers.

2.77a Intermittent Power Resource

Intermittent Power Resources are “Capacity Resources that depend upon wind or solar energy for their fuel” (Section 2.77a). Currently, Intermittent Power Resources are not considered a Resource under the ISO Services Tariff, and they cannot qualify as ICAP Suppliers in the NYCA. Under the conditions set forth in Section 5.12.11(d), the NYISO proposes to allow them to supply ICAP in the NYCA starting with the 2001 Summer Capability Period.

2.107a Monthly Auction

The ISO Services Tariff Section 5.13.3 provides that the NYISO will administer “monthly auctions” without defining the term. A definition for Monthly Auction has been added.

2.120a NYCA Installed Capacity Requirement

The current ISO Services Tariff refers to the concept of “NYCA Installed Capacity requirement” but does not define it (Section 5.10). The NYISO proposes to define this term as the requirement established for each Capability Year by multiplying the NYCA peak Load, forecasted by the ISO, by the quantity one plus the NYCA Installed Reserve Margin.

2.120b NYCA Installed Reserve Margin

The current ISO Services Tariff refers to the concept of the NYCA Installed Reserve Margin without defining it. (Section 5.10.) NYISO proposes to define this term as the amount of additional Installed Capacity required by the New York State Reliability Council in order for the NYCA to meet the Northeast Power Coordinating Council reliability criteria above the forecasted NYCA upcoming Capability Year peak Load, and expressed as a decimal.

2.128b Operating Data

The NYISO proposes to define Operating Data to include any type of data Resources must submit to the ISO (Sections 5.12.1(viii) and 5.12.5). Operating Data means GADS Data, data equivalent to GADS data, CARL Data, metered Load data, or actual system failure occurrences data.

2.160b Resources

Please see the description provided above regarding Section 2.74c.

2.177a System Resources

The modification clarifies that “Control Area System Resources” are not included in the definition of “System Resources.” The description regarding Section 2.32a provides the explanation for such modification.

5.9 Installed Capacity — Implementation of a Revised Installed Capacity Market Design

The proposed revisions to Section 5.9 confirm the decision by the NYISO and the Market Participants to continue the transitional ICAP market design, as revised by this filing, through the 2001 Summer Capability Period that will end on October 31, 2001. Under current Section 5.9, the transitional ICAP market design will govern ICAP requirements in the NYCA Market until April 30, 2001. The NYISO has the authority under Section 5.9, however, to continue Sections 5.10 - 5.15 until a permanent ICAP market design is in place.

5.10 NYCA Installed Capacity Requirement

In the first paragraph of Section 5.10, the NYISO proposes to express the NYCA Installed Capacity margin “as a decimal,” and not “on a percentage basis.” This modification is required for the mathematical formula to be correct, and to conform the provision to NYISO’s practice.

5.11 Requirements Applicable to LSEs

5.11.1 Allocation of the NYCA Installed Capacity Requirement to LSEs

In the first paragraph of Section 5.11.1, the NYISO proposes to allow municipal electric utilities to submit their own Transmission District’s peak Load forecast, or the peak Load forecasts

provided by Transmission Owners. This revision conforms Section 5.11.1 with the practice followed by the NYISO. Municipal electric utilities have always had the option to use the Load growth factors provided by the relevant Transmission Owner, or to submit their own data.

5.11.2 LSE Obligation

The NYISO proposes to move to the ICAP Manual (i) the deadline by which LSEs must submit their ICAP certification forms and (ii) the technical description of the ICAP certification forms.

5.11.3 Load -Shifting Adjustments

The first paragraph of Section 5.11.3 sets out the NYISO procedures to account for Load-shifting between LSEs. When customers shift from one LSE to another, the Load-gaining LSE pays the Load-losing LSE. The NYISO proposes to revise Section 5.11.3 to clarify that the payment between LSEs will be made “on a daily” basis. This modification simply reflects the practice currently followed by LSEs and the NYISO.

5.11.4 LSE Locational ICAP Requirements

The fourth paragraph of Section 5.11.4 applies to ICAP Suppliers that resell ICAP associated with an ICAP Supplier subject to market mitigation measures (“Mitigated ICAP”). Section 5.11.4 currently prevents a Customer from selling Mitigated ICAP in a subsequent auction at price higher than it paid for such ICAP. This clearly ensures that Mitigated ICAP will not be sold at a price higher than the price cap approved by the Commission. However, the restriction goes beyond the Commission orders on market mitigation because the Customer may have purchased Mitigated ICAP at a price lower than the price cap. The change better reflects the Commission’s orders.

