NEW YORK INDEPENDENT SYSTEM OPERATOR

ORIGINAL

March 25, 2005

By Hand

Magalie R. Salas, Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Re: Proposed Tariff Revisions Enabling Generic Implementation of Scheduled Lines and Implementing the Cross-Sound Cable as a Scheduled Line of the New York Independent System Operator, Inc.
Docket No. ER05-727-000

Dear Secretary Salas:

Pursuant to Section 205 of the Federal Power Act, the New York Independent System Operator, Inc. ("NYISO"), hereby submits proposed revisions to its Market Administration and Control Area Services Tariff ("Services Tariff") and to its Open Access Transmission Tariff ("OATT") (collectively, the "Tariffs"). The proposed tariff revisions will enable the NYISO to put in place additional Proxy Generator Buses[1] representing the interfaces between the New York Control Area ("NYCA") and neighboring Control Areas. This capability will enable the NYISO to schedule on a facility-by-facility basis, "controllable" Transmission Facilities separately from the existing Proxy Generator Buses that each represent the transfer capability of an entire interface between the NYCA and a neighboring Control Area. "Controllable" transmission facilities that are approved for treatment as a distinct scheduling path are referred to in the proposed tariff provisions as "Scheduled Lines." The proposed revisions specifically identify only one transmission facility that is eligible for treatment as a Scheduled Line; the "Cross-Sound Scheduled Line." The determination as to whether to implement additional transmission facilities as Scheduled Lines will be made on a case-by-case basis, and shall require both input from Market Participants and Commission approval prior to implementation.

The proposed tariff revisions propose both generic market rules that will apply to External Transactions at all Proxy Generator Buses that are associated with Scheduled Lines and rules that will apply only at the Proxy Generator Bus that is associated with the Cross-Sound Scheduled Line. The proposed revisions will establish the Cross-Sound Scheduled Line, an underwater, Direct Current ("DC"), merchant transmission facility linking Shoreham, New York to New Haven, Connecticut that is subject to the operational control of the ISO New England Inc. ("ISO-NE"), as the NYISO's first Scheduled Line. Implementation of the tariff revisions

[1] Capitalized terms not specifically defined herein shall have the meaning set forth in the NYISO's Tariffs, as amended by the enclosed proposed revisions to the Tariffs.

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proposed herein will enable the NYISO to support the scheduling of Market Participant-specific External Transactions between the NYCA and the Cross-Sound Scheduled Line.

The Long-Island Power Authority ("LIPA") is, at present, the sole holder of long-term firm Advance Reservations over the Cross-Sound Cable. The enhanced scheduling capability proposed in the attached tariff provisions will allow LIPA to continue to schedule transactions across the Cross-Sound Scheduled Line, while at the same time allowing third parties to schedule transactions between the New England Control Area and the NYCA using Cross-Sound Scheduled Line capacity that LIPA has released. This will facilitate efficient inter-regional trading between New England and New York, strengthening the integration of the two markets.

I. Documents Submitted

The NYISO submits the following documents:

1. this filing letter;
2. clean versions of the revised Services Tariff sheets (Attachment I);
3. blacklined versions of the revised Services Tariff sheets (Attachment II);
4. clean versions of the revised OATT sheets (Attachment III);
5. blacklined versions of the revised OATT sheets (Attachment IV);
6. the Affidavit of Dr. David B. Patton addressing the application of the Special Pricing Rule to the Cross-Sound Scheduled Line (Attachment V); and
7. a form of *Federal Register* notice (Attachment VI).

II. Copies of Correspondence

Copies of correspondence concerning this filing should be served on:

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III. Stakeholder Review

On January 5, 2005, a motion authorizing the NYISO to file the attached tariff revisions was approved by the NYISO's Management Committee without dissent but with some abstentions. In accordance with the requirements of the Management Committee's motion, prior to its submission of this filing, the NYISO circulated its proposed tariff language for review by members of its Market Structures Working Group and obtained the approval of the chairs and vice-chairs of its Business Issues Committee and Management Committee.

One of the Market Participants abstaining from the vote was LIPA. LIPA has stated that while it "supports bringing the proposed tariff language to the FERC for consideration in order to ensure the timely implementation of the NYISO's controllable line scheduling software for the CSC,"[2] LIPA objects to "the NYISO's failure to recognize the Cross Sound Cable reservations as the tiebreaker for economic transactions using the Shoreham Proxy Bus."

The NYISO agreed with LIPA that, rather than delaying the generic implementation of the Scheduled Lines software and/or the implementation of the Cross-Sound Scheduled Line, the parties would explain their positions and permit the Commission to decide this issue. It is the NYISO's understanding that: (a) LIPA will explain its position on the "tiebreaker" issue in a protest LIPA will file in response to this application; and (b) LIPA has agreed not to object when the NYISO files an answer responding to LIPA's protest. The NYISO's answer to LIPA's protest will include a request that the Commission waive its usual prohibition against such answers in light of the special circumstances presented here.

IV. Requested Effective Date

The NYISO respectfully requests that the Commission waive its notice regulations[3] so that the proposed interim scheduling procedures may take effect on the earliest feasible date between May 24 and June 30, 2005. The NYISO expects that it will be able to implement the revised market rules and to implement the Cross-Sound Scheduled Line within the requested timeframe. There is good cause to permit the NYISO a degree of flexibility in implementing the tariff revisions proposed herein because their effective implementation is, as explained in greater detail below, dependent upon the NYISO's completion, testing and implementation of new scheduled line specific software, and on the NYISO's completion of modifications to its new Real-Time Scheduling market software. Granting the NYISO's request will give the NYISO sufficient flexibility to implement the new market rules and the Cross-Sound Scheduled Line at

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[2] Under Section 5.2(D) of the NYISO's OATT, all transactions into and out of the LIPA transmission district must be pre-approved by LIPA before they may be scheduled by the NYISO. The Commission accepted this arrangement because it was needed to preserve the tax-exempt status of LIPA's bonds, and to make LIPA's participation in the NYISO possible. Despite its stated objection to one aspect of the NYISO's proposed implementation, LIPA generally supports the implementation of the Cross-Sound Cable as a Scheduled Line and has "pre-approved" the scheduling of several types of transactions involving LIPA's transmission facilities.

[3] 18 C.F.R. §§ 35.3(a), 35.11 (2004).

the earliest possible date, while permitting the NYISO adequate time to ensure that system reliability will not be adversely impacted. The NYISO commits to provide at least two weeks notice to the Commission, to ISO-NE and to all Market Participants before it implements the new market rules and implements the Cross-Sound Scheduled Line as its first Scheduled Line.

No Market Participant will be prejudiced by the requested effective date because the proposed procedures: (a) were developed in consultation with New York Market Participants, and they have known, for some time, that the NYISO would seek to make the Cross-Sound Scheduled Line scheduling procedures effective in May or June of 2005; (b) will make it possible for *all* Market Participants in good standing in New York and in New England to schedule transactions between Long Island and Connecticut using the Cross-Sound Scheduled Line; (c) may enable LIPA to recoup some portion of the cost of its long-term firm Advance Reservation over the Cross-Sound Scheduled Line by reselling capacity that LIPA is not using; and (d) presents similar possibilities for the implementation of other transmission facilities as Scheduled Lines.

The Commission has previously accepted requests for "flexible" effective dates in tariff filings seeking to introduce substantial market rule revisions and software changes.[4] In those proceedings, the filing party proposed that the flexible effective date would not occur until: (i) the Commission issued an order accepting the tariff revisions; (ii) at least two weeks after the filing party notified the Commission and stakeholders of the actual implementation date; and (iii) after final notice of the proposed effective date was posted on the filing party's website for at least forty eight hours. The NYISO is willing to make the same commitments in this proceeding.

V. Service

The NYISO respectfully requests a waiver of the requirements of 18 C.F.R. § 385.2010. The NYISO has electronically served a copy of this filing on the official representative of each of its customers, on each participant in its stakeholder committees, on ISO-NE, on the New York Public Service Commission, and on the electric utility regulatory agencies of New Jersey and Pennsylvania. In addition, the complete filing has been posted on the NYISO's website at www.nyiso.com. The NYISO will make a paper copy available to any interested party that requests one.

There is good cause to grant this request for waiver due to the number of interested parties that must be served. Preparing and serving paper copies of this filing would be needlessly time-consuming and expensive. The NYISO has now requested a waiver of the Commission's paper service requirements, and used electronic service methods, several times. There have been no complaints from Market Participants and it is the NYISO's understanding that many of its Market Participants prefer electronic service.

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[4] *See New York Independent System Operator, Inc.*, 106 FERC ¶ 61,111 at PP 5, 10 (2004); *see also New England Power Pool and ISO New England Inc.* 100 FERC ¶ 61,287 (2002).

VI. Background

A. Proxy Generator Buses and Scheduled Lines

A Proxy Generator Bus is a Generator bus located outside the NYCA that is used by the NYISO to represent a typical bus in an adjacent Control Area for which Locational Based Marginal Prices ("LBMPs") are calculated. Today, Proxy Generator Buses ordinarily represent and account for the entire intertie capability between the NYISO and a neighboring Control Area. Implementation of the Scheduled Line tariff provisions will enable the NYISO to move away from relying on a single Proxy Generator Bus to represent and account for its entire interchange capability with each of its neighboring Control Areas. Instead, the NYISO will continue to use a single Proxy Generator Bus to represent and account for the vast majority of its interface capability with each of its neighbors, but will gain the ability, on a case-by-case basis, to implement transmission facility specific Proxy Generator Buses that can be used to segregate and schedule External Transactions (Imports, Exports and Wheel-Throughs) over specific transmission facilities that comprise a portion of the overall interchange capability between Control Areas. This will enable Market Participants to schedule External Transactions at the Proxy Generator Bus that is associated with the Scheduled Line both in the Day-Ahead and Real-Time Markets and will enable the NYISO's operators to separately monitor each Scheduled Line and curtail transactions on the line, should such actions prove necessary to ensure reliable system operation.

Scheduled Lines are distinct scheduling paths for which the NYISO will post total transmission capability ("TTC") and available transmission capability ("ATC"). Each Scheduled Line will be associated with a distinct Proxy Generator Bus. Transmission facilities for which Scheduled Line treatment may be appropriate include so-called "controllable" facilities that give the transmission system operators a significant degree of control over the power that flows (or does not flow) over the facility. The capability to maintain the Scheduled Line actual interchange at the Desired Net Interchange ("DNI"), or within the tolerances dictated by Good Utility Practice is a necessary prerequisite. Transmission facilities that present operators with some degree of ability to control flows include direct current ("DC") facilities and alternating current facilities that can be partially controlled via the use of phase angle regulators ("PARs").

However, the NYISO does not believe it is possible to make a blanket determination as to the facilities for which Scheduled Line treatment is appropriate. Many factors other than the ability to control flows must be considered when deciding whether a particular transmission facility should be broken out from the larger Control Area interface as a Scheduled Line. Relevant factors include (but are not limited to) the following: (a) the desires of the neighboring Control Area that is interconnected with the NYCA via the transmission facility that is being considered for Scheduled Line treatment; (b) differences or inconsistencies between the tariffs and/or market rules of the neighboring Control Area that interconnects to the NYCA via the Scheduled Line and the NYISO's tariff requirements or market rules; (c) the ability of the neighboring Control Area to support the existence of multiple Proxy Generator Buses representing its interfaces with the NYCA; (d) the occurrence of significant unscheduled flows over the relevant facilities; (e) the existence of inter-Control Area agreements, grandfathered rights, or other contractual arrangements that might be complicated or disrupted by treating a

particular transmission facility as a Scheduled Line; (f) the identity of the entity that possesses operational control over the transmission facility; (g) the desires of the entity or entities that own and/or operate the transmission facility; and (h) differences from, or inconsistencies between the tariff and/or market rules applicable to the transmission facility that is a candidate for becoming a Scheduled Line and the NYISO's tariff requirements and market rules.

The tariff provisions and market rules that the NYISO is proposing to implement in this filing will both implement the Cross-Sound Scheduled Line as the NYISO's first such facility and take necessary first steps toward the future implementation of additional Scheduled Lines and their associated Proxy Generator Buses. The future implementation of new Scheduled Lines will require both tariff and software modifications to accomplish.

Implementing the Cross-Sound Scheduled Line required significant effort by the NYISO, not just because it is the first such transmission facility, but also because it relies on Advance Reservations rather than economic bids (which are used to make reservations in a LBMP system) as a primary method of allocating transmission capacity. The proposed tariff revisions that are attached to this transmittal letter include provisions that are designed to enable the NYISO to accommodate the "physical" nature of reservations over the Cross-Sound Scheduled Line. The NYISO's software design, likewise, includes new, additional capabilities that are necessary to accommodate the implementation of the Cross-Sound Cable as a Scheduled Line that allocates transmission capacity primarily via Advance Reservations rather than economic bids.

Customers seeking transmission service at Proxy Generator Buses that are associated with Scheduled Lines will be able to take advantage of the full range of scheduling options currently offered at other Proxy Generator Buses in the NYISO market, except that they will not be able to schedule Prescheduled Transactions. Pre-Scheduled Transactions may be scheduled in New York up to eighteen months in advance and hold a super-priority over other types of transaction requests. For these reasons, Pre-Scheduled Transactions are only approved if they satisfy an "n-2" (two contingency) transfer capability analysis. It is unlikely that a transaction that flows across a discrete set of transmission facilities (a Scheduled Line) could satisfy an n-2 transfer capability analysis and be scheduled because at least one of the two contingencies analyzed would almost certainly be the outage of the Scheduled Line itself.

B. The Cross-Sound Cable/Cross-Sound Scheduled Line

The Cross-Sound Cable is a direct current underwater merchant transmission cable that interconnects Shoreham, New York, to a point in the ISO-NE Control Area near New Haven, Connecticut. The Cross-Sound Cable is owned by Cross-Sound Cable, LLC ("CSC, LLC") and is subject to the operational control of ISO-NE. Transmission service over the Cross-Sound Cable is presently governed (in large measure) by the applicable terms of Schedule 18 and the Schedule 18 Implementation Rule of the ISO New England Inc. Transmission, Markets, and Services Tariff. All long-term firm Advance Reservations on the Cross-Sound Cable are presently held by LIPA. Once the Scheduled Lines software solution, along with the implementing tariff revisions that are proposed in this filing, are in place, third parties will be able to transfer power between New York and New England over the Cross-Sound Scheduled Line using transmission capability that LIPA has released.

The Cross-Sound Cable is presently operating in accordance with an agreement reached between LIPA, Northeast Utilities, CSC, LLC, and various agencies of the States of Connecticut and New York. *See Statement of FERC Chairman Pat Wood, III On Long Island Sound Electric Cable Settlement*, issued in Docket No. TX04-3 on June 24, 2004. However, the Cross-Sound Cable's operations are presently limited to day-ahead and real-time schedules submitted by LIPA. Commission acceptance of the tariff provisions proposed in this Application will permit LIPA and third party users of the Cross-Sound Scheduled Line to obtain transmission service in accordance with Schedule 18 of the ISO-NE OATT and the NYISO's proposed tariff revisions.

