

**Proposed Tariff Provisions Regarding
NYISO Price Corrections
Draft – For Discussion Only
August 25, 2005**

Introduction

Correctly calculated prices are essential to the operation of the NYISO-administered markets, and frequent price errors and corrections can undermine confidence those markets, potentially leading to decreased participation. Recently, price errors and corrections have been a subject of concern for both the NYISO and its market participants.

In its May 9, 2005, order allowing a 10-day period for the NYISO to make price corrections through September 30, FERC directed the NYISO to file a report no later than October 31, 2005, for informational purposes only, that includes a plan and schedule for shortening the time periods both for posting notices of possible price errors and for correcting prices under the TEP as well as eventually phasing out the TEP altogether.

This document describes proposed changes to the NYISO tariffs regarding the procedural aspects of correction of Energy and Ancillary Services prices determined to have been calculated in error. The NYISO will separately address with the Billing and Price Correction Task Force: (i) the substantive criteria for determining that a price has been calculated in error and requires correction and (ii) measures to reduce or eliminate underlying price calculation errors. The TCC and ICAP markets are being addressed through separate NYISO initiatives.

The present proposal is intended to address the concern of some Market Participants regarding what they perceive as confusion involving the procedures and relevant time limits for price corrections while recognizing the concerns of other market participants that believe that the procedural rules and time limits should not be tightened until progress has been made in eliminating the underlying errors.

Guiding Principles

The NYISO must achieve an acceptable level of initial price accuracy. Improved rules regarding price reservations and corrections are important, but do not diminish the need for improved performance in initial price calculation. The NYISO is dedicating substantial resources to addressing the root causes of price errors, which will be detailed in an Action Plan to be distributed to Market Participants.

This straw proposal recognizes the need for significant improvement in initial price accuracy, and makes such accuracy a key factor in establishing a schedule for corrections. It reduces the time during which corrections may be made, but only does so once a certain level of improvements in initial price accuracy have been achieved.

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The rules pertaining to price reservations and corrections must be clearly established in the NYISO tariffs. The NYISO tariffs should be revised to resolve any ambiguity regarding the NYISO's price correction responsibilities.

The NYISO's price review and correction process must be transparent to NYISO market participants. Subject to appropriate restrictions to protect confidential information, the NYISO should make available sufficient information to allow market participants to understand and monitor the NYISO's price review and correction processes and determinations.

Price certainty is a function of both price accuracy and finality. The NYISO's price review and correction rules should strike an appropriate balance.

Key Terms of Proposed Provisions

I. Scope

Tariff provisions regarding price corrections, including notice requirements and time limits for correction, shall apply to the calculation and corrections of Energy and Ancillary Services clearing prices that are posted on OASIS and used in NYISO settlements.

- *This eliminates the current distinction between “TEP” and “non-TEP” or “filed rate doctrine” corrections.*
- *This excludes from the scope of these rules advisory prices and any other price information that is not posted on OASIS and used in NYISO settlements.*
- *Includes Day-Ahead, Hour-Ahead, and Real-Time Energy prices, to the extent they are posted on OASIS and used in NYISO settlements.*
- *The NYISO would, in appropriate cases, intend to seek waiver of these provisions for a finite period of time in connection with major software deployments.*

II. Reservation and Correction

The NYISO shall provide notice reserving a potentially erroneous Hour-Ahead or Real-Time price by 17:00 of the calendar day following the operating day for which the price was calculated.

The NYISO shall provide notice reserving a potentially erroneous Day-Ahead price prior to the start of the operating day for which the price was calculated.

The NYISO shall make any necessary price correction within five additional business days after the price reservation deadline. Once the need for corrections has been reduced to no more than 2% of hours per month for three successive months and necessary resources are in place, the NYISO shall make any price correction within three additional business days after the price reservation deadline. In either case, the NYISO shall provide notice of the correction that shall

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include a brief description of the price error, the required correction, and supporting tariff references.

NYISO notices regarding potential price errors and corrections shall be subject to appropriate confidentiality restrictions.

The NYISO shall identify the cause of each error requiring correction, determine how such cause shall reasonably be eliminated or diminished in the future and report periodically to Market Participants on its findings and on progress made in such reduction or diminution.

- *This schedule is more explicit and, eventually, faster than what is required under the TEPs in the current tariffs, which require reservation by the following calendar day and correction within five additional calendar days. In addition, these provisions establish more extensive notice requirements than the current tariffs.*
- *The NYISO cannot meet a three business day price correction deadline with existing staffing levels and resources. Therefore a phased approach to shortening the deadline for price corrections to three business day may be necessary (i.e., 24 x 7 price correction and market operations).*

III. Alternate Correction Methodology

In the event that a price cannot be calculated in accordance with the NYISO tariffs, due to the unavailability of necessary data or otherwise, the NYISO shall construct prices as close as reasonably possible to the prices that should have resulted from the operation of the relevant tariff provisions by drawing from prices calculated for electrically similar points (PTIDs), prices in surrounding intervals, Real-Time Commitment prices, or Day-Ahead Market prices for the affected interval(s).

- *This is more explicit and specific than the current tariffs.*

IV. System Emergency / Catastrophic Software Failure

In the event of a system emergency or catastrophic failure of the NYISO's price calculation software that prevents the NYISO from calculating prices in accordance with the provisions above, the NYISO shall provide notice of the problem to the FERC and market participants as soon as possible, but in no event later than the beginning of the next business day. Within two additional business days, the NYISO shall inform the FERC and market participants regarding the nature of the problem and the schedule for determining the procedures to be used by the NYISO to construct prices as close as possible to the prices that should have resulted from the application of the market rules established in the tariffs to prevailing system conditions.

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V. Limitation on Corrections

Erroneous prices not reserved and corrected within these times shall not be corrected by the NYISO absent FERC or judicial intervention.

- *This is broader and more explicit than the current provisions.*

VI. Limitation of Liability

The NYISO shall not be liable for errors of commission or omission relating to price errors that are left uncorrected by operation of these rules, except in cases of intentional misconduct.

- *The current tariffs do not contain this provision.*

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