5.12 Requirements Applicable to ICAP Suppliers

5.12.1 ICAP Supplier Qualification Requirements

Section 5.12.1 is the introduction to Sections 5.12.2 through 5.12.12. It provides the requirements applicable to Resources that want to qualify as ICAP Suppliers. Additional requirements applicable to specific Resources are found in subsections 5.12.2 through 5.12.12. The NYISO proposes to modify subsection 5.12.1 to reflect the addition of new Resources such as Intermittent Power Resources, clarify the requirements applicable to each Resource, and add new requirements.

In the first paragraph of Subsection 5.12.1, the NYISO proposes to add Intermittent Power Resources and Control Area System Resources to the list of Resources subject to Paragraphs 5.12.1(i) through 5.12.1(xi). The NYISO also proposes to add existing municipally-owned generation, Energy Limited Resources, and Intermittent Power Resources to the list of Resources that do not have to meet paragraphs 5.12.1(i) through 5.12.1(xi) to the extent that they are subject to the specific requirements of Section 5.12.11. This last revision simply clarifies current Section 5.12.1.

Paragraph (i). Resources must provide reasonable information requested by the ISO

including the name and location of Generators and Interruptible Load Resources. The NYISO proposes that this information also includes the name and location of System Resources.

Paragraph (ii). Resources must regularly conduct DMNC tests and submit historical information to allow the NYISO to determine how much ICAP they may supply. The current description of the nature of historical data is oversimplified. The NYISO proposes to refer to the ISO Manuals for an accurate description of what constitutes acceptable historical data.

Paragraph (vi). This paragraph requires Resources to either schedule Day-Ahead Bilateral Transactions or Bid in the Day-Ahead Market. In the first three lines, the NYISO proposes to list Resources that are excluded from this requirement as opposed to those that are included.

The NYISO also proposes at the end of the paragraph to allow Generators to enter in the NYISO's Market Information System ("MIS") an "upper operating limit." Current Section 5.12.1 requires ICAP Suppliers to schedule or Bid the full amount of ICAP as established in the seasonal DMNC tests (Section 5.12.1(vi)). (*See also* Section 5.12.8.) DMNC tests, however, are conducted under ambient average temperature and do not reflect the amount of ICAP that ICAP Suppliers can actually provide on a daily basis. This daily amount fluctuates depending on various factors including weather conditions.

The proposed revisions will provide Generators with the ability to declare the status of their units on a daily basis. Generators will be able to enter an upper operating limit into the MIS, which will indicate to the NYISO the level at which they want to operate. Generators will still qualify for the full amount established through the seasonal DMNC tests, and they will be required to schedule, Bid or declare unavailable this amount of ICAP (Section 5.12.7.) The upper operating limit, however, will allow the NYISO to schedule ICAP based on reality and not simply on average figures.²⁷ The ISO Procedures will describe the circumstances under which the NYISO can direct Generators to exceed their upper operating limit.

Paragraph (viii). Starting on April 20, 2001, the NYISO will require Resources to submit Operating Data. (*See* section IV.3 of this filing for the background to this requirement.) Paragraph (viii) refers to Section 5.12.5 (discussed below), which sets forth the details of this data submission requirement.

²⁷ Presumably, the bid curve submitted by Generators provides some insight to the NYISO and LSEs regarding the level at which they can or would like to operate. The ability of Generators to convey this information is limited, however, because ISO Procedures regulate the relative incremental price for the ICAP offered in ISO-administered auctions. As a result, the NYISO and Market Participants believe that the concept of an "upper operating limit" is preferable.

Once the NYISO implements a permanent market design based on a UCAP methodology, it is expected that there will be no need for declaring upper operating limits. This provision is therefore simply a temporary improvement to the ICAP market design.

Paragraph (x). Paragraph (x) is entirely new, and replaces with Section 5.12.10 the recall bid procedures currently provided in Section 5.12.7. Pursuant to Paragraph (x), when the NYISO issues a Supplemental Resource Evaluation request (an SRE), Resources must Bid into the in-day market. This requirement does not apply, however, if the Resource has a Bid pending in the Hour-Ahead Market when the SRE request is made, or if it is unable to Bid in response to the SRE request due to a maintenance or forced outage, to other operational issues, or to temperature related deratings. (See also section VI.3 of this filing.)