As explained in Section IV.A. of this transmittal letter, the NYISO had to develop special facility-specific software modifications in order to enable the Cross-Sound Cable to be implemented as a Scheduled Line. This software was needed to permit the NYISO to reflect the regime of "physical" Advance Reservations that apply to the Cross-Sound Cable and will apply to the Cross-Sound Scheduled Line. The NYISO is proposing tariff revisions and the following changes to its market rules and operating practices in order to accommodate implementation of the Cross-Sound Cable as a Scheduled Line:

First, both the NYISO's Day-Ahead Market ("DAM") and Real-Time Market ("RTM") will close ten minutes early to bid submissions for External Transactions over the Cross-Sound Scheduled Line. Market Participants desiring to submit bids to schedule External Transactions over the Cross-Sound Scheduled Line in the New York DAM will be required to have (i) an Advance Reservation on the CSC, LLC node of the ISO-NE OASIS, (ii) a valid NERC E-Tag that specifically identifies the Advance Reservation that is supporting the proposed External Transaction, and (iii) a bid submitted to the NYISO's Market Information System ("MIS") by 4:50 a.m., instead of 5:00 a.m., of the day prior to the Dispatch Day in question. Similar requirements will apply to bids seeking to schedule RTM External Transactions, which must be submitted at least 85 minutes prior to the relevant dispatch hour. Bids must be submitted ten minutes earlier than usual in order to permit the NYISO to perform a programmatic query of the CSC, LLC node of the ISO-NE OASIS to ensure that the proposed External Transactions over the Cross-Sound Scheduled Line are adequately supported by Advance Reservations.[5]

Second, the NYISO is proposing to limit each NERC E-Tag that supports an External Transaction at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line, to referencing no more than one Cross-Sound Scheduled Line Advance Reservation ID or "assignment reference number" from the CSC, LLC node of the ISO-NE OASIS. This requirement is necessary to address limitations on the NYISO's ability to programmatically

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[5] Because LIPA holds firm Advance Reservations over the Cross-Sound Cable, which may be superior to the non-firm Advance Reservations it releases or sells to others, and because CSC, LLC, which is responsible for maintaining the CSC, LLC node of the ISO-NE OASIS, does not decrement Advance Reservations when they are resold (via a default release or other method), it may not always be possible for the NYISO (or ISO-NE) to achieve a perfect match between Advance Reservations and bids. Under these circumstances, the NYISO will rely on economic priority to determine which External Transactions to schedule.

search the CSC, LLC node of the ISO-NE OASIS for Advance Reservations and tie those Advance Reservations back to a New York MIS bid.

Third, CSC, LLC and ISO-NE have implemented an Advance Reservation regime that limits directional (New England to New York and New York to New England) reservations (and resulting schedules) over the Cross-Sound Scheduled Line to between 330 MW and 660 MW in each hour. The operation of the Advance Reservation process is explained in greater detail in the attached Affidavit of Dr. David B. Patton. Because the NYISO will only evaluate bids submitted by the holders of Advance Reservations, the NYISO is proposing to implement a Special Pricing Rule that will apply when the Cross-Sound Scheduled Line is subject to a transfer limit (TTC) constraint, but not a when the Cross-Sound Scheduled Line is subject to a ramp (DNI) constraint. The Special Pricing Rule mirrors the NYISO's existing Non-Competitive Proxy Bus Rule[6] and will protect NYCA loads from paying for counterflow at super-market prices in circumstances when the Cross-Sound Scheduled Line is derated and the NYISO must either purchase counterflow to support, or derate External Transactions that have already been scheduled to or from the Cross-Sound Scheduled Line. The NYISO proposes to apply the Special Pricing Rule to the Cross-Sound Scheduled Line and to determine on a case-by-case basis whether the Special Pricing Rule should apply to future Scheduled Lines. The affidavit of Dr. David B. Patton explaining the basis for the NYISO's determination that the Cross-Sound Scheduled Line should be subject to the Special Pricing Rule is included as Attachment V. hereto.

Fourth, because the Cross-Sound Scheduled Line is under the operational control of ISO-NE, the NYISO has determined that it will not derate the Cross-Sound Scheduled Line based on system conditions in New England (including but not limited to the status of the Cross-Sound Scheduled Line itself). Rather the NYISO will leave these operating decisions to ISO-NE. The NYISO has also determined that it will not derate the Cross-Sound Scheduled Line based on system conditions in New York, except when derating the Cross-Sound Scheduled Line is necessary to prevent the imminent loss of a generation or transmission facility, or to prevent the loss of service to New York loads.

Fifth to the extent possible, Curtailments of External Transactions at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line will be based on the transmission priority of the associated Advance Reservation on the CSC, LLC node of the ISO-NE OASIS. In general, NERC tranamission priority will be used to determine the order of curtailments. Firm or non-firm transactions that share the same NERC priority will be curtailed *pro rata*. Similar to its determination regarding the derating of the Cross-Sound Scheduled Line for scheduling purposes, the NYISO will not curtail transactions over the Cross-Sound Scheduled Line based on system conditions in New England, or on the Cross-Sound Scheduled Line itself, but may curtail transactions over the Cross-Sound Scheduled Line when system conditions in New York make in-hour curtailment necessary.

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[6] *See New York Independent Transmission System Operator, Inc.*, 104 FERC ¶ 61,220 (2003); *on reh'g*, 105 FERC ¶ 61,347 (2003).

Finally, the Commission has instructed the market monitors of both ISO-NE and the NYISO to monitor for withholding of Cross-Sound Scheduled Line capacity. *Cross Sound Cable Company, LLC*, 109 FERC ¶ 61,223 at PP 26, 28 (2004). In order to effectuate the Commission's instruction, the NYISO has proposed amendments to its tariffs that would permit the NYISO's Market Monitoring and Performance Unit to share (provide and receive) confidential information that relates to transactions between the two markets with the market monitoring unit of ISO-NE. The proposed bases for exchanging confidential data are limited to (a) identifying and preventing efforts to game the market rules that apply in New York or in New England, or (b) identifying and preventing the exercise of market power in either of the two markets. In order to safeguard the confidentiality of data provided by its Market Participants, the NYISO's proposal to permit the two ISOs and their market monitoring units to share confidential information is predicated on the implementation of significant legal and procedural safeguards by the ISOs.

VII. Description of Proposed Tariff Revisions

A. Definitions

The NYISO is proposing to revise Article 2 of the Services Tariff, and Article 1 of the OATT, to include new or modified defined terms related to the implementation of Scheduled Lines and the CSC as a Scheduled Line. The new or modified terms are: (i) "Advance Reservation" (OATT § 1.0b, Services Tariff § 2.1.2); (ii) "Cross-Sound Scheduled Line" (OATT § 1.6b, Services Tariff § 2.32e); (iii) "Proxy Generator Bus" (OATT § 1.35g, Services Tariff § 2.149); (iv) "Real-Time Bid" (OATT § 1.36d.1, Services Tariff § 2.153a); and (v) "Scheduled Line" (OATT § 1.39d.02, Services Tariff § 2.161a).

An Advance Reservation is a reservation of transmission service over the Cross-Sound Scheduled Line, that must be obtained from the CSC, LLC node of the ISO-NE OASIS in accordance with all applicable ISO-NE tariff requirements. The proposed definition of a Scheduled Line includes a set of four criteria that must be met before a Transmission Facility may be designated as a Scheduled Line and a requirement that the Commission accept for filing tariff revisions identifying the new Scheduled Line (at a minimum, more extensive tariff revisions may be necessary depending upon the facts and circumstances) before the NYISO may implement a new Scheduled Line. The proposed revision to the definition of a Real-Time Bid notes that bids seeking to schedule External Transactions at the Proxy Generator Bus that is associated with the Cross-Sound Scheduled Line must be submitted no later than eighty-five minutes prior to the operating hour. The proposed definition of a Proxy Generator Bus has been revised to make clear that both proxy generation (imports) and proxy load (exports) can be scheduled at a Proxy Generator Bus.

B. Body of OATT

In addition to the definitions identified above, proposed revisions to the body of the NYISO's OATT include:

a. A reference in the Preamble to Section II of the OATT, stating that the requirements of proposed Attachment N to the Services Tariff shall apply to External Transactions at the Proxy Generator Bus that is associated with the Cross Sound Scheduled Line; and

b. A statement in Section 13.6 of the OATT that "[t]o the extent possible, Curtailments of External Transactions at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line shall be based on the transmission priority of the associated Advance Reservation on the CSC, LLC node of the ISO-NE OASIS. Where possible, the NERC transmission priority of the associated Advance Reservation will be used to determine the order of curtailments. Firm or non-firm transactions that share the same NERC priority will be curtailed *pro rata*.

C. Body of the Services Tariff

In addition to the definitions identified above, proposed revisions to the body of the Services Tariff are as follows:

a. A qualification in Sections 4.2.1 and 4.4.1 that Pre-Scheduled Transactions may not be scheduled at Proxy Generator Buses that are associated with Scheduled Lines. The reasons for this qualification are explained in Section II.A., above;

b. Section 4.2.2(A) explains that Eligible Customers seeking to schedule External Transactions in the DAM at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line must submit their transactions by 4:50 a.m.;

c. Section 4.4.2(B) and 4.4.2(B)(2) note that bids seeking to schedule External Transactions at the Proxy Generator Bus that is associated with the Cross-Sound Scheduled Line must be submitted no later than eighty-five minutes prior to the operating hour;

d. In Section 4.10 (on proposed Sheet No. 106B) the NYISO has added a provision of its proposed Special Pricing Rule that mirrors language on Sheet No. 106A that applies at Non-Competitive Proxy Generator Buses. This provision of the Special Pricing Rule is intended to ensure that the NYISO will not make Real-Time shortfall payments to External Generators or other Suppliers for imports scheduled at a Proxy Generator Bus that is associated with a designated Scheduled Line if the Proxy Generator Bus is export constrained. The proposed Special Pricing Rule is described in greater detail below and in the attached Affidavit of Dr. David B. Patton; and

e. Section 6.1 has been revised to permit the sharing of Confidential Information in accordance with the terms of the NYISO's Code of Conduct (Attachment F to the OATT). This proposed revision conforms the Services Tariff confidentiality provisions to the revisions the NYISO is proposing to make to permit the sharing of Confidential Information between the NYISO and ISO-NE in order to ensure adequate monitoring of transactions between the two Control Areas.

D. Attachment J to OATT and Attachment B to Services Tariff

Sections I.E. of Attachment B to the NYISO's Services Tariff and Attachment J to the NYISO's OATT have been revised symmetrically. The largest substantive revision to each of these Attachments is the addition of a Special Pricing Rule that proposes to limit the price that the NYISO pays to purchase counterflow when a Scheduled Line is subject to a transfer limit (TTC) constraint, in order to prevent the gaming of market rules and the potential exercise of market power. The proposed Special Pricing Rule generally mirrors the NYISO's Non-Competitive Proxy Generator Rule that the Commission accepted for filing in Docket No. ER03-690 in orders issued on August 22, 2003 and December 23, 2003. The proposed Real-Time effect of the Special Pricing Rule can be summarized as follows:

- If the Proxy Generator Bus associated with a designated Scheduled Line is constrained for net imports to New York, the LBMP at the Proxy Generator Bus will be the higher of: (i) the RTC-determined price for the bus; or (ii) the lower of the LBMP determined by RTD for the bus or zero.

- If the Proxy Generator Bus associated with a designated Scheduled Line is constrained for net exports from New York, the LBMP at the Proxy Generator Bus will be the lower of: (i) the RTC-determined price at the Proxy Generator Bus; or (ii) the higher of the LBMP determined by RTD for the Proxy Generator Bus or the Day-Ahead LBMP determined by SCUC for the Proxy Generator Bus.

- The NYISO will not make Real-Time shortfall payments to External Generators or other Suppliers for imports scheduled at a Proxy Generator Bus that is associated with a designated Scheduled Line if the Proxy Generator Bus is export constrained (this provision is in Section 4.10 of the Services Tariff).

The attached Affidavit of Dr. David B. Patton, Independent Market Advisor to the NYISO explains that the proposed Special Pricing Rule is necessary because, at times when a constraint on Imports or Exports over the Cross-Sound Scheduled Line is binding (i.e., the interface is congested), prices could diverge significantly from competitive price levels. Dr. Patton explains that the competitive concern arises because the Advance Reservation requirements can limit the competition among participants to provide real-time counterflow transactions or to cancel DAM schedules to resolve congestion on the Scheduled Line. In some circumstances, there may be only one Market Participant that can provide the necessary relief to resolve the congestion. Dr. Patton also describes the non-competitive prices the NYISO paid to relieve congestion under very similar circumstances at the Hydro Quebec Proxy Generator Bus in 2002. Dr. Patton's affidavit concludes with an explanation of how the proposed Special Pricing Rule will prevent gaming or the exercise of market power by Market Participants.

Other substantive revisions to Attachment J of the OATT and Attachment B of the Services Tariff are as follows:

a. Section 5.0 of Attachment J and Section 3.6 of Attachment B each repeat the language contained in Section 13.6 of the body of the OATT addressing the curtailment of schedules over the Cross-Sound Scheduled Line; and

b. Section 5.0 of Attachment J and Section 3.6 of Attachment B have also been modified to include cross-references to Attachment N of the Services Tariff.

E. Attachment F to OATT (NYISO Code of Conduct)

The NYISO's Code of Conduct (Attachment F to the NYISO's OATT) has been revised to permit the sharing of certain Confidential, Transmission System and Protected Information (collectively, "Confidential Information") with ISO-NE. These revisions respond, in part, to the Commission's instruction that the market monitors of both ISO-NE and the NYISO are expected to monitor for withholding of Cross-Sound Scheduled Line capacity. *Cross Sound Cable Company, LLC*, 109 FERC ¶ 61,223 at PP 26, 28 (2004). In order to effectuate the Commission's instruction, the NYISO has proposed amendments to its tariffs that would permit the NYISO's market monitoring unit to share (provide and receive) confidential information that relates to transactions at the Proxy Generator Buses representing the electrical interfaces between New York and New England with the market monitoring unit of ISO-NE. The proposed bases for exchanging confidential data are limited to (a) identifying and preventing efforts to game the market rules that apply in New York or in New England, or (b) identifying and preventing the exercise of market power in either of the two markets. The ISOs would not be under any obligation to share Confidential Information with each other, all exchanges would occur on a voluntary basis.