Paragraph (xi)(a)-(c). The NYISO added Paragraph 5.12.1(ix) to the ISO Services Tariff in its March 27, 2000 filing.²⁸ Paragraph (xi) requires ICAP Suppliers located east of the central-east constraint to Bid in the Day-Ahead and Real-Time Markets all Capacity available to supply 10-Minute Non Spinning Reserves. The various sub-paragraphs of Section 5.12.1 exempt (a) Resources providing Energy under “existing” contracts, (b) “existing” topping turbine Generators and extraction turbine generators, and (c) “existing” intermittent renewable resources Generators.

The NYISO proposes to modify subparagraphs (a), (b), and (c) at the request of Market Participants who requested that the verb “existing” be clarified. The NYISO inserted the date of November 18, 1999 because it makes Section 5.12.1(ix) consistent with Section 4.18. The language of subparagraphs (a), (b), and (c) is identical to Section 4.18, which became effective November 18, 1999. This date also makes Section 5.12.1(ix) consistent with Technical Bulletin #16 that exempts the Resources listed in subparagraphs (a), (b), and (c) from regulation penalties. The NYISO commenced operations on November 18, 1999.

Finally, the NYISO proposes revisions to exempt intermittent renewable resource Generators²⁹ from NSR bidding requirements up to 500 MW of Capacity (Subparagraph (xi)(c)). The NYISO originally proposed in 1999 a figure of 50 MW because intermittent renewable resource Generators, which depend on wind as fuel, for example, are not predictable and cannot be dispatched and scheduled as other ICAP Suppliers. On the basis of its experience with the administration of the ICAP market, however, the NYISO believes that it can accommodate 500 MW of such Resources. There are currently intermittent renewable resource Generators in the NYCA that generate around 25 MW of ICAP. They are all exempt, therefore, from the NSR bidding requirement.

5.12.2 Additional Provisions Applicable to External Installed Capacity

²⁸ New York Independent System Operator, Inc. *Request of the New York Systems Operator, Inc. for Suspension of Market-Based Pricing for 10-Minute Reserves and to Shorten Notice Period*, (dated Mar. 27, 2000, effective Mar. 28, 2000)

²⁹ The NYISO included the term “Intermittent renewable resource Generators” in the ISO Services Tariff on November 18, 1999. These Resources actually are “Intermittent Power Resources” as defined in this filing. The NYISO realized this oversight after the adoption of this filing by the NYISO Committees, so it will propose the necessary adjustments in its next filing with the Commission.

Suppliers

The NYISO proposes to conform Section 5.12.2 to better reflect how it calculates the amount of ICAP that Control Area System Resources may supply to the NYCA. To qualify as ICAP Suppliers, Control Area System Resources may supply ICAP to the NYCA when they demonstrate that their External Control Area will afford the NYCA the same curtailment priority than they afford their own Load. When a Control Area System Resource supplies ICAP under this condition, however, current Section 5.12.2 provides that the ICAP “will be de-rated ... to reflect the possibility of curtailment” (Section 5.12.1, para. 1, last sentence).

The NYISO proposes to modify this sentence because the calculations used to determine the amount of ICAP that Control Area System Resources may supply already provides for the possibility of curtailment. Thus, the NYISO will not necessarily reduce this amount of ICAP, and Section 5.12.2 should be phrased accordingly.

5.12.3 ICAP Supplier Maintenance Scheduling Requirements

Section 5.12.3 provides that ICAP Suppliers, with the exception of a few Resources, must submit to the NYISO a confidential notification of their proposed outage schedules. This procedure allows the NYISO to request voluntary maintenance rescheduling based on a reliability assessment. When voluntary rescheduling is ineffective, the NYISO may invoke forced rescheduling of outages to ensure that the projected Operating Reserves are adequate.

Currently, Section 5.12.3 does not explicitly contemplate the situation where an ICAP Supplier refuses a forced rescheduling. The NYISO proposes to modify Section 5.12.3 to prevent Suppliers from selling ICAP during any month during which they refuse a forced rescheduling and in which they undertake an outage. If used, this modification will provide a greater incentive for Resources to accept forced rescheduling, and help the ISO ensure that sufficient ICAP is available to meet Operating Reserves. The modifications also provide that the NYISO shall coordinate the maintenance schedules of External ICAP Suppliers with External Control Areas. This addition simply reflects an established practice between the NYISO and External Control Areas.

In practice, these revisions have limited implications because ICAP Suppliers have always cooperated and voluntarily accepted to reschedule their outages. Since it began operations in 1999, the NYISO has never had to force an ICAP Supplier to reschedule.