In order to safeguard the confidentiality of data provided by its Market Participants, the NYISO's proposal to permit the two ISOs to share confidential information is predicated on the implementation of legal and procedural safeguards. The proposed prerequisite safeguards are as follows:

- The ISO receiving Confidential Information must be under a legally enforceable obligation to treat as confidential, in accordance with all applicable tariffs and rules, all information that is designated in writing by the providing ISO as being Confidential Information. The obligation to treat Confidential Information provided by the other ISO as confidential must be of a continuing nature, and must survive the rescission, termination or expiration of the basis for the legally enforceable obligation;

- the ISOs must possess reciprocal legal authority to share Confidential Information;

- the ISO receiving Confidential Information must provide notice to the providing ISO of all requests from courts or regulatory entities for access to such Confidential Information and provide reasonable assistance to prevent disclosure of such information. The providing ISO is responsible for informing the party or parties that are the source or subject of the Confidential Information of any such access requests and both ISOs are responsible for assisting the source(s) or subject(s) of the Confidential Information's participation in defending the confidentiality of the data;

- the ISO receiving Confidential Information must provide notice to the providing ISO of all requests from third parties for access to data that has been provided to courts or regulatory entities and provide reasonable assistance to prevent disclosure of such information. The providing ISO is responsible for informing the party or parties that are the source(s) or subject(s) of the Confidential Information of any such access requests and both ISOs are responsible for assisting the source(s) or subject(s) of the Confdential Information's participation in defending the confidentiality of the data;

- if required to release Confidential Information to a court or regulatory body, the ISOs are required to seek appropriate protective relief to limit disclosure to the greatest extent possible; and

- the ISOs shall be obligated to return or destroy Confidential Information received when the issue that presented the basis for requesting the information has been resolved.

The protections that the NYISO is proposing are intended for incorporation into a confidentiality agreement to be executed by the NYISO and ISO-NE that would explicitly set forth their respective rights and obligations. ISO-NE may require additional authority from the Commission before it is able to enter into a confidentiality agreement of the sort the NYISO's proposed tariff revisions contemplate. The NYISO has committed that it will provide its Market Participants the opportunity to review and comment on any such confidentiality agreement prior to its execution by the ISOs.

F. Attachment N to Services Tariff (Rules Applicable to Cross-Sound Scheduled Line)

A set of rules addressing the scheduling of transactions at the Proxy Generator Bus that is associated with the Cross-Sound Scheduled Line are set forth in proposed Attachment N to the NYISO's Services Tariff. The provisions of Attachment N are as follows:

a. Section 1.0 of Attachment N states that in the event of a conflict between Attachment N and any other NYISO tariff provision, with regard to External Transactions at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line, Attachment N shall prevail;

b. Section 2.0 explains that Market Participants must hold an Advance Reservation that includes sufficient MW to support all proposed External Transactions and that the Market Participant must obtain schedules in both New York and New England for their transactions to flow. Section 2.0 also makes clear that the NYISO may inform the Commission or take other appropriate action if entities seek to schedule External Transactions at the Proxy Generator Bus that is associated with the Cross-Sound Scheduled Line without obtaining an Advance Reservation, or with an Advance Reservation that is inadequate to support their proposed transaction;

c. Section 3.1 requires Market Participants to submit their day-ahead bids to schedule External Transactions at the Proxy Generator Bus that is associated with the Cross-

Sound Scheduled Line (and to have a valid NERC E-Tag) at least ten minutes prior to the close of the NYISO's DAM;

d. Section 3.2 requires Market Participants to submit their Real-Time Bids to schedule External Transactions at the Proxy Generator Bus that is associated with the Cross-Sound Scheduled Line (and to have a valid NERC E-Tag) at least 85 minutes prior to the start of the relevant dispatch hour; and finally,

e. Section 3.3 of Attachment N limits each NERC E-Tags that supports an External Transaction at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line to referencing no more than one Cross-Sound Scheduled Line Advance Reservation ID or "assignment reference number" from the CSC, LLC node of the ISO-NE OASIS. This requirement is necessary to address limitations on the NYISO's ability to programmatically search the CSC, LLC node of the ISO-NE OASIS for Advance Reservations and tie those Advance Reservations back to a New York MIS bid.

VIII. *Federal Register* Notice

A form of *Federal Register* Notice is provided herewith. A diskette of the Notice is also provided in Microsoft Word format.

IX. Conclusion

WHEREFORE, for the foregoing reasons, the NYISO respectfully requests that the Commission accept for filing the proposed tariff modifications that are attached hereto and grant the NYISO's request for a flexible effective date, subject to the conditions set forth in Section IV, above.

Respectfully submitted,

Alex M. Schnell

Alex M. Schnell
New York Independent System Operator, Inc.

cc: Daniel L. Larcamp
Anna Cochrane
Connie N. Caldwell
Michael A. Bardee

Attachment I

Clean Versions of the Revised Services Tariff Sheets

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ARTICLE 2

DEFINITIONS

2.0 Definitions

The following definitions are applicable to the ISO Services Tariff:

2.1 Actual Energy Injections

Energy injections which are measured using a revenue-quality real-time meter.

2.1.1 Actual Energy Withdrawals

Energy withdrawals which are either: (1) measured with a revenue-quality real-time meter; (2) assessed (in the case of Load Serving Entities ("LSEs") serving retail customers where withdrawals are not measured by revenue-quality real-time meters) on the basis provided for in a Transmission Owner's retail access program; or (3) calculated (in the case of wholesale customers where withdrawals are not measured by revenue-quality real-time meters), until such time as revenue - quality real-time metering is available on a basis agreed upon by the unmetered wholesale customers.

2.1.2 Advance Reservation

A reservation of transmission service over the Cross-Sound Scheduled Line that is obtained in accordance with the applicable terms of Schedule 18 and the Schedule 18 Implementation Rule of the ISO New England Inc. Transmission, Markets and Services Tariff, or in accordance with any successors thereto.

2.2 Adverse Conditions

Those conditions of the natural or man-made environment that threaten the adequate reliability of the NYS Power System, including, but not limited to, thunderstorms, hurricanes, tornadoes, solar magnetic flares and terrorist activities.

2.32b Control Performance

A standard for measuring the degree to which a Control Area is providing Regulation Service in conformance with NERC requirements.

2.32c Controllable Transmission

Any Transmission facility over which power-flow can be directly controlled by power-flow control devices without having to re-dispatch generation.

2.32d Credit Assessment

An assessment of a Customer's creditworthiness, conducted by the ISO in accordance with Section IV.C. of Attachment K of this Tariff.

2.32e Cross-Sound Scheduled Line

A transmission facility that interconnects the NYCA to the New England Control Area at Shoreham, New York and terminates near New Haven, Connecticut.

2.33 Curtailment or Curtail

A reduction in Firm or Non-Firm Transmission Service in response to a transmission Capacity shortage as a result of system reliability conditions.

2.148a Prior Equivalent Capability Period

The previous same-season Capability Period.

2.149 Proxy Generator Bus

A proxy bus located outside the NYCA that is selected by the ISO to represent a typical bus in an adjacent Control Area and for which LBMP prices are calculated.

2.150 PSC

The Public Service Commission of the State of New York or any successor agency thereto.

2.151 PSL

The New York Public Service Law, Public Service Law § 1 et seq. (McKinney 1989 & Supp. 1997-98).

2.151.1 Quick Start Mode

The setting of a block of generator units capable of remote start-up by a Transmission Owner so that it can synchronize and reach full output within fifteen (15) minutes.

2.151.2 Quick Start Reserves

Capacity of a block of generator units that is set to Quick Start Mode by request of a Transmission Owner.

2.151a Ramp Capacity

The amount of change in the Desired Net Interchange that generation located in the NYCA can support at any given time. Ramp capacity may be calculated for all Interfaces between the NYCA and neighboring Control Areas as a whole or for any individual Interface between the NYCA and an adjoining Control Area.

2.151b RCRR TCC:

A zone-to-zone TCC created when a Transmission Owner with a RCRR exercises its right to convert the RCRR into a TCC pursuant to Section 6.3 of Part IV of Attachment B of this Tariff.

2.152 Reactive Power (MVAr)

The product of voltage and the out-of-phase component of alternating current. Reactive Power, usually measured in MVAr, is produced by capacitors (synchronous condensers) and over-excited Generators and absorbed by reactors or under-excited Generators and other inductive devices including the inductive portion of Loads.

2.153 Real Power Losses

The loss of Energy, resulting from transporting power over the NYS Transmission System, between the Point of Injection and Point of Withdrawal of that Energy.

2.153a Real-Time Bid

A Bid submitted into the Real-Time Commitment at least seventy-five minutes before the start of a dispatch hour, or at least eighty-five minutes before the start of a dispatch hour if the

Bid seeks to schedule an External Transaction at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line.

2.153b Real-Time Commitment ("RTC")

A multi-period security constrained unit commitment and dispatch model that co-optimizes to solve simultaneously for Load, Operating Reserves and Regulation Service on a

2.160c Rest of State

The set of all non-Locality NYCA LBMP Load Zones. As of the 2002-2003 Capability Year, Rest of State includes all NYCA LBMP Load Zones other than LBMP Load Zones J and K.

2.161 Safe Operations

Actions which avoid placing personnel and equipment in peril with regard to the safety of life and equipment damage.

2.161a Scheduled Line

A transmission facility or set of transmission facilities: (a) that provide a distinct scheduling path interconnecting the ISO with an adjacent control area, (b) over which Customers are permitted to schedule External Transactions, (c) for which the ISO separately posts TTC and ATC, and (d) for which there is the capability to maintain the Scheduled Line actual interchange at the DNI, or within the tolerances dictated by Good Utility Practice. Each Scheduled Line is associated with a distinct Proxy Generator Bus. Transmission facilities shall only become Scheduled Lines after the Commission accepts for filing revisions to the NYISO's tariffs that identify a specific set or group of transmission facilities as a Scheduled Line.

The following transmission facilities are Scheduled Lines: the Cross-Sound Scheduled Line.

2.161b Scheduling Differential

A monetary amount, to be defined by the ISO pursuant to ISO Procedures, that is assigned to, or defines Bid Price limits applicable to, Decremental Bids and Sink Price Cap Bids at Proxy Generator Buses, in order to establish an appropriate scheduling priority for the Transaction or Firm Transmission Service associated with each such Bid. The Scheduling Differential shall be no larger than one dollar ($1.00).

2.162 SCUC

Security Constrained Unit Commitment, described in Section 4.2.4 of this ISO Services Tariff.

The ISO shall reserve Ramp Capacity, and Transfer Capability on affected Interfaces, for each Pre-Scheduled Transaction. The ISO shall evaluate requests to withdraw Pre-Scheduled Transactions pursuant to ISO Procedures. The ISO shall submit Pre-Scheduled Transactions to the appropriate LBMP Market for the designated Dispatch Day.

Prescheduled Transactions that are submitted for scheduling in the Day-Ahead Market shall be assigned a Decremental Bid or Sink Price Cap Bid, as appropriate, to provide the highest scheduling priority available.

Prescheduled Transactions may not be scheduled at Proxy Generator Buses that are associated with Scheduled Lines.

4.2.2 Day-Ahead Load Forecasts, Bids and Bilateral Schedules

A. General Customer Forecasting and Bidding Requirements

By 5 a.m., on the day prior to the Dispatch Day (or by 4:50 a.m. for Eligible Customers seeking to schedule External Transactions at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line): (i) All LSEs serving Load in the NYCA shall provide the ISO with Day-Ahead and seven (7) day Load forecasts; and (ii)

4.4 Real-Time Markets and Schedules

4.4.1 In-Day Pre-Scheduled Transactions

For any hour in which the operator of an External Control Area informs the ISO that it must call on a Supplier located in the NYCA to provide the External Control Area with Energy, and that Supplier has previously committed to provide installed capacity to the External Control Area, then the ISO shall ensure, to the extent possible, that the required quantity of Energy will flow to the External Control Area in the hour. If the Supplier has already submitted an Export to the External Control Area for evaluation by the ISO, the ISO shall treat the Export as an in-day Pre-Scheduled Transaction. Such a Transaction shall be assigned a Sink Price Cap Bid that provides the highest scheduling priority available. If the Supplier has not previously submitted an Export for evaluation by the ISO it shall immediately submit such a bid into RTC. The ISO shall schedule the proposed Export as an in-day Pre-Scheduled Transaction, with the highest scheduling priority available, unless there is no Ramp Capacity or Transfer Capability on the relevant External Interface, in which case the Export will not be scheduled. To the extent that Ramp Capacity or Transfer Capability are available to support only a portion of an in-day Pre-Scheduled Transaction the ISO will schedule that portion of the Transaction.

In-day Pre-Scheduled Transactions will only be subject to Curtailment in the same limited circumstances as other Pre-Scheduled Transactions.

In-day Pre-Scheduled Transactions may not be scheduled at Proxy Generator Buses that are associated with Scheduled Lines.

4.4.2 Real-Time Commitment ("RTC")

A. Overview

RTC will make binding unit commitment and de-commitment decisions for the periods beginning fifteen minutes (in the case of Resources that can respond in ten minutes) and thirty minutes (in the case of Resources that can respond in thirty minutes) after the scheduled posting time of each RTC run, will provide advisory commitment information for the remainder of the two and a half hour optimization period, and will produce binding schedules for External Transactions to begin at the start of each hour. RTC will co-optimize to solve simultaneously for all Load, Operating Reserves and Regulation Service requirements and to minimize the total as-bid production costs over its optimization timeframe. RTC will consider SCUC's Resource commitment for the day, load and loss forecasts that RTC itself will produce each quarter hour, binding transmission constraints, and all Real-Time Bids and Bid parameters submitted pursuant to Section 4.4.2.B below.

B. Bids and Other Requests

After the Day-Ahead schedule is published and no later than seventy-five (75) minutes before each hour, or no later than eighty-five minutes before each hour for bids to schedule External Transactions at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line, Customers may submit Real-Time Bids into RTC for real-time evaluation.

1. Real-Time Bids to Supply Energy and Ancillary Services

Eligible Customers may submit new or revised Bids to supply Energy, Operating Reserves and/or Regulation Service. Customers that submit such Bids may specify different Bid

ISO-Committed Fixed mode may not switch to ISO-Committed Flexible or Self-Committed Flexible mode in real-time; and (iv) Generators that were scheduled Day-Ahead in Self-Committed Fixed mode may not switch to a different bidding mode in real-time.

Generators may not submit separate Operating Reserves Availability Bids in real-time and will instead automatically be assigned a real-time Operating Reserves Availability Bid of zero for the amount of Operating Reserves they are capable of providing in light of their response rate (as determined under Rate Schedule 4).

2. Bids Associated with Internal and External Bilateral Transactions

Customers may seek to modify Bilateral Transactions that were previously scheduled Day-Ahead or propose new Bilateral Transactions, including External Transactions, for economic evaluation by RTC. Bids associated with Internal Bilateral Transactions shall be subject to the rules set forth above in Section 4.2.2(G).

Except as noted in Attachment N to this ISO Services Tariff, Sink Price Cap Bids or Decremental Bids for External Transactions may be submitted into RTC up to seventy five minutes before the hour in which the External Transaction would flow. External Transaction Bids must have a one hour duration, must start and stop on the hour, and must have constant magnitude for the hour. Intra-hour schedule changes, or Bid modifications, associated with External Transactions will not be accommodated.

3. Self-Commitment Requests

Self-Committed Flexible Resources must provide the ISO with schedules of their expected minimum operating points in quarter hour increments. Self-Committed Fixed Resources must provide their expected actual operating points in quarter hour increments.

When a Proxy Generator Bus that is associated with a designated Scheduled Line is export constrained due to limits on Available Interface Capacity in an hour, External Generators and other Suppliers scheduling Imports at such Proxy Generator Bus in that hour will not be eligible for real-time shortfall payments for those Transactions.

The ISO shall recover supplemental payments and Demand Reduction Incentive Payments to Demand Reduction Providers pursuant to Rate Schedule 1 of its Open Access Transmission Services Tariff, from all Loads excluding exports and Wheels Through on a zonal basis in proportion to the benefits received after accounting for, pursuant to ISO Procedures, Demand Reduction imbalance charges paid by Demand Reduction Providers pursuant to Section 4.4.5.

ARTICLE 6

CONFIDENTIALITY

6.1 Access to Confidential Information

The ISO may request, and the Customer shall provide, Confidential Information consistent with the disclosure requirements set forth in the ISO Services Tariff (as provided for below). The ISO shall use reasonable procedures to prevent the disclosure of Confidential Information and shall not publish, disclose or otherwise divulge Confidential Information to any person or entity without the prior written consent of the party supplying such Confidential Information, except as provided for under the ISO Market Power Monitoring Plan and/or ISO Code of Conduct. The provisions of this Section shall not apply to any Confidential Information: (i) which was in the public domain at the time of disclosure hereunder; (ii) which thereafter passes into the public domain by acts other than the acts of the ISO; or (iii) that the ISO is required to make publicly available by the Commission, the PSC or other legal process, or for reliability purposes pursuant to Good Utility Practice.

A Customer may request that the ISO keep confidential from another entity Confidential Information that the other entity does not require to perform its obligations and duties hereunder. The Customer must state in writing that the information is to be treated as Confidential Information and the reasons for treating it as Confidential Information, otherwise information will be treated as non-Confidential Information.

the Interface between the NYCA and the Control Area in which that Non-Competitive Proxy Generator Bus is located, the Real-Time LBMP at the Non-Competitive Proxy Generator Bus will be the lower of (i) the RTC-determined price at the Non-Competitive Proxy Generator Bus or (ii) the higher of the LBMP determined by for the Non-Competitive Proxy Generator Bus or the Day-Ahead LBMP determined by SCUC for the Non-Competitive Proxy Generator Bus. At all other times, the Real-Time LBMP shall be calculated as specified in Section E.1 above.

3. Special Pricing Rules for Scheduled Lines

Real-Time LBMPs for the Proxy Generator Buses associated with designated Schedule Lines shall be determined as follows:

When proposed Real-Time Market economic net Import Transactions into the NYCA associated with a designated Scheduled Line would exceed the Available Transfer Capability of the designated Scheduled Line, the Real-Time LBMP at the Proxy Generator Bus associated with the designated Scheduled Line will be the higher of (i) the RTC-determined price at that Proxy Generator Bus or (ii) the lower of the LBMP determined by RTD for that Proxy Generator Bus or zero.

When proposed Real-Time Market economic net Export Transactions from the NYCA associated with a designated Scheduled Line would exceed the Available Transfer Capability of the designated Scheduled Line, the Real-Time LBMP at the Proxy Generator Bus associated with the designated Scheduled Line will be the lower of (i) the RTC-determined price at the Proxy Generator Bus or (ii) the higher of the LBMP determined by RTD for the Proxy Generator Bus or the Day-Ahead LBMP determined by SCUC for the Proxy Generator Bus. At all other times, the Real-Time LBMP shall be calculated as specified in Section E.1 above.

The Cross-Sound Scheduled Line is a designated Scheduled Line.

4. Method of Calculating Marginal Loss and Congestion Components of Real-Time LBMP at Non-Competitive Proxy Generator Buses and Proxy Generator Buses that are Subject to the Special Pricing Rule for Scheduled Lines

Under the conditions specified below, the Marginal Losses Component and the Congestion Component of the Real-Time LBMP, calculated pursuant to the preceding paragraphs in subsections 2 and 3, shall be constructed as follows:

When the Real-Time LBMP is set to zero and that zero price was not the result of using the RTD, RTC or SCUC-determined LBMP;

Marginal Losses Component of the Real-Time LBMP = $\text{Losses}_{\text{RTC PROXY GENERATOR BUS}}$;

and

Congestion Component of the Real-Time LBMP = - ($\text{Energy}_{\text{RTC REF BUS}}$ + $\text{Losses}_{\text{RTC PROXY GENERATOR BUS}}$).

When the Real-Time LBMP is set to the Day-Ahead LBMP:

Marginal Losses Component of the Real-Time LBMP = $\text{Losses}_{\text{RTC PROXY GENERATOR BUS}}$;

and

Congestion Component of the Real-Time LBMP = Day-Ahead $\text{LBMP}_{\text{PROXY GENERATOR BUS}}$ - ($\text{Energy}_{\text{RTC REF BUS}}$ + $\text{Losses}_{\text{RTC PROXY GENERATOR BUS}}$).

where:

$\text{Energy}_{\text{RTC REF BUS}}$	=	marginal Bid cost of providing Energy at the reference Bus, as calculated by RTC_{15} for the hour;
$\text{Losses}_{\text{RTC PROXY GENERATOR BUS}}$	=	Marginal Losses Component of the LBMP as calculated by RTC_{15} at the Non-Competitive Proxy Generator Bus or Proxy Generator Bus associated with a designated Scheduled Line for the hour; and
Day-Ahead $\text{LBMP}_{\text{PROXY GENERATOR BUS}}$	=	Day-Ahead LBMP as calculated by SCUC for the Non-Competitive Proxy Generator Bus or Proxy Generator Bus associated with a designated Scheduled Line for the hour.

The Marginal Losses Component of LBMP

The components of LBMP will be posted in the Day-Ahead and Real-Time Markets as described above, except that the Marginal Losses Component of LBMP will be calculated differently for Internal locations. The Marginal Losses Component of the LBMP at each bus, as described

above, includes the difference between the marginal cost of losses at that bus and the Reference Bus. If this formulation were employed for an External bus, then the Marginal Losses Component would include the difference in the cost of Marginal Losses for a section of the transmission system External to the NYCA. Since the ISO will not charge for losses incurred Externally, the

3.6 Scheduling Transmission Service for External Transactions

The amount of Firm Transmission Service scheduled Day-Ahead for Bilateral Transactions which designate External Generators to supply Imports or Internal Generators to supply Exports will be equal to the amount of Energy scheduled to be consumed under those Transactions Day-Ahead. The amount of Firm Transmission Service scheduled in the RTC_{15} for Bilateral Transactions which designate External Generators to supply Imports or Internal Generators to supply Exports will be equal to the amount of Energy scheduled to be consumed under those Transactions in RTC_{15}. The DNI between the NYCA and adjoining Control Areas will be adjusted as necessary to reflect the effects of any Curtailments of Import or Export Transactions. Additionally, any Curtailment or Reductions of schedules for Export Transactions will cause the scheduled amount of Transmission Service to change.

To the extent possible, Curtailments of External Transactions at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line shall be based on the transmission priority of the associated Advance Reservation on the Cross-Sound Cable, LLC node of the ISO-NE OASIS.

The ISO shall use Decremental Bids supplied by Transmission Customers using External Generators to supply Wheels-Through to determine the amount of Energy those Generators are scheduled Day-Ahead to produce in each hour. This in turn will determine the Firm Transmission Service scheduled Day-Ahead to support those

(iii) Existing intermittent (i.e., non-schedulable) renewable resource Generators in operation on or before November 18, 1999 within the NYCA, plus up to an additional 500 MW of such Generators.

This procedure shall not apply for those hours the Generator supplying that Transaction has bid in a manner that indicates it is available to provide Regulation Service or Operating Reserves.

The ISO will not schedule a Bilateral Transaction which crosses an Interface between the NYCA and a neighboring Control Area if doing so would cause the DNI to exceed the Transfer Capability of that Interface.

External Transactions at the Proxy Generator Bus that are associated with the Cross-Sound Scheduled Line shall also be governed by Attachment N to the ISO Services Tariff.

IV. SALE OF TRANSMISSION CONGESTION CONTRACTS ("TCCs")

1.0 Overview of the Sales of TCCs

TCCs will be made available through both (i) the Centralized TCC Auction ("Auction") and Reconfiguration Auction, which will be conducted by the ISO; and (ii) Direct Sales by the Transmission Owners, which will be non-discriminatory, auditable sales conducted solely on the OASIS in compliance with the applicable requirements and restrictions set forth in Order No. 889 et seq.

Before each Auction, the ISO shall ensure that all of the following correspond to a simultaneously feasible security constrained Power Flow: (i) existing TCCs that are valid for any part of the duration of any TCCs to be sold in the Centralized TCC Auction, (ii) Grandfathered Rights, and (iii) ETCNL not previously sold as TCCs that are valid for any part of the duration of any TCCs to be sold in the Centralized TCC Auction. Should infeasibility occur, the TCC Reservations shown in Table 1 of Attachment M of the ISO OATT will be reduced until feasibility is assured, as described in Section 3.0 of this Part IV of this Attachment B.

Before each Centralized TCC Auction, the ISO shall also convert ETCNL into ETCNL TCCs pursuant to Section 5.0 of this Part IV of this Attachment B, and shall allocate RCRRs to Transmission Owners and convert RCRRs into RCRR TCCs pursuant to Section 6.0 of this Part IV of this Attachment B.

ATTACHMENT N

EXTERNAL TRANSACTIONS AT THE PROXY GENERATOR BUS ASSOCIATED WITH THE CROSS-SOUND SCHEDULED LINE

1.0 Supremacy of Attachment N

External Transactions at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line shall be bid and scheduled pursuant to the provisions of the ISO Services Tariff and the ISO OATT, and in accordance with this Attachment N. In the event of a conflict between the provisions of this Attachment N and any other provision of the ISO OATT, the ISO Services Tariff, or any of their attachments and schedules, with regard to External Transactions at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line, the provisions of this Attachment N shall prevail.

2.0 Transmission Reservations on the Cross-Sound Scheduled Line

Customers scheduling External Transactions at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line must first hold an Advance Reservation on the Cross-Sound Scheduled Line sufficient to support the proposed External Transaction. Advance Reservations must be obtained in accordance with the Cross-Sound Scheduled Line release procedures that are set forth in Schedule 18 and the Schedule 18 Implementation Rule of the ISO New England Inc. Transmission, Markets and Services Tariff, or any successors thereto.

Customers that have obtained Advance Reservations and wish to schedule External Transactions at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line must (a) schedule an External Transaction with the ISO by submitting appropriate bids for economic evaluation, and (b) correspondingly schedule a transaction over the Cross-Sound Scheduled Line in accordance with all applicable New England tariffs and market rules.

If a Customer scheduling External Transactions at the Proxy Generator Bus that is associated with the Cross-Sound Scheduled Line inaccurately claims to hold an Advance Reservation or Advance Reservations that are adequate to support its bid(s), or falsely implies that it has an Advance Reservation or Advance Reservations that are adequate to support its bid(s) by scheduling such an External Transaction, the ISO may inform the Commission and take other appropriate action.

3.0 Additional Scheduling Rules for the Cross-Sound Scheduled Line

3.1 Bid Submission and E-Tags for Day-Ahead Transactions

Customers seeking to Schedule Day-Ahead transactions at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line (a) shall comply with all applicable ISO Procedures, and (b) shall submit bids that reference valid NERC E-Tags for their transaction(s) no later than 10 minutes prior to the close of the DAM.

3.2 Bids and E-Tags for Real Time Transactions

Customers seeking to schedule Real-Time Market transactions at the Proxy generator Bus associated with the Cross-Sound Scheduled Line (a) shall comply with all applicable ISO Procedures, and (b) shall submit bids that reference valid NERC E-Tags for their transaction(s) at least 85 minutes before the start of each dispatch hour.

3.3 E-Tags Shall Each Reference One Advance Reservation ID

NERC E-Tags for External Transactions at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line shall each reference no more than one Cross-Sound Scheduled Line Advance Reservation ID or "assignment reference number" from the Cross-Sound Cable, LLC node of the ISO-NE OASIS.

Attachment II

Blacklined Versions of the Revised Services Tariff Sheets

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Energy withdrawals which are either: (1) measured with a revenue-quality real-time meter; (2) assessed (in the case of Load Serving Entities ("LSEs") serving retail customers where withdrawals are not measured by revenue-quality real-time meters) on the basis provided for in a Transmission Owner's retail access program; or (3) calculated (in the case of wholesale customers where withdrawals are not measured by revenue-quality real-time meters), until such time as revenue - quality real-time metering is available on a basis agreed upon by the unmetered wholesale customers.

2.1.2 Advance Reservation

A reservation of transmission service over the Cross-Sound Scheduled Line that is obtained in accordance with the applicable terms of Schedule 18 and the Schedule 18 Implementation Rule of the ISO New England Inc. Transmission, Markets and Services Tariff, or in accordance with any successors thereto.

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Those conditions of the natural or man-made environment that threaten the adequate reliability of the NYS Power System, including, but not limited to, thunderstorms, hurricanes, tornadoes, solar magnetic flares and terrorist activities.

2.32b Control Performance

A standard for measuring the degree to which a Control Area is providing Regulation Service in conformance with NERC requirements.

2.32c Controllable Transmission

Any Transmission facility over which power-flow can be directly controlled by power-flow control devices without having to re-dispatch generation.

2.32d Credit Assessment

An assessment of a Customer's creditworthiness, conducted by the ISO in accordance with Section IV.C. of Attachment K of this Tariff.

2.32e Cross-Sound Scheduled Line

A transmission facility that interconnects the NYCA to the New England Control Area at Shoreham, New York and terminates near New Haven, Connecticut.

2.33 Curtailment or Curtail

A reduction in Firm or Non-Firm Transmission Service in response to a transmission Capacity shortage as a result of system reliability conditions.

2.148a Prior Equivalent Capability Period

The previous same-season Capability Period.

2.149 Proxy Generator Bus

A ~~Generator~~proxy bus located outside the NYCA that is selected by the ISO to represent a typical bus in an adjacent Control Area and for which LBMP prices are calculated.

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The Public Service Commission of the State of New York or any successor agency thereto.

2.151 PSL

The New York Public Service Law, Public Service Law § 1 et seq. (McKinney 1989 & Supp. 1997-98).

2.151.1 Quick Start Mode

The setting of a block of generator units capable of remote start-up by a Transmission Owner so that it can synchronize and reach full output within fifteen (15) minutes.

2.151.2 Quick Start Reserves

Capacity of a block of generator units that is set to Quick Start Mode by request of a Transmission Owner.