5.12.5 Operating Data Reporting Requirements

Section 5.12.5 is a new section. The NYISO proposes to require Resources that want to qualify as ICAP Suppliers to submit Operating Data on a monthly basis. As discussed previously, the NYISO must begin collection of this data by April 2001 in order to calculate the amount of UCAP each Resource may supply in the NYCA in time for the 2001-2002 Capability Period Auction.

Section 5.12.5 has three subsections because different Resources will submit different Operating Data. Otherwise, the three subsections subject Resources to identical conditions. For example, all Resources must submit by April 20, 2001 Operating Data pertaining to the months of

January 2000 to March 2001.

Resources that do not submit Operating Data in accordance with Section 5.12.5 and the relevant ISO Procedures shall be subject to the sanctions provided in Section 5.12.12(a) of the ISO Services Tariff.

5.12.6 Operating Data Default Value and Collection

Section 5.12.6 is a new section that complements Section 5.12.5. In Subsection 5.12.6(a), the NYISO proposes to use zero (0) for the Operating Data for each month during which an ICAP Supplier has not submitted its Data in accordance with Section 5.12.5 and the ISO Procedures. An ICAP Supplier who is in default may nonetheless submit the appropriate Operating Data at any time. The NYISO shall then replace the zero (0) value with such new Operating Data in the following study or calculation it performs.

Subsection 5.12.6(b) relates to forced outages caused by an equipment failure. When the failure involves equipment located on the high voltage side of the electric network beyond the step-up transformer, and including such step-up transformer, the forced outage will not be counted for purposes of collecting a Resource's Operating Data.

5.12.7 Availability Requirements

Section 5.12.7 groups in one new section existing requirements applicable to ICAP Suppliers. These requirements are scattered throughout current Sections 5.12.1 through 5.12.8, and in Section 4 of the ICAP Manual. These requirements are fundamental to NYCA's ICAP market as they ensure the reliability of the New York Power System.

Section 5.12.7 requires ICAP Suppliers to do the following on a daily basis: (i) schedule a Bilateral Transaction, (ii) Bid Energy in each hour of the Day-Ahead Market, or (iii) notify the ISO of outages. The total amount of Energy that an Installed Capacity Supplier schedules, bids, or declares to be unavailable on a given day must equal or exceed the Installed Capacity supplied. Some ICAP Suppliers are exempted from some or all of Section 5.12.7 requirements. They include, for example, Special Case Resources and Intermittent Power Resources (Section 5.12.11 (a) and (d)).

5.12.8 Installed Capacity Sales

The NYISO renumbered current Section 5.12.5 as Section 5.12.8 because of the addition of the new Sections 5.12.5, 5.12.6, and 5.12.7. In the second paragraph of Section 5.12.8, the NYISO proposes to delete the reference to ICAP Marketers because ICAP Marketers do not have DMNC ratings.

The third and fourth paragraphs allow a Generator whose Capability Period DMNC rating is derated from the prior year's Capability Period DMNC rating to sell ICAP up to the level demonstrated in that prior year for the entire coming Capability Period. These paragraphs essentially recognize that Generators that acquired generating assets from Member Systems following restructuring of the power sector in New York needed some time to gain experience with the

operation and optimization of such assets.

By November 1, 2001, however, most Generators will have been in operation for almost two years, and the NYISO believes that there is no more need to maintain the current language of Section 5.12.8. Instead, the NYISO proposes to allow new Generators, and Generators that have increased their Capacity since the previous Capability Period due to changes in their generating equipment, to qualify to supply ICAP on a foregoing basis during the following Capability Period. The amount of ICAP would then be based upon a DMNC test that is performed and reported to the ISO. The NYISO hopes that the proposed modification will provide an incentive for Market Participants to build new Capacity in the NYCA.

The fourth paragraph currently provides that designated bidding and scheduling entities are subject to sanctions pursuant to Section 5.12.12(b) (Section 5.12.8, para. 4, last sentence.) The paragraph does not provide, however, for a similar sanction regarding the requirement of ICAP Suppliers to schedule, Bid, or declare to be unavailable in the Day-Ahead Market the ICAP that is sold for that day. The NYISO proposes to subject such requirements to the sanctions of 5.12.12(b), and amends Section 5.12.12(b) accordingly.

5.12.9 Sales of Installed Capacity by System Resources

The NYISO proposes to modify Section 5.12.9 (current Section 5.12.6) to reflect the requirement now applicable to all Resources to submit Operating Data (*see* Section 5.12.5.)

5.12.10 Curtailment of External Transactions In-Hour

As stated above, the NYISO proposes to replace current Section 5.12.7 with Section 5.12.10. Under Section 5.12.10, all ICAP that is not scheduled to serve the Internal NYCA Load in the Day-Ahead Market may be scheduled to supply Energy for use in External Transactions. Such External Transactions, however, are subject to Curtailment within the hour, consistent with ISO Procedures.

If an ICAP Supplier's Exports are Curtailed in-hour to resolve a New York reserves shortage, the NYISO proposes that the Transmission Customer scheduling such Exports be paid, for the remainder of the hour, the higher of the Real-Time LBMP at the New York proxy bus associated with the Exports, or the real-time price at the relevant proxy bus used by the External Control Area for Transactions with New York.

5.12.11 Special Case Resources, Municipally-Owned Generation, Energy Limited Resources and Intermittent Power Resources

To qualify as ICAP Suppliers, Resources must comply with the requirements provided in Section 5.12.1. Special Case Resources, existing municipally-owned generation, Energy Limited Resources, and Intermittent Power Resources, however, have physical and technical characteristics that prevent them from meeting all or some of Section 5.12.1 requirements. Nevertheless, their ICAP contributes to the reliability of the NYCA because these Resources provide Energy that helps cover peak demand.

To the extent that they are subject to the requirements provided in Section 5.12.11, Special Case Resources, existing municipally-owned generation, Energy Limited Resources, and Intermittent Power Resources are exempt from the requirements of Section 5.12.1.

5.12.11(a) Special Case Resources. Special Case Resources are Loads capable of being interrupted upon demand, and distributed Generators, rated 100 kW or higher, that are not visible to the ISO's Market Information System (Section 2.172a). The first paragraph of current Section 5.12.8(a) (renumbered Section 5.12.11(a)) provides that Special Case Resources are exempt from the "bidding and scheduling" requirements of Section 5.12.5 (renumbered Section 5.12.8). The NYISO proposes to change this reference to the new Section 5.12.7, and to add "notification" as Special Case Resources are exempt under the current ICAP Manual from notification requirements.

In the first paragraph of Section 5.12.11(a), the NYISO also proposes to add that Special Case Resources that are not called to supply ICAP in a Capability Period may be required to run a test once every Capability Period. This addition is important to allow the NYISO to verify the amount of ICAP Special Case Resources can actually supply to the NYCA when called upon.

In the third paragraph of Section 5.12.11(a), the NYISO proposes revisions that would allow the ICAP associated with Special Case Resources to be resold in a Bilateral Transaction or during an ISO-administered auction from one ICAP Supplier to another. In these transactions, however, the seller or the purchaser of ICAP associated with Special Case Resources must agree to comply with the notification requirements set forth in the ICAP Manual. The NYISO has the ability, as described in the previous paragraph, to request Special Case Resources to run a test once every Capability Period.

5.12.11(b) Existing Municipally-Owned Generation. Current Section 5.12.8(b) provides that existing municipally-owned generation may sell its excess Capacity, but only through the 2000-2001 Winter Obligation Procurement Period. Pursuant to a decision of the Business Issues Committee, the NYISO proposes to allow municipally-owned generation to sell their excess Capacity for an indefinite period.³⁰ Municipally-owned generation has supplied ICAP which, in the past, has been a reliable source of ICAP and has helped meet the demand for Energy in the NYCA. As a result, the NYISO also has included municipally-owned generation in the definitions of ICAP Supplier and Resource (*see* Sections 2.74c and 2.160b.)

5.12.11(c) Energy Limited Resources. Energy Limited Resources are Capacity

³⁰ Business Issues Committee, Motion #2, Minutes of the Oct. 19, 2000 Meeting <http://www.nyiso.com/services/documents/groups/bus_issue_comm/10_19_00/bic_final_minutes_101900.pdf>. Motion #2 reads as follows: "Motion to move that the phrase "For the Summer 2000 Capability period" be deleted from section 4.8.8 of the ICAP manual, so that existing municipally owned generation may continue to qualify as a special case resource." The Motion passed with 78.50% affirmative votes after Motion #3 presented at the same meeting failed.

Resources that, due to design considerations, environmental restrictions on operations, cyclical requirements, or other non-economic reasons, are unable to operate continuously on a daily basis. They must be able, however, to operate for at least four (4) consecutive hours each day. (Section 5.12.11(c).) Current Section 5.12.8(c) provides that the NYISO will avoid calling on Energy Limited Resources during the hours when the NYISO knows they are recharging or replacing depleted Resources. Following discussions among the members of the ICAP Working Group, the NYISO proposes to require that Energy Limited Resources Bid an upper operating limit. The NYISO will then schedule Energy above the upper operating limit only by dispatcher control, recognizing that the Energy Limited Resource may not be capable of responding. (*See* the discussion in this filing regarding Section 5.12.1(vi) for the background on upper operating limits.)