2.151a Ramp Capacity

The amount of change in the Desired Net Interchange that generation located in the NYCA can support at any given time. Ramp capacity may be calculated for all Interfaces between the NYCA and neighboring Control Areas as a whole or for any individual Interface between the NYCA and an adjoining Control Area.

2.151b RCRR TCC:

A zone-to-zone TCC created when a Transmission Owner with a RCRR exercises its right to convert the RCRR into a TCC pursuant to Section 6.3 of Part IV of Attachment B of this Tariff.

2.152 Reactive Power (MVAr)

The product of voltage and the out-of-phase component of alternating current. Reactive Power, usually measured in MVAr, is produced by capacitors (synchronous condensers) and over-excited Generators and absorbed by reactors or under-excited Generators and other inductive devices including the inductive portion of Loads.

2.153 Real Power Losses

The loss of Energy, resulting from transporting power over the NYS Transmission System, between the Point of Injection and Point of Withdrawal of that Energy.

2.153a Real-Time Bid

A Bid submitted into the Real-Time Commitment at least seventy-five minutes before the start of a dispatch hour, or at least eighty-five minutes before the start of a dispatch hour if the

Bid seeks to schedule an External Transaction at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line.

2.153b Real-Time Commitment ("RTC")

A multi-period security constrained unit commitment and dispatch model that co-optimizes to solve simultaneously for Load, Operating Reserves and Regulation Service on a

2.160c Rest of State

The set of all non-Locality NYCA LBMP Load Zones. As of the 2002-2003 Capability Year, Rest of State includes all NYCA LBMP Load Zones other than LBMP Load Zones J and K.

2.161 Safe Operations

Actions which avoid placing personnel and equipment in peril with regard to the safety of life and equipment damage.

2.161a Scheduled Line

A transmission facility or set of transmission facilities: (a) that provide a distinct scheduling path interconnecting the ISO with an adjacent control area, (b) over which Customers are permitted to schedule External Transactions, (c) for which the ISO separately posts TTC and ATC, and (d) for which there is the capability to maintain the Scheduled Line actual interchange at the DNI, or within the tolerances dictated by Good Utility Practice. Each Scheduled Line is associated with a distinct Proxy Generator Bus. Transmission facilities shall only become Scheduled Lines after the Commission accepts for filing revisions to the NYISO's tariffs that identify a specific set or group of transmission facilities as a Scheduled Line.

The following transmission facilities are Scheduled Lines: the Cross-Sound Scheduled Line.

2.161~~a~~b Scheduling Differential

A monetary amount, to be defined by the ISO pursuant to ISO Procedures, that is assigned to, or defines Bid Price limits applicable to, Decremental Bids and Sink Price Cap Bids at Proxy Generator Buses, in order to establish an appropriate scheduling priority for the Transaction or Firm Transmission Service associated with each such Bid. The Scheduling Differential shall be no larger than one dollar ($1.00).

2.162 SCUC

Security Constrained Unit Commitment, described in Section 4.2.4 of this ISO Services Tariff.

The ISO shall reserve Ramp Capacity, and Transfer Capability on affected Interfaces, for each Pre-Scheduled Transaction. The ISO shall evaluate requests to withdraw Pre-Scheduled Transactions pursuant to ISO Procedures. The ISO shall submit Pre-Scheduled Transactions to the appropriate LBMP Market for the designated Dispatch Day.

Prescheduled Transactions that are submitted for scheduling in the Day-Ahead Market shall be assigned a Decremental Bid or Sink Price Cap Bid, as appropriate, to provide the highest scheduling priority available.

Prescheduled Transactions may not be scheduled at Proxy Generator Buses that are associated with Scheduled Lines.

4.2.2 Day-Ahead Load Forecasts, Bids and Bilateral Schedules

A. General Customer Forecasting and Bidding Requirements

By 5 a.m., on the day prior to the Dispatch Day (or by 4:50 a.m. for Eligible Customers seeking to schedule External Transactions at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line): (i) All LSEs serving Load in the NYCA shall provide the ISO with Day-Ahead and seven (7) day Load forecasts; and (ii)

4.4 Real-Time Markets and Schedules

4.4.1 In-Day Pre-Scheduled Transactions

For any hour in which the operator of an External Control Area informs the ISO that it must call on a Supplier located in the NYCA to provide the External Control Area with Energy, and that Supplier has previously committed to provide installed capacity to the External Control Area, then the ISO shall ensure, to the extent possible, that the required quantity of Energy will flow to the External Control Area in the hour. If the Supplier has already submitted an Export to the External Control Area for evaluation by the ISO, the ISO shall treat the Export as an in-day Pre-Scheduled Transaction. Such a Transaction shall be assigned a Sink Price Cap Bid that provides the highest scheduling priority available. If the Supplier has not previously submitted an Export for evaluation by the ISO it shall immediately submit such a bid into RTC. The ISO shall schedule the proposed Export as an in-day Pre-Scheduled Transaction, with the highest scheduling priority available, unless there is no Ramp Capacity or Transfer Capability on the relevant External Interface, in which case the Export will not be scheduled. To the extent that Ramp Capacity or Transfer Capability are available to support only a portion of an in-day Pre-Scheduled Transaction the ISO will schedule that portion of the Transaction.

In-day Pre-Scheduled Transactions will only be subject to Curtailment in the same *limited circumstances as other Pre-Scheduled Transactions.*

In-day Pre-Scheduled Transactions may not be scheduled at Proxy Generator Buses that are associated with Scheduled Lines.

4.4.2 Real-Time Commitment ("RTC")

A. Overview

RTC will make binding unit commitment and de-commitment decisions for the periods beginning fifteen minutes (in the case of Resources that can respond in ten minutes) and thirty minutes (in the case of Resources that can respond in thirty minutes) after the scheduled posting time of each RTC run, will provide advisory commitment information for the remainder of the two and a half hour optimization period, and will produce binding schedules for External Transactions to begin at the start of each hour. RTC will co-optimize to solve simultaneously for all Load, Operating Reserves and Regulation Service requirements and to minimize the total as-bid production costs over its optimization timeframe. RTC will consider SCUC's Resource commitment for the day, load and loss forecasts that RTC itself will produce each quarter hour, binding transmission constraints, and all Real-Time Bids and Bid parameters submitted pursuant to Section 4.4.2.B below.

B. Bids and Other Requests

After the Day-Ahead schedule is published and no later than seventy-five (75) minutes before each hour, or no later than eighty-five minutes before each hour for bids to schedule External Transactions at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line, Customers may submit Real-Time Bids into RTC for real-time evaluation.

1. Real-Time Bids to Supply Energy and Ancillary Services

Eligible Customers may submit new or revised Bids to supply Energy, Operating Reserves and/or Regulation Service. Customers that submit such Bids may specify different Bid

ISO-Committed Fixed mode may not switch to ISO-Committed Flexible or Self-Committed Flexible mode in real-time; and (iv) Generators that were scheduled Day-Ahead in Self-Committed Fixed mode may not switch to a different bidding mode in real-time.

Generators may not submit separate Operating Reserves Availability Bids in real-time and will instead automatically be assigned a real-time Operating Reserves Availability Bid of zero for the amount of Operating Reserves they are capable of providing in light of their response rate (as determined under Rate Schedule 4).

2. Bids Associated with Internal and External Bilateral Transactions

Customers may seek to modify Bilateral Transactions that were previously scheduled Day-Ahead or propose new Bilateral Transactions, including External Transactions, for economic evaluation by RTC. Bids associated with Internal Bilateral Transactions shall be subject to the rules set forth above in Section 4.2.2(G).

Except as noted in Attachment N to this ISO Services Tariff, Sink Price Cap Bids or Decremental Bids for External Transactions may be submitted into RTC up to seventy five minutes before the hour in which the External Transaction would flow. External Transaction Bids must have a one hour duration, must start and stop on the hour, and must have constant magnitude for the hour. Intra-hour schedule changes, or Bid modifications, associated with External Transactions will not be accommodated.

3. Self-Commitment Requests

Self-Committed Flexible Resources must provide the ISO with schedules of their expected minimum operating points in quarter hour increments. Self-Committed Fixed Resources must provide their expected actual operating points in quarter hour increments.

When a Proxy Generator Bus that is associated with a designated Scheduled Line is export constrained due to limits on Available Interface Capacity in an hour, External Generators and other Suppliers scheduling Imports at such Proxy Generator Bus in that hour will not be eligible for real-time shortfall payments for those Transactions.

The ISO shall recover supplemental payments and Demand Reduction Incentive Payments to Demand Reduction Providers pursuant to Rate Schedule 1 of its Open Access Transmission Services Tariff, from all Loads excluding exports and Wheels Through on a zonal basis in proportion to the benefits received after accounting for, pursuant to ISO Procedures, Demand Reduction imbalance charges paid by Demand Reduction Providers pursuant to Section 4.4.5.

ARTICLE 6

CONFIDENTIALITY

6.1 Access to Confidential Information

The ISO may request, and the Customer shall provide, Confidential Information consistent with the disclosure requirements set forth in the ISO Services Tariff (as provided for below). The ISO shall use reasonable procedures to prevent the disclosure of Confidential Information and shall not publish, disclose or otherwise divulge Confidential Information to any person or entity without the prior written consent of the party supplying such Confidential Information, except as provided for under the ISO Market Power Monitoring Plan and/or ISO Code of Conduct. The provisions of this Section shall not apply to any Confidential Information: (i) which was in the public domain at the time of disclosure hereunder; (ii) which thereafter passes into the public domain by acts other than the acts of the ISO; or (iii) that the ISO is required to make publicly available by the Commission, the PSC or other legal process, or for reliability purposes pursuant to Good Utility Practice.

A Customer may request that the ISO keep confidential from another entity Confidential Information that the other entity does not require to perform its obligations and duties hereunder. The Customer must state in writing that the information is to be treated as Confidential Information and the reasons for treating it as Confidential Information, otherwise information will be treated as non-Confidential Information.

the Interface between the NYCA and the Control Area in which that Non-Competitive Proxy Generator Bus is located, the Real-Time LBMP at the Non-Competitive Proxy Generator Bus will be the lower of (i) the RTC-determined price at the Non-Competitive Proxy Generator Bus or (ii) the higher of the LBMP determined by for the Non-Competitive Proxy Generator Bus or the Day-Ahead LBMP determined by SCUC for the Non-Competitive Proxy Generator Bus. At all other times, the Real-Time LBMP shall be calculated as specified in Section E.1 above.

3. Special Pricing Rules for Scheduled Lines

Real-Time LBMPs for the Proxy Generator Buses associated with designated Schedule Lines shall be determined as follows:

When proposed Real-Time Market economic net Import Transactions into the NYCA associated with a designated Scheduled Line would exceed the Available Transfer Capability of the designated Scheduled Line, the Real-Time LBMP at the Proxy Generator Bus associated with the designated Scheduled Line will be the higher of (i) the RTC-determined price at that Proxy Generator Bus or (ii) the lower of the LBMP determined by RTD for that Proxy Generator Bus or zero.

When proposed Real-Time Market economic net Export Transactions from the NYCA associated with a designated Scheduled Line would exceed the Available Transfer Capability of the designated Scheduled Line, the Real-Time LBMP at the Proxy Generator Bus associated with the designated Scheduled Line will be the lower of (i) the RTC-determined price at the Proxy Generator Bus or (ii) the higher of the LBMP determined by RTD for the Proxy Generator Bus or the Day-Ahead LBMP determined by SCUC for the Proxy Generator Bus. At all other times, the Real-Time LBMP shall be calculated as specified in Section E.1 above.

The Cross-Sound Scheduled Line is a designated Scheduled Line.

4. Method of Calculating Marginal Loss and Congestion Components of Real-Time LBMP at Non-Competitive Proxy Generator Buses and Proxy Generator Buses that are Subject to the Special Pricing Rule for Scheduled Lines

Under the conditions specified below, the Marginal Losses Component and the Congestion Component of the Real-Time LBMP, calculated pursuant to the preceding paragraphs in subsections 2 and 3, shall be constructed as follows:

When the Real-Time LBMP is set to zero and that zero price was not the result of using the RTD, RTC or SCUC-determined LBMP;

Marginal Losses Component of the Real-Time LBMP = $\text{Losses}_{\text{RTC PROXY GENERATOR BUS}}$;

and

Congestion Component of the Real-Time LBMP = - ($\text{Energy}_{\text{RTC REF BUS}}$ + $\text{Losses}_{\text{RTC PROXY GENERATOR BUS}}$).

When the Real-Time LBMP is set to the Day-Ahead LBMP:

Marginal Losses Component of the Real-Time LBMP = Losses $_{\text{RTC PROXY GENERATOR BUS}}$;

and

Congestion Component of the Real-Time LBMP = Day-Ahead LBMP $_{\text{PROXY GENERATOR BUS}}$ - (Energy $_{\text{RTC REF BUS}}$ + Losses $_{\text{RTC PROXY GENERATOR BUS}}$).

where:

Energy $_{\text{RTC REF BUS}}$	=	marginal Bid cost of providing Energy at the reference Bus, as calculated by RTC_{15} for the hour;
Losses $_{\text{RTC PROXY GENERATOR BUS}}$	=	Marginal Losses Component of the LBMP as calculated by RTC_{15} at the Non-Competitive Proxy Generator Bus or Proxy Generator Bus associated with a designated Scheduled Line for the hour; and
Day-Ahead LBMP $_{\text{PROXY GENERATOR BUS}}$	=	Day-Ahead LBMP as calculated by SCUC for the Non-Competitive Proxy Generator Bus or Proxy Generator Bus associated with a designated Scheduled Line for the hour.

The Marginal Losses Component of LBMP

The components of LBMP will be posted in the Day-Ahead and Real-Time Markets as described above, except that the Marginal Losses Component of LBMP will be calculated differently for Internal locations. The Marginal Losses Component of the LBMP at each bus, as described

above, includes the difference between the marginal cost of losses at that bus and the Reference Bus. If this formulation were employed for an External bus, then the Marginal Losses Component would include the difference in the cost of Marginal Losses for a section of the transmission system External to the NYCA. Since the ISO will not charge for losses incurred Externally, the

3.6 Scheduling Transmission Service for External Transactions

The amount of Firm Transmission Service scheduled Day-Ahead for Bilateral Transactions which designate External Generators to supply Imports or Internal Generators to supply Exports will be equal to the amount of Energy scheduled to be consumed under those Transactions Day-Ahead. The amount of Firm Transmission Service scheduled in the RTC_{15} for Bilateral Transactions which designate External Generators to supply Imports or Internal Generators to supply Exports will be equal to the amount of Energy scheduled to be consumed under those Transactions in RTC_{15}. The DNI between the NYCA and adjoining Control Areas will be adjusted as necessary to reflect the effects of any Curtailments of Import or Export Transactions. Additionally, any Curtailment or Reductions of schedules for Export Transactions will cause the scheduled amount of Transmission Service to change.