5.12.11(d) Intermittent Power Resources. Paragraph 5.12.11(d) is new. Intermittent Power Resources are Capacity Resources that depend upon wind or solar energy for their fuel. (Section 2.77a.) To qualify as Installed Capacity Suppliers, Intermittent Power Resources must comply with the notification requirements of Section 5.12.7. The NYISO recognizes the value of renewable and alternative sources of energy. Accordingly, it has adapted the ICAP requirements to allow such Resource to qualify as ICAP Supplier and contribute to the ICAP market.

5.12.12 Sanctions Applicable to Installed Capacity Suppliers

Section 5.12.12 (current Section 5.12.9) provides the sanctions for the violation of various requirements related to the ICAP market design. Section 5.12.12(a) (current Section 5.12.9(a)) provides the sanctions for the violation of information requirements. Section 5.12.12(b) (current Section 5.12.9(b)) provides the sanctions for the violation of scheduling, bidding, and notification requirements.

5.12.12(a) Sanctions for Failing to Provide Required Information. Resources that want to qualify as ICAP Suppliers must provide documentation demonstrating that they will not utilize the same ICAP for more than one buyer at the same time (Section 5.12.1(iv)). Current Section 5.12.9(a) does not subject this requirement to a sanction. This requirement helps to ensure the integrity of the ICAP market, and there is no reason why violation of it should not be sanctionable. Thus, the NYISO proposes to subject Section 5.12.1(iv) documentation requirements to the sanctions of Section 5.12.12(a). The NYISO also proposes to add Section 5.12.1(viii), which provides that Resources shall submit Operating Data to the NYISO in accordance with Section 5.12.5. As stated previously, the NYISO needs Operating Data from all Resources to prepare to implement in the NYCA a permanent ICAP market design based on a UCAP methodology.

5.12.12(b) Sanctions for Failing to Comply with Scheduling, Bidding, and Notification Requirements. As stated previously, the NYISO proposes to require the Resources to Bid into the in-day market when it issues an SRE (Section 5.12.1(x)). Accordingly, the NYISO proposes to include Section 5.12.1(x) in the list of sanctionable bidding requirements of Section 5.12.12(b). The NYISO also proposes to include the requirements provided by the new Section 5.12.7. Section 5.12.7 scheduling, bidding, and notification requirements help ensure that demand for Energy in the NYCA will be met by sufficient supply. Finally, the last line of current Section 5.12.12(b) must be

deleted because it refers to recall bids, which the NYISO proposes to remove from the ISO Services Tariff.

5.13 Installed Capacity Auctions

5.13.1 General Auction Requirements

The proposed revisions to the second paragraph of Section 5.13.1 are simply clarifying words and the removal of due dates to the ISO Procedures.

5.13.2 The Obligation Procurement Period Auction

The NYISO administers Obligation Procurement Period auctions twice every year, thirty days before the start of each Obligation Procurement Period (Section 5.13.2). Each auction is divided into two phases to allow LSEs located in the New York City Locality, where supply is limited, to procure sufficient ICAP to meet their ICAP requirements.

Paragraph two (2) of Section 5.13.2 allows any ICAP Supplier that owns excess ICAP to participate in the first phase of the auction. Currently, this ICAP Supplier can sell ICAP which is “associated [only] with qualified In-City Generators.” As some Market Participants noted during ICAP Working Group meetings, “Generators” are not the only type of Resources that supply qualified ICAP In-City. Rather, ICAP Suppliers should be able to participate in the first phase if they own excess ICAP associated with any “qualified In-City ICAP Supplier.”

The NYISO proposes revisions to the second and third paragraphs of Section 5.13.2 to clarify that ICAP associated with In-City ICAP Suppliers cannot be resold for a price higher than the mitigated price cap ordered by the Commission.

5.13.3 Monthly Auctions

The NYISO holds monthly auctions to allow Market Participants to purchase and sell ICAP for any one or the remaining months of an Obligation Procurement Period (Section 5.13.3). For the reasons provided previously with regard to Section 5.13.2, the NYISO proposes to allow ICAP Suppliers that own excess ICAP associated with any “qualified In-City ICAP Supplier” to participate in the first phase of monthly auctions.

The NYISO proposes revisions to the second and third paragraphs of Section 5.13.3 to clarify that ICAP associated with In-City ICAP Suppliers cannot be resold for a price higher than the mitigated price cap ordered by the Commission.

5.14 Installed Capacity Deficiencies and Deficiency Procurement Auctions

5.14.1 LSE Deficiencies

In the interest of clarity, the NYISO proposes to divide current Section 5.14.1 into two sections. Section 5.14.1(a) describes how and when the NYISO will hold a Deficiency Procurement Auction, and Section 5.14.1(b) provides the deficiency charges that are imposed on LSEs that are still

deficient at the end of a Deficiency Procurement Auction.

5.14.1(a) Deficiency Procurement Auction. LSEs must procure sufficient ICAP to meet their ICAP requirements as determined by the NYISO prior to the beginning of a Capability Period, or as a result of Load-shifting between LSEs (Sections 5.11.1 and 5.11.2). LSEs located in Localities must also procure sufficient ICAP, but only from qualified ICAP Suppliers (Section 5.11.3). When LSEs do not meet these requirements, the NYISO will procure such ICAP through a Deficiency Procurement Auction where the NYISO will submit “deficiency Bids” on behalf of the deficient LSEs.

The NYISO proposes to remove Section 5.11.4 from the requirements subject to the Deficiency Procurement Auctions of Section 5.14.1(a). Section 5.11.4 provides that LSEs serving Load within a Locality shall be subject to Locational ICAP requirements. This revision is required to conform Section 5.14.1(a) to the revisions proposed by Market Participants in 5.14.3(b) (*see* discussion below.)

5.14.1(b) Deficiency Charges Imposed. Similar to the changes made in Sections 5.13.2 and 5.13.3, the NYISO proposes to procure ICAP during Deficiency Procurement Auctions not solely from Generators, but from any ICAP Suppliers.

5.14.3 Application of Deficiency Charges

5.14.3(b) Locational Installed Capacity Rebates. In its October 11, 2000 Order, the Commission approved NYISO’s proposal to implement a targeted rebate for In-City LSEs during the 2000 Summer Capability Period only. When In-City LSEs paid greater than \$8.75 per kW either in a regular Obligation Procurement Period Auction or through a Deficiency Charge, the NYISO rebated up to \$3.75 per kW (current Section 5.14.3(b)). These rebates represented the difference between the amount collected by the NYISO in deficiency charges and the amount paid by the NYISO to procure previously unqualified ICAP (Section 5.14.3(b).)

The revisions to the targeted ICAP rebate hereby submitted were developed by the Market Participants. The ICAP Working Group and the Business Issues Committee approved a series of revisions to Section 5.14.3(b), which were then amended further by the Management Committee.³¹ The Market Participants propose to extend the targeted ICAP rebate to the Long Island Locality. Under the proposed revisions, the rebate also would apply during any months where an ICAP deficiency exists in either Locality, but only until an ICAP surplus is forecasted at the beginning of each of two consecutive Summer Capability Periods for the respective two Localities. As described in the following paragraphs, the revisions would modify the way the targeted ICAP rebate is calculated and allocated among LSEs.

(i) New York City Locality. If an ICAP deficiency exists during the first month of an ICAP

³¹ Section 5.14.3(b) reflects the amendment adopted by the Management Committee meeting. *See* http://www.nyiso.com/services/documents/groups/mgmt_comm/meeting_materials.html#fm.

Obligation Procurement Period in the New York City Locality, the NYISO would rebate any remaining unspent deficiency charges collected for that month. The rebate would be allocated among all In-City LSEs in proportion to their share of the applicable Locational ICAP Requirement. If, during the second through sixth month of an ICAP Obligation Procurement Period, an ICAP deficiency exists In-City, the NYISO would rebate any remaining unspent deficiency charges collected for that month to Load-gaining LSEs. The rebate would be such that the price paid for such ICAP is no lower than the weighted average aggregate purchase price paid for those months in the Obligation Procurement Period auction, the first monthly auction, the first deficiency auction, and any deficiency charges collected.

The distinction in the allocation of the targeted rebate between the first and the other months of the Obligation Procurement Period addresses Load-shifting. During the first month, all LSEs should procure sufficient ICAP on the basis of their locational ICAP requirement. Starting with the second month, however, Load-gaining LSEs need to procure additional ICAP. Experience demonstrates that a shortage in In-City ICAP may occur at that point if Load-losing entities hold on to their previously procured ICAP. For these reasons, the rebate for the second through the sixth months of the Obligation Procurement Period will be allocated among Load-gaining LSEs.