To the extent possible, Curtailments of External Transactions at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line shall be based on the transmission priority of the associated Advance Reservation on the Cross-Sound Cable, LLC node of the ISO-NE OASIS.

The ISO shall use Decremental Bids supplied by Transmission Customers using External Generators to supply Wheels-Through to determine the amount of Energy those Generators are scheduled Day-Ahead to produce in each hour. This in turn will determine the Firm Transmission Service scheduled Day-Ahead to support those

(iii) *Existing intermittent (i.e., non-schedulable) renewable resource*

Generators in operation on or before November 18, 1999 within the NYCA, plus up to an additional 500 MW of such Generators.

This procedure shall not apply for those hours the Generator supplying that Transaction has bid in a manner that indicates it is available to provide Regulation Service or Operating Reserves.

The ISO will not schedule a Bilateral Transaction which crosses an Interface between the NYCA and a neighboring Control Area if doing so would cause the DNI to exceed the Transfer Capability of that Interface.

External Transactions at the Proxy Generator Bus that are associated with the Cross-Sound Scheduled Line shall also be governed by Attachment N to the ISO Services Tariff.

IV. SALE OF TRANSMISSION CONGESTION CONTRACTS ("TCCs")

1.0 Overview of the Sales of TCCs

TCCs will be made available through both (i) the Centralized TCC Auction ("Auction") and Reconfiguration Auction, which will be conducted by the ISO; and (ii) Direct Sales by the Transmission Owners, which will be non-discriminatory, auditable sales conducted solely on the OASIS in compliance with the applicable requirements and restrictions set forth in Order No. 889 et seq.

Before each Auction, the ISO shall ensure that all of the following correspond to a simultaneously feasible security constrained Power Flow: (i) existing TCCs that are valid for any part of the duration of any TCCs to be sold in the Centralized TCC Auction, (ii) Grandfathered Rights, and (iii) ETCNL not previously sold as TCCs that are valid for any part of the duration of any TCCs to be sold in the Centralized TCC Auction. Should infeasibility occur, the TCC Reservations shown in Table 1 of Attachment M of the ISO OATT will be reduced until feasibility is assured, as described in Section 3.0 of this Part IV of this Attachment B.

Before each Centralized TCC Auction, the ISO shall also convert ETCNL into ETCNL TCCs pursuant to Section 5.0 of this Part IV of this Attachment B, and shall allocate RCRRs to Transmission Owners and convert RCRRs into RCRR TCCs pursuant to Section 6.0 of this Part IV of this Attachment B.

ATTACHMENT N

EXTERNAL TRANSACTIONS AT THE PROXY GENERATOR BUS ASSOCIATED WITH THE CROSS-SOUND SCHEDULED LINE

1.0 Supremacy of Attachment N

External Transactions at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line shall be bid and scheduled pursuant to the provisions of the ISO Services Tariff and the ISO OATT, and in accordance with this Attachment N. In the event of a conflict between the provisions of this Attachment N and any other provision of the ISO OATT, the ISO Services Tariff, or any of their attachments and schedules, with regard to External Transactions at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line, the provisions of this Attachment N shall prevail.

2.0 Transmission Reservations on the Cross-Sound Scheduled Line

Customers scheduling External Transactions at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line must first hold an Advance Reservation on the Cross-Sound Scheduled Line sufficient to support the proposed External Transaction. Advance Reservations must be obtained in accordance with the Cross-Sound Scheduled Line release procedures that are set forth in Schedule 18 and the Schedule 18 Implementation Rule of the ISO New England Inc. Transmission, Markets and Services Tariff, or any successors thereto.

Customers that have obtained Advance Reservations and wish to schedule External Transactions at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line must (a) schedule an External Transaction with the ISO by submitting appropriate bids for economic evaluation, and (b) correspondingly schedule a transaction over the Cross-Sound Scheduled Line in accordance with all applicable New England tariffs and market rules.

If a Customer scheduling External Transactions at the Proxy Generator Bus that is associated with the Cross-Sound Scheduled Line inaccurately claims to hold an Advance Reservation or Advance Reservations that are adequate to support its bid(s), or falsely implies that it has an Advance Reservation or Advance Reservations that are adequate to support its bid(s) by scheduling such an External Transaction, the ISO may inform the Commission and take other appropriate action.

3.0 Additional Scheduling Rules for the Cross-Sound Scheduled Line

3.1 Bid Submission and E-Tags for Day-Ahead Transactions

Customers seeking to Schedule Day-Ahead transactions at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line (a) shall comply with all applicable ISO Procedures, and (b) shall submit bids that reference valid NERC E-Tags for their transaction(s) no later than 10 minutes prior to the close of the DAM.

3.2 Bids and E-Tags for Real Time Transactions

Customers seeking to schedule Real-Time Market transactions at the Proxy generator Bus associated with the Cross-Sound Scheduled Line (a) shall comply with all applicable ISO Procedures, and (b) shall submit bids that reference valid NERC E-Tags for their transaction(s) at least 85 minutes before the start of each dispatch hour.

3.3 E-Tags Shall Each Reference One Advance Reservation ID

NERC E-Tags for External Transactions at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line shall each reference no more than one Cross-Sound Scheduled Line Advance Reservation ID or "assignment reference number" from the Cross-Sound Cable, LLC node of the ISO-NE OASIS.

Attachment III

Clean Versions of the Revised OATT Sheets

TABLE OF CONTENTS

I. COMMON SERVICE PROVISIONS

1.0 Definitions

1.0a Actual Energy Withdrawals: Energy withdrawals which are either: (1) measured with a revenue-quality real-time meter; (2) assessed (in the case of LSEs serving retail customers where withdrawals are not measured by revenue-quality real-time meters) on the basis provided for in a Transmission Owner's retail access program; or (3) calculated (in the case of wholesale customers where withdrawals are not measured by revenue-quality real-time meters), until such time as revenue-quality real-time metering is available on a basis agreed upon by the unmetered wholesale customers.

1.0b Advance Reservation: A reservation of transmission service over the Cross-Sound Scheduled Line that is obtained in accordance with the applicable terms of Schedule 18 and the Schedule 18 Implementation Rule of the ISO New England Inc. Transmission, Markets and Services Tariff, or in accordance with any successors thereto.

1.0c Affiliate: With respect to a person or entity, any individual, corporation, partnership, firm, joint venture, association, joint-stock company, trust or unincorporated organization, directly or indirectly controlling, controlled by, or under common control with, such person or entity. The term "control" shall mean the possession, directly or indirectly, of the power to direct the management or policies of a person or an entity. A voting interest of ten percent or more shall create a rebuttable presumption of control.

1.1 Ancillary Services: Those services that are necessary to support the transmission of Capacity and Energy from resources to Loads while maintaining reliable operation of the NYS Transmission System in accordance with Good Utility Practice.

1.2 Annual Transmission Costs: The total annual cost of the Transmission System for purposes of Network Integration and Point-to-Point Transmission Services shall be the amount specified in Attachment H until amended by the Transmission Owners or modified by the Commission.

1.2a Annual Transmission Revenue Requirement: The total annual cost for each Transmission Owner (other than LIPA) to provide transmission service subject to review and acceptance by FERC or other authority.

facilitate the operation of the NYS Transmission System.

1.5g Contingency: An actual or potential unexpected failure or outage of a system component, such as a Generator, transmission line, circuit breaker, switch or other electrical element. A Contingency also may include multiple components, which are related by situations leading to simultaneous component outages.

1.5h Contract Establishment Date: The date, listed in Attachment L, on which the listed existing agreements which are the source of Grandfathered Rights and Grandfathered TCCs were executed.

1.6 Control Area: An electric power system or combination of electric power systems to which a common automatic generation control scheme is applied in order to:
(1) match, at all times, the power output of the Generators within the electric power system(s) and capacity and energy purchased from entities outside the electric power system(s), with the Load within the electric power system(s);
(2) maintain scheduled interchange with other Control Areas, within the limits of Good Utility Practice;
(3) maintain the frequency of the electric power system(s) within reasonable limits in accordance with Good Utility Practice; and
(4) provide sufficient generating capacity to maintain Operating Reserves in accordance with Good Utility Practice.

1.6a Credit Assessment: An assessment of a Customer's creditworthiness, conducted by the ISO in accordance with Section IV.C. of Attachment W of this Tariff.

1.6b Cross-Sound Scheduled Line: A transmission facility that interconnects the NYCA to the New England Control Area at Shoreham, New York and terminates near New Haven, Connecticut.

1.7 Curtailment or Curtail: A reduction in Firm or non-Firm Transmission Service in response to a transmission capacity shortage as a result of system reliability conditions.

1.7a Customer: An entity which has complied with the requirements contained in the ISO Services Tariff, including having signed a Service Agreement, and is qualified to utilize the Market Services and the Control Area Services provided by the ISO under the ISO Services Tariff; provided, however, that a party taking services under the ISO Services Tariff pursuant to an unsigned Service Agreement filed with the Commission by the ISO shall be deemed a Customer.

External Control Area to another External Control Area at the market-determined Transmission Usage Charge. Pre-Scheduled Transaction Requests accepted for scheduling reserve Ramp Capacity and Transfer Capability and receive priority scheduling in the LBMP Market.

1.35f.2 Pre-Scheduled Transaction. A Transaction accepted for scheduling in the designated LBMP Market pursuant to a Pre-Scheduled Transaction Request. Pre-Scheduled Transactions may be withdrawn only with the approval of the ISO pursuant to the ISO Procedures.

1.35f.3 Prior Equivalent Capability Period: The previous same-season Capability Period.

1.35g Proxy Generator Bus: A proxy bus located outside the NYCA that is selected by the ISO to represent a typical bus in an adjacent Control Area and for which LBMP prices are calculated.

1.36d Real Power Losses: The loss of Energy, resulting from transporting power over the NYS Transmission System, between the Point of Injection and Point of Withdrawal of that Energy.

1.36d.1 Real-Time Bid: A Bid submitted into the Real-Time Commitment at least seventy-five minutes before the start of a dispatch hour, or at least eighty-five minutes before the start of a dispatch hour if the Bid seeks to schedule an External Transaction at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line.

1.36d.2 Real-Time Commitment ("RTC"): A multi-period security constrained unit commitment and dispatch model that co-optimizes to solve simultaneously for Load, Operating Reserves and Regulation Service on a least as-bid production cost basis over a two hour and fifteen minute optimization period. The optimization evaluates the next ten points in time separated by fifteen minute intervals. Each RTC run within an hour shall have a designation indicating the time at which its results are posted: "RTC_{00}," RTC_{30}., and "RTC_{45}: post on the hour, and at fifteen, thirty, and forty-five minutes after the hour, respectively. Each RTC run will produce binding commitment instructions for the periods beginning fifteen and thirty minutes after its scheduled posting time and will produce advisory commitment guidance for the remainder of the optimization period, RTC_{15} will also establish External Transaction schedules. Additional information about RTC's functions is provided in Section 4.4.2 of the ISO Services Tariff.

1.36d.3 Real-Time Dispatch ("RTD"): A multi-period security constrained dispatch model that co-optimizes to solve simultaneously for Load, Operating Reserves, and Regulation Service on a least-as-bid production cost basis over a fifty, fifty-five or sixty-minute period (depending on when each RTD run covers within an hour). The Real-Time Dispatch dispatches, but does not commit, Generators, and shall dispatch, but not commit, Demand Side Resources to the extent that it can support their participation. Real-Time Dispatch runs will normally occur every five minutes. Additional information about RTD's functions is provided in Section 4.4.3 of the ISO Services Tariff. Throughout the ISO Services Tariff the term "RTD" will normally be used to refer to both the Real-Time Dispatch and to the specialized Real-Time Dispatch Corrective Action Mode software.

1.36d.4 Real-Time Dispatch-Corrective Action Mode ("RTD-CAM"): A specialized version of the Real-Time Dispatch software that will be activated when it is needed to address unanticipated system conditions. RTD-CAM is described in Section 4.4.4 of the ISO Services Tariff.

1.39d Safe Operations: Actions which avoid placing personnel and equipment in peril with regard to the safety of life and equipment damage.

1.39d.01 Scheduled Energy Injection: Energy injections which are scheduled on a real-time basis by RTC.

1.39d.02 Scheduled Line: A transmission facility or set of transmission facilities: (a) that provide a distinct scheduling path interconnecting the ISO with an adjacent control area, (b) over which Customers are permitted to schedule External Transactions, (c) for which the NYISO separately posts TTC and ATC, and (d) for which there is the capability to maintain the Scheduled Line actual interchange at the DNI, or within the tolerances dictated by Good Utility Practice. Each Scheduled Line is associated with a distinct Proxy Generator Bus. Transmission facilities shall only become Scheduled Lines after the Commission accepts for filing revisions to the NYISO's tariffs that identify a specific set or group of transmission facilities as a Scheduled Line.

The following transmission facilities are Scheduled Lines: the Cross-Sound Scheduled Line.

1.39d.1 Scheduling Differential: A monetary amount, to be defined by the ISO pursuant to ISO Procedures that is assigned to, or defines Bid Price limits applicable to, Decremental Bids and Sink Price Cap Bids at Proxy Generator Buses, in order to establish an appropriate scheduling priority for the Transaction or Firm Transmission Service associated with each such Bid. The Scheduling Differential shall be no larger than one dollar ($1.00).

1.39e SCUC: Security Constrained Unit Commitment, described in Attachment C of the Tariff.

1.39f Second Contingency Design and Operation: The planning, design and operation of a power system such that the loss of any two (2) facilities will not result in a service interruption to either native load customers or contracted firm Transmission Customers. Second Contingency Design and Operation criteria do not include the simultaneous loss of two (2) facilities, but rather consider the loss of one (1) facility and the restoration of the system to within acceptable operating parameters, prior to the loss of a second facility. These criteria apply to thermal, voltage and stability limits and are generally equal to or more stringent than NYPP, NPCC and NERC criteria.

1.39g Second Settlement: The process of: (1) identifying differences between Energy production, Energy consumption or NYS Transmission System usage scheduled in a First Settlement, and the actual production, consumption, or NYS Transmission System usage during the Dispatch Day; and (2) assigning financial responsibility for those differences to the appropriate Customers and Market Participants. Charges for Energy supplied (to replace Generation deficiencies or unscheduled consumption), and payments for Energy consumed (to absorb consumption deficiencies or excess Energy supply) or changes in transmission usage will be based on the Real-Time LBMPs.

1.39h Secondary Holder: Entities that: (1) purchase TCCs in the Secondary Market; (2) purchase TCCs in a Direct Sale from a Transmission Owner and have not been certified as a Primary Holder by the ISO; or (3) receive an allocation of Native Load TCCs from a Transmission Owner (See Attachment M). A Transmission Customer purchasing TCCs in a Direct Sale may qualify as a Primary Holder with respect to those TCCs purchased in that Direct Sale.

1.39i Secondary Market: A market in which Primary and Secondary Holders sell TCCs by mechanisms other than through the Centralized TCC Auction or by Direct Sale. Buyers of TCCs in the Secondary Market shall neither pay nor receive Congestion Rents directly to or from the ISO.

II. POINT-TO-POINT TRANSMISSION SERVICE

Preamble

The ISO will provide Firm and Non-Firm Point-To-Point Transmission Service pursuant to the applicable terms and conditions of this Tariff over the transmission facilities of the parties to the ISO/TO Agreement. Point-To-Point Transmission Service is for the receipt of Capacity and Energy at designated Point(s) of Receipt and the transmission of such Capacity and Energy to designated Point(s) of Delivery. Firm Point-To-Point Transmission Service is service for which the Transmission Customer has agreed to pay the Congestion Rent associated with its service. Non-Firm Point-To-Point Transmission Service is service for which the Transmission Customer has not agreed to pay Congestion Rent. A Transmission Customer may fix the price of Day-Ahead Congestion Rent associated with its Firm Point-To-Point Transmission Service by acquiring sufficient TCCs with the same Points of Receipt and Delivery as its Transmission Service. Notwithstanding any provision in this Part to the contrary, External Transactions scheduled at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line shall be subject to the requirements of Attachment N to the ISO Services Tariff.

13.0 Nature of Firm Point-To-Point Transmission Service

13.1 Term: The minimum term of Firm Point-To-Point Transmission Service shall be one hour and the maximum term shall be specified in the Service Agreement.

13.2 Reservation Priority: All requests for Firm Point-to-Point Transmission Service will be deemed to have the same reservation priority. Firm Point-to-Point

13.5 Transmission Customer Obligation for Facility Additions or Redispatch Cost: The ISO continuously redispatches all resources subject to its control in order to meet Load and to accommodate requests for a Firm Transmission Service through the use of SCUC, RTC, and RTD. Firm Point-To-Point Transmission Customers are charged for these redispatch costs in accordance with Attachment J. Transmission Owner(s) will be obligated to expand or upgrade its Transmission System pursuant to the terms of Section 19. The Transmission Customer or Eligible Customer must agree to compensate the Transmission Owner(s) for any necessary transmission facility additions pursuant to Section 19.

13.6 Curtailment of Firm Transmission Service: In the event that a Curtailment on the NYS Transmission System, or a portion thereof, is required to maintain reliable operation of such system, Curtailments will be made on a non-discriminatory basis to the Transaction(s) that effectively relieve the Constraint. When applicable, the ISO will follow the Lake Erie Emergency Redispatch ("LEER") Procedure filed on February 26, 1999, in Docket No. EL99-52-000 which is incorporated by reference herein. The LEER Procedure is intended to prevent the necessity of implementing the Curtailment procedures contained in the Commission and NERC tariffs and policies. To the extent

possible, Curtailments of External Transactions at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line shall be based on the transmission priority of the associated Advance Reservation on the Cross-Sound Cable, LLC node of the ISO-NE OASIS. If multiple

Confidential Information pursuant to a request under this paragraph. After the Confidential Information has been provided to the FERC or its staff, the ISO shall immediately notify any affected Market Participant(s) when it becomes aware that a request for disclosure of such confidential information has been received by the FERC or its staff, or a decision to disclose such confidential information has been made by the FERC, at which time the ISO and the affected Market Participant(s) may respond before such information would be made public, pursuant to the FERC's rules and regulations that may provide for privileged treatment of information provided to the FERC or its staff.

The ISO shall establish procedures for handling Confidential Information that minimize the possibility of intentional or accidental improper disclosure.

Sharing Confidential, Transmission System and Protected Information with the ISO-NE:

Subject to the terms, requirements and conditions set forth below, the ISO is authorized to exchange Confidential Information (including, but not limited to, information that is confidential, proprietary, commercially valuable or competitively sensitive or is a trade secret, and that has been designated as such in writing by the party supplying the information to the ISO or by the ISO) that is related to External Transactions at the Proxy Generator Buses representing the electrical interfaces between the NYCA and New England, with ISO-NE for the specific and

limited purposes of: (i) identifying and preventing the actual or intended gaming of the market rules set forth in the New York and/or New England (NEPOOL and ISO-NE) tariffs, procedures and technical documents, and/or (ii) identifying and preventing the actual or intended exercise of market power in New York or in New England.

Prior to disclosing any Confidential Information, the ISO shall ensure that ISO-NE will provide protections for Confidential Information that are the substantial equivalent of those required by this Section 4 of the ISO's Code of Conduct. In particular, ISO-NE shall be required to provide the following protections, and the ISO is authorized to provide reciprocal protections for Confidential Information that is provided by ISO-NE:

(a) ISO-NE shall be subject to a legally enforceable obligation to treat as confidential, in accordance with all applicable tariffs and rules (including, but not limited to, their FERC Code of Conduct and the FERC Standards of Conduct), all information that is designated in writing by the ISO as being Confidential Information, except where such information would not be subject to protection under the ISO's Code of Conduct or its market monitoring plan. ISO-NE's legally enforceable obligation to treat Confidential Information provided by the ISO as confidential shall be of a continuing nature, and shall survive the rescission, termination or expiration of any applicable tariffs, rules, Code of Conduct and/or Standards of Conduct;

(b) ISO-NE shall possess reciprocal legal authority to provide Confidential Information to the ISO;

(c) ISO-NE shall notice the ISO of all requests from courts or regulatory entities for access to Confidential Information provided by the ISO and shall provide all reasonable assistance requested by the ISO to prevent disclosure of such information. Upon receipt of notice from ISO-NE, the ISO shall inform the party

or parties that are the source or subject of the Confidential Information and, in conjunction with ISO-NE, shall undertake reasonable efforts to ensure that the source(s) or subject(s) of the information are provided an opportunity to participate in defending the information from disclosure;

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This Section defines insider trading, explain the duties of ISO Employees and describes behavior that is prohibited under securities laws.

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Non-Competitive Proxy Generator Bus or (ii) the lower of the LBMP determined by RTD for that Non-Competitive Proxy Generator Bus or zero.

When (i) proposed Real-Time Market economic net Export Transactions from the NYCA to the Control Area in which the Non-Competitive Proxy Generator Bus is located would exceed the Available Transfer Capability for the Interface between the NYCA and the Control Area in which the Non-Competitive Proxy Generator Bus is located, or (ii) proposed interchange schedule changes pertaining to increases in Real-Time Market net Exports from the NYCA to the Control Area in which the Non-Competitive Proxy Generator Bus is located would exceed the Ramp Capacity limit imposed by the ISO for the Interface between the NYCA and the Control Area in which that Non-Competitive Proxy Generator Bus is located, the Real-Time LBMP at the Non-Competitive Proxy Generator Bus will be the lower of (i) the RTC-determined price at the Non-Competitive Proxy Generator Bus or (ii) the higher of the LBMP determined by RTD for the Non-Competitive Proxy Generator Bus or the Day-Ahead LBMP determined by SCUC for the Non-Competitive Proxy Generator Bus. At all other times, the Real-Time LBMP shall be calculated as specified in Section E.1, above.

3. Special Pricing Rules for Scheduled Lines

Real-Time LBMPs for the Proxy Generator Buses associated with designated Scheduled Lines shall be determined as follows:

When proposed Real-Time Market economic net Import Transactions into the NYCA associated with a designated Scheduled Line would exceed the Available Transfer Capability of the designated Scheduled Line, the Real-Time LBMP at the Proxy Generator Bus associated with the designated Scheduled Line will be the higher of (i) the RTC-determined price at that Proxy Generator Bus or (ii) the lower of the LBMP determined by RTD for that Proxy Generator Bus or zero.

When proposed Real-Time Market economic net Export Transactions from the NYCA associated with a designated Scheduled Line would exceed the Available Transfer Capability of the designated Scheduled Line, the Real-Time LBMP at the Proxy Generator Bus associated with the designated Scheduled Line will be the lower of (i) the RTC-determined price at the Proxy Generator Bus or (ii) the higher of the LBMP determined by RTD for the Proxy Generator Bus or the Day-Ahead LBMP determined by SCUC for the Proxy Generator Bus. At all other times, the Real-Time LBMP shall be calculated as specified in Section E.1 above.

The Cross-Sound Scheduled Line is a designated Scheduled Line.

4. Method of Calculating Marginal Loss and Congestion Components of Real-Time LBMP at Non-Competitive Proxy Generator Buses and Proxy Generator Buses that are Subject to the Special Pricing Rule for Scheduled Lines

Under the conditions specified below, the Marginal Losses Component and the Congestion Component of the Real-Time LBMP, calculated pursuant to the preceding paragraphs in subsections 2 and 3, shall be constructed as follows:

When the Real-Time LBMP is set to zero and that zero price was not the result of using the RTD, RTC or SCUC-determined LBMP;

Marginal Losses Component of the Real-Time LBMP = $\text{Losses}_{\text{RTC PROXY GENERATOR BUS}}$;

and

Congestion Component of the Real-Time LBMP = - ($\text{Energy}_{\text{RTC REF BUS}}$ + $\text{Losses}_{\text{RTC PROXY GENERATOR BUS}}$).

When the Real-Time LBMP is set to the Day-Ahead LBMP:

Marginal Losses Component of the Real-Time LBMP = $\text{Losses}_{\text{RTC PROXY GENERATOR BUS}}$;

and

Congestion Component of the Real-Time LBMP = Day-Ahead $\text{LBMP}_{\text{PROXY GENERATOR BUS}}$ - ($\text{Energy}_{\text{RTC REF BUS}}$ + $\text{Losses}_{\text{RTC PROXY GENERATOR BUS}}$).

where:

$\text{Energy}_{\text{RTC REF BUS}}$ = marginal Bid cost of providing Energy at the reference Bus, as calculated by RTC_{15} for the hour;

$Losses_{RTC\ PROXY\ GENERATOR\ BUS}$	=	Marginal Losses Component of the LBMP as calculated by RTC_{15} at the Non-Competitive Proxy Generator Bus or Proxy Generator Bus associated with a designated Scheduled Line for the hour; and
Day-Ahead $LBMP_{PROXY\ GENERATOR\ BUS}$	=	Day-Ahead LBMP as calculated by SCUC for the Non-Competitive Proxy Generator Bus or Proxy Generator Bus associated with a designated Scheduled Line for the hour.

5.0 Scheduling Transmission Service for External Transactions

The amount of Firm Transmission Service scheduled Day-Ahead for Bilateral Transactions which designate External Generators to supply Imports or Internal Generators to supply Exports will be equal to the amount of Energy scheduled to be consumed under those Transactions Day-Ahead. The amount of Firm Transmission Service scheduled in the RTC_{15} for Bilateral Transactions which designate External Generators to supply Imports or Internal Generators to supply Exports will be equal to the amount of Energy scheduled to be consumed under those Transactions in the RTC_{15}. The DNI between the NYCA and adjoining Control Areas will be adjusted as necessary to reflect the effects of any Curtailments of Import or Export Transactions. Additionally, any Curtailment or Reductions of schedules for Export Transactions will cause the scheduled amount of Transmission Service to change.

To the extent possible, Curtailments of External Transactions at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line shall be based on the transmission priority of the associated Advance Reservation on the Cross-Sound Cable, LLC node of the ISO-NE OASIS.

The ISO shall use Decremental Bids supplied by Transmission Customers using External Generators to supply Wheels-Through to determine the amount of Energy those Generators are scheduled Day-Ahead to produce in each hour. This in turn will determine the Firm Transmission Service scheduled Day-Ahead to support those Transactions. The ISO shall

(iii) Existing intermittent (i.e., non-schedulable) renewable resource Generators within the NYCA, plus up to an additional 50 MW of such Generators.

This procedure shall not apply for those hours the Generator supplying that Transaction has bid in a manner that indicates it is available to provide Regulation Service or Operating Reserves.

The ISO will not schedule a Bilateral Transaction which crosses an Interface between the NYCA and a neighboring Control Area if doing so would cause the DNI to exceed the Transfer Capability of that Interface.

External Transactions at the Proxy Generator Bus that are associated with the Cross-Sound Scheduled Line shall also be governed by Attachment N to the ISO Services Tariff.

Attachment IV

Blacklined Versions of the Revised OATT Sheets

TABLE OF CONTENTS

I. COMMON SERVICE PROVISIONS

1.0 Definitions

1.0a Actual Energy Withdrawals: Energy withdrawals which are either: (1) measured with a revenue-quality real-time meter; (2) assessed (in the case of LSEs serving retail customers where withdrawals are not measured by revenue-quality real-time meters) on the basis provided for in a Transmission Owner's retail access program; or (3) calculated (in the case of wholesale customers where withdrawals are not measured by revenue-quality real-time meters), until such time as revenue-quality real-time metering is available on a basis agreed upon by the unmetered wholesale customers.

1.0b Advance Reservation: A reservation of transmission service over the Cross-Sound Scheduled Line that is obtained in accordance with the applicable terms of Schedule 18 and the Schedule 18 Implementation Rule of the ISO New England Inc. Transmission, Markets and Services Tariff, or in accordance with any successors thereto.

1.0bc Affiliate: With respect to a person or entity, any individual, corporation, partnership, firm, joint venture, association, joint-stock company, trust or unincorporated organization, directly or indirectly controlling, controlled by, or under common control with, such person or entity. The term "control" shall mean the possession, directly or indirectly, of the power to direct the management or policies of a person or an entity. A voting interest of ten percent or more shall create a rebuttable presumption of control.

1.1 Ancillary Services: Those services that are necessary to support the transmission of Capacity and Energy from resources to Loads while maintaining reliable operation of the NYS Transmission System in accordance with Good Utility Practice.

1.2 Annual Transmission Costs: The total annual cost of the Transmission System for purposes of Network Integration and Point-to-Point Transmission Services shall be the amount specified in Attachment H until amended by the Transmission Owners or modified by the Commission.

1.2a Annual Transmission Revenue Requirement: The total annual cost for each Transmission Owner (other than LIPA) to provide transmission service subject to review and acceptance by FERC or other authority.

facilitate the operation of the NYS Transmission System.

1.5g Contingency: An actual or potential unexpected failure or outage of a system component, such as a Generator, transmission line, circuit breaker, switch or other electrical element. A Contingency also may include multiple components, which are related by situations leading to simultaneous component outages.

1.5h Contract Establishment Date: The date, listed in Attachment L, on which the listed existing agreements which are the source of Grandfathered Rights and Grandfathered TCCs were executed.

1.6 Control Area: An electric power system or combination of electric power systems to which a common automatic generation control scheme is applied in order to:
(1) match, at all times, the power output of the Generators within the electric power system(s) and capacity and energy purchased from entities outside the electric power system(s), with the Load within the electric power system(s);
(2) maintain scheduled interchange with other Control Areas, within the limits of Good Utility Practice;
(3) maintain the frequency of the electric power system(s) within reasonable limits in accordance with Good Utility Practice; and
(4) provide sufficient generating capacity to maintain Operating Reserves in accordance with Good Utility Practice.