(ii) Long Island Locality. The Long Island Locality does not experience any deficiency in ICAP as a result of Load-shifting because it has only one LSE. Thus, the Market Participants have proposed for the entire Obligation Procurement Period a targeted ICAP rebate that is identical to the one applicable during the first month of an Obligation Procurement Period in the New York City Locality.

5.16 Expedited Dispute Resolution Procedures

Section 5.16 provides for Expedited Dispute Resolution Procedures. The procedures track the Dispute Resolution Procedures contained in Article 11 of the ISO Services Tariff, except that: (i) they provide for a resolution within 25 days; (ii) where the parties cannot reach a mutual agreement within five days, the dispute is resolved by binding arbitration only; and (iii) the arbitrator must select one of the proposals from the parties, rather than craft a solution. Section 5.16 would cover disputes referred to in Sections 5.10 (para. 2), 5.11.1 (para. 2 and 3), and 5.11.3 (para. 2).

4.18 Real Time Market Settlement

The NYISO proposes revisions to conform Section 4.18 with the revisions proposed in Section 5.12.1 (xi)(a)-(c). The NYISO and Market Participants have interpreted the term “existing” in Section 4.18 as a reference to November 18, 1999 because Section 4.18 became effective on this date.

Attachment B, Article III, Section 2.7

The NYISO proposes revisions to conform Section 2.7 of Article III of Attachment B to the ISO Services Tariff with the revisions proposed in Section 5.12.1 (xi)(a)-(c). The language included in this section 2.7 is identical to the provisions of Section 5.12.1 (xi)(a)-(c) and of Section 4.18.

VIII. Requisite Agreement

The revisions to the ISO Services Tariff proposed in this filing have been approved in accordance with the NYISO Agreement³² as follows:

- The Load Forecasting Working Group of the ICAP Working Group approved Section 5.16 on November 1, 2000.
- The ICAP Working Group of the Business Issues Committee approved the revisions proposed in this filing with the exception of the amendment adopted at the Management Committee on Section 5.14.3(b), on November 16, 2000.
- The Business Issues Committee approved the revisions proposed in this filing by show of hands, with the exception of the amendment adopted at the Management Committee on Section 5.14.3(b), on December 12, 2000.³³
- The Management Committee approved the revisions proposed in this filing by an affirmative vote of 96.93 % on January 9 and 10, 2001.
- The NYISO Board of Directors unanimously approved the revisions proposed in this filing on January 15-16, 2001.

IX. No Costs Relating to Discriminatory Employment Practices

The NYISO has no knowledge of any relevant expenses or costs of service that have been alleged or judged in any administrative or judicial proceeding to be illegal, duplicative or unnecessary costs that are demonstrably the product of discriminatory employment practices.

X. Effect of Rate Schedule Change

It is not expected that the proposed modification to the ISO Services Tariff will impact rates.

XI. Federal Register Notice

A form of *Federal Register* Notice is provided as Attachment III hereto. A diskette of the notice is also provided.

Respectfully submitted,

³² Article 19 of the NYISO Agreement provides that the ISO Management Committee and the ISO Board must agree to proposed amendments to the ISO Tariffs.

³³ Business Issues Committee, *Minutes of the December 12, 2000 Meeting*, Motion 12, http://www.nyiso.com/services/documents/groups/bus_issue_comm/12_12_00/final_minutes_121200.pdf.

Kathy Robb

Counsel for

New York Independent System Operator, Inc.

Attachments

cc: Signatories to the ISO Services Tariff

ATTACHMENT I

ATTACHMENT II

ATTACHMENT III

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

New York Independent System Operator, Inc.) Docket No. _____

NOTICE OF FILING

Take notice that the New York Independent System Operator, Inc. (“NYISO”) on February 9, 2001 tendered for filing proposed revisions to Sections 5.9 - 5.16 of its Market Administration and Control Area Services Tariff. The NYISO requests an effective date of 60 days after this filing (April 10, 2001).

Copies of this filing were served upon all persons who have signed the NYISO Market Administration and Control Area Services Tariff.

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, NE, Washington, DC 20426, in accordance with Rules 211 and 214 of the Commission’s Rules of Practice and Procedure (18 C.F.R. §§ 385.211 and 385.214). All such motions or protests must be filed in accordance with § 35.8 of the Commission’s regulations. Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make protestants parties to the proceeding. Any person wishing to become a party must file a motion to intervene. Copies of this filing are on file with the Commission and are available for public inspection in the Public Reference Room. This filing may also be viewed on the Internet at <http://www.ferc.fed.us/online/rims.htm> (call 202-208-2222 for assistance).

David P. Boergers
Secretary