1.6a Credit Assessment: An assessment of a Customer's creditworthiness, conducted by the ISO in accordance with Section IV.C. of Attachment W of this Tariff.

1.6b Cross-Sound Scheduled Line: A transmission facility that interconnects the NYCA to the New England Control Area at Shoreham, New York and terminates near New Haven, Connecticut.

1.7 Curtailment or Curtail: A reduction in Firm or non-Firm Transmission Service in response to a transmission capacity shortage as a result of system reliability conditions.

1.7a Customer: An entity which has complied with the requirements contained in the ISO Services Tariff, including having signed a Service Agreement, and is qualified to utilize the Market Services and the Control Area Services provided by the ISO under the ISO Services Tariff; provided, however, that a party taking services under the ISO Services Tariff pursuant to an unsigned Service Agreement filed with the Commission by the ISO shall be deemed a Customer.

External Control Area to another External Control Area at the market-determined Transmission Usage Charge. Pre-Scheduled Transaction Requests accepted for scheduling reserve Ramp Capacity and Transfer Capability and receive priority scheduling in the LBMP Market.

1.35f.2 Pre-Scheduled Transaction. A Transaction accepted for scheduling in the designated LBMP Market pursuant to a Pre-Scheduled Transaction Request. Pre-Scheduled Transactions may be withdrawn only with the approval of the ISO pursuant to the ISO Procedures.

1.35f.3 Prior Equivalent Capability Period: The previous same-season Capability Period.

1.35g Proxy Generator Bus: A ~~Generator~~proxy bus located outside the NYCA that is selected by the ISO to represent a typical bus in an adjacent Control Area and for which LBMP prices are calculated.

1.36d Real Power Losses: The loss of Energy, resulting from transporting power over the NYS Transmission System, between the Point of Injection and Point of Withdrawal of that Energy.

1.36d.1 Real-Time Bid: A Bid submitted into the Real-Time Commitment at least seventy-five minutes before the start of a dispatch hour, or at least eighty-five minutes before the start of a dispatch hour if the Bid seeks to schedule an External Transaction at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line.

1.36d.2 Real-Time Commitment ("RTC"): A multi-period security constrained unit commitment and dispatch model that co-optimizes to solve simultaneously for Load, Operating Reserves and Regulation Service on a least as-bid production cost basis over a two hour and fifteen minute optimization period. The optimization evaluates the next ten points in time separated by fifteen minute intervals. Each RTC run within an hour shall have a designation indicating the time at which its results are posted: "RTC_{00}," RTC_{30}., and "RTC_{45}: post on the hour, and at fifteen, thirty, and forty-five minutes after the hour, respectively. Each RTC run will produce binding commitment instructions for the periods beginning fifteen and thirty minutes after its scheduled posting time and will produce advisory commitment guidance for the remainder of the optimization period, RTC_{15} will also establish External Transaction schedules. Additional information about RTC's functions is provided in Section 4.4.2 of the ISO Services Tariff.

1.36d.3 Real-Time Dispatch ("RTD"): A multi-period security constrained dispatch model that co-optimizes to solve simultaneously for Load, Operating Reserves, and Regulation Service on a least-as-bid production cost basis over a fifty, fifty-five or sixty-minute period (depending on when each RTD run covers within an hour). The Real-Time Dispatch dispatches, but does not commit, Generators, and shall dispatch, but not commit, Demand Side Resources to the extent that it can support their participation. Real-Time Dispatch runs will normally occur every five minutes. Additional information about RTD's functions is provided in Section 4.4.3 of the ISO Services Tariff. Throughout the ISO Services Tariff the term "RTD" will normally be used to refer to both the Real-Time Dispatch and to the specialized Real-Time Dispatch Corrective Action Mode software.

1.36d.4 Real-Time Dispatch-Corrective Action Mode ("RTD-CAM"): A specialized version of the Real-Time Dispatch software that will be activated when it is needed to address unanticipated system conditions. RTD-CAM is described in Section 4.4.4 of the ISO Services Tariff.

1.39d Safe Operations: Actions which avoid placing personnel and equipment in peril with regard to the safety of life and equipment damage.

1.39d.01 Scheduled Energy Injection: *Energy injections which are scheduled on a real-time basis by RTC.*

1.39d.02 Scheduled Line: A transmission facility or set of transmission facilities: (a) that provide a distinct scheduling path interconnecting the ISO with an adjacent control area, (b) over which Customers are permitted to schedule External Transactions, (c) for which the NYISO separately posts TTC and ATC, and (d) for which there is the capability to maintain the Scheduled Line actual interchange at the DNL or within the tolerances dictated by Good Utility Practice. Each Scheduled Line is associated with a distinct Proxy Generator Bus. Transmission facilities shall only become Scheduled Lines after the Commission accepts for filing revisions to the NYISO's tariffs that identify a specific set or group of transmission facilities as a Scheduled Line.

The following transmission facilities are Scheduled Lines: the Cross-Sound Scheduled Line.

1.39d.1 Scheduling Differential: A monetary amount, to be defined by the ISO pursuant to ISO Procedures that is assigned to, or defines Bid Price limits applicable to, Decremental Bids and Sink Price Cap Bids at Proxy Generator Buses, in order to establish an appropriate scheduling priority for the Transaction or Firm Transmission Service associated with each such Bid. The Scheduling Differential shall be no larger than one dollar ($1.00).

1.39e SCUC: Security Constrained Unit Commitment, described in Attachment C of the Tariff.

1.39f Second Contingency Design and Operation: The planning, design and operation of a power system such that the loss of any two (2) facilities will not result in a service interruption to either native load customers or contracted firm Transmission Customers. *Second Contingency Design and Operation criteria do* not include the simultaneous loss of two (2) facilities, but rather consider the loss of one (1) facility and the restoration of the system to within acceptable operating parameters, prior to the loss of a second facility. These criteria apply to thermal, voltage and stability limits and are generally equal to or more stringent than NYPP, NPCC and NERC criteria.

1.39g Second Settlement: The process of: (1) identifying differences between Energy production, Energy consumption or NYS Transmission System usage scheduled in a First Settlement, and the actual production, consumption, or NYS Transmission System usage during the Dispatch Day; and (2) assigning financial responsibility for those differences to the appropriate Customers and Market Participants. Charges for Energy supplied (to replace Generation deficiencies or unscheduled consumption), and payments for Energy consumed (to absorb consumption deficiencies or excess Energy supply) or changes in transmission usage will be based on the Real-Time LBMPs.

1.39h Secondary Holder: Entities that: (1) purchase TCCs in the Secondary Market; (2) purchase TCCs in a Direct Sale from a Transmission Owner and have not been certified as a Primary Holder by the ISO; or (3) receive an allocation of Native Load TCCs from a Transmission Owner (See Attachment M). A Transmission Customer purchasing TCCs in a Direct Sale may qualify as a Primary Holder with respect to those TCCs purchased in that Direct Sale.

1.39i Secondary Market: A market in which Primary and Secondary Holders sell TCCs by mechanisms other than through the Centralized TCC Auction or by Direct Sale. Buyers of TCCs in the Secondary Market shall neither pay nor receive Congestion Rents directly to or from the ISO.

II. POINT-TO-POINT TRANSMISSION SERVICE

Preamble

The ISO will provide Firm and Non-Firm Point-To-Point Transmission Service pursuant to the applicable terms and conditions of this Tariff over the transmission facilities of the parties to the ISO/TO Agreement. Point-To-Point Transmission Service is for the receipt of Capacity and Energy at designated Point(s) of Receipt and the transmission of such Capacity and Energy to designated Point(s) of Delivery. Firm Point-To-Point Transmission Service is service for which the Transmission Customer has agreed to pay the Congestion Rent associated with its service. Non-Firm Point-To-Point Transmission Service is service for which the Transmission Customer has not agreed to pay Congestion Rent. A Transmission Customer may fix the price of Day-Ahead Congestion Rent associated with its Firm Point-To-Point Transmission Service by acquiring sufficient TCCs with the same Points of Receipt and Delivery as its Transmission Service. Notwithstanding any provision in this Part to the contrary, External Transactions scheduled at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line shall be subject to the requirements of Attachment N to the ISO Services Tariff.

13.0 Nature of Firm Point-To-Point Transmission Service

13.1 Term: The minimum term of Firm Point-To-Point Transmission Service shall be one hour and the maximum term shall be specified in the Service Agreement.

13.2 Reservation Priority: All requests for Firm Point-to-Point Transmission Service will be deemed to have the same reservation priority. Firm Point-to-Point

13.5 Transmission Customer Obligation for Facility Additions or Redispatch Cost: The ISO continuously redispatches all resources subject to its control in order to meet Load and to accommodate requests for a Firm Transmission Service through the use of SCUC, RTC, and RTD. Firm Point-To-Point Transmission Customers are charged for these redispatch costs in accordance with Attachment J. Transmission Owner(s) will be obligated to expand or upgrade its Transmission System pursuant to the terms of Section 19. The Transmission Customer or Eligible Customer must agree to compensate the Transmission Owner(s) for any necessary transmission facility additions pursuant to Section 19.

13.6 Curtailment of Firm Transmission Service: In the event that a Curtailment on the NYS Transmission System, or a portion thereof, is required to maintain reliable operation of such system, Curtailments will be made on a non-discriminatory basis to the Transaction(s) that effectively relieve the Constraint. When applicable, the ISO will follow the Lake Erie Emergency Redispatch ("LEER") Procedure filed on February 26, 1999, in Docket No. EL99-52-000 which is incorporated by reference herein. The LEER Procedure is intended to prevent the necessity of implementing the Curtailment procedures contained in the Commission and NERC tariffs and policies. To the extent

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Non-Competitive Proxy Generator Bus or (ii) the lower of the LBMP determined by RTD for that Non-Competitive Proxy Generator Bus or zero.

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3. Special Pricing Rules for Scheduled Lines

Real-Time LBMPs for the Proxy Generator Buses associated with designated Scheduled Lines shall be determined as follows:

When proposed Real-Time Market economic net Import Transactions into the NYCA associated with a designated Scheduled Line would exceed the Available Transfer Capability of the designated Scheduled Line, the Real-Time LBMP at the Proxy Generator Bus associated with the designated Scheduled Line will be the higher of (i) the RTC-determined price at that Proxy Generator Bus or (ii) the lower of the LBMP determined by RTD for that Proxy Generator Bus or zero.

When proposed Real-Time Market economic net Export Transactions from the NYCA associated with a designated Scheduled Line would exceed the Available Transfer Capability of the designated Scheduled Line, the Real-Time LBMP at the Proxy Generator Bus associated with the designated Scheduled Line will be the lower of (i) the RTC-determined price at the Proxy Generator Bus or (ii) the higher of the LBMP determined by RTD for the Proxy Generator Bus or the Day-Ahead LBMP determined by SCUC for the Proxy Generator Bus. At all other times, the Real-Time LBMP shall be calculated as specified in Section E.1 above.

The Cross-Sound Scheduled Line is a designated Scheduled Line.

4. Method of Calculating Marginal Loss and Congestion Components of Real-Time LBMP at Non-Competitive Proxy Generator Buses and Proxy Generator Buses that are Subject to the Special Pricing Rule for Scheduled Lines

Under the conditions specified below, the Marginal Losses Component and the Congestion Component of the Real-Time LBMP, calculated pursuant to the preceding paragraphs in subsections 2 and 3, shall be constructed as follows:

When the Real-Time LBMP is set to zero and that zero price was not the result of using the RTD, RTC or SCUC-determined LBMP;

Marginal Losses Component of the Real-Time LBMP = $\text{Losses}_{\text{RTC: PROXY GENERATOR BUS}}$; and

Congestion Component of the Real-Time LBMP = - ($\text{Energy}_{\text{RTC REF BUS}}$ + $\text{Losses}_{\text{RTC PROXY GENERATOR BUS}}$).

When the Real-Time LBMP is set to the Day-Ahead LBMP:

Marginal Losses Component of the Real-Time LBMP = $\text{Losses}_{\text{RTC: PROXY GENERATOR BUS}}$; and

Congestion Component of the Real-Time LBMP = Day-Ahead $\text{LBMP}_{\text{PROXY GENERATOR BUS}}$ - ($\text{Energy}_{\text{RTC REF BUS}}$ + $\text{Losses}_{\text{RTC PROXY GENERATOR BUS}}$).

where:

$\text{Energy}_{\text{RTC REF BUS}}$ = marginal Bid cost of providing Energy at the reference Bus, as calculated by RTC_{15} for the hour;

$Losses_{RTC\ PROXY\ GENERATOR\ BUS}$ = Marginal Losses Component of the LBMP as calculated by RTC_{15} at the Non-Competitive Proxy Generator Bus or Proxy Generator Bus associated with a designated Scheduled Line for the hour; and

Day-Ahead $LBMP_{PROXY\ GENERATOR\ BUS}$ = Day-Ahead LBMP as calculated by SCUC for the Non-Competitive Proxy Generator Bus or Proxy Generator Bus associated with a designated Scheduled Line for the hour.

5.0 Scheduling Transmission Service for External Transactions

The amount of Firm Transmission Service scheduled Day-Ahead for Bilateral Transactions which designate External Generators to supply Imports or Internal Generators to supply Exports will be equal to the amount of Energy scheduled to be consumed under those Transactions Day-Ahead. The amount of Firm Transmission Service scheduled in the RTC_{15} for Bilateral Transactions which designate External Generators to supply Imports or Internal Generators to supply Exports will be equal to the amount of Energy scheduled to be consumed under those Transactions in the RTC_{15}. The DNI between the NYCA and adjoining Control Areas will be adjusted as necessary to reflect the effects of any Curtailments of Import or Export Transactions. Additionally, any Curtailment or Reductions of schedules for Export Transactions will cause the scheduled amount of Transmission Service to change.

To the extent possible, Curtailments of External Transactions at the Proxy Generator Bus associated with the Cross-Sound Scheduled Line shall be based on the transmission priority of the associated Advance Reservation on the Cross-Sound Cable, LLC node of the ISO-NE OASIS.

The ISO shall use Decremental Bids supplied by Transmission Customers using External Generators to supply Wheels-Through to determine the amount of Energy those Generators are scheduled Day-Ahead to produce in each hour. This in turn will determine the Firm Transmission Service scheduled Day-Ahead to support those Transactions. The ISO shall

(iii) Existing intermittent (i.e., non-schedulable) renewable resource Generators within the NYCA, plus up to an additional 50 MW of such Generators.

This procedure shall not apply for those hours the Generator supplying that Transaction has bid in a manner that indicates it is available to provide Regulation Service or Operating Reserves.

The ISO will not schedule a Bilateral Transaction which crosses an Interface between the NYCA and a neighboring Control Area if doing so would cause the DNI to exceed the Transfer Capability of that Interface.

External Transactions at the Proxy Generator Bus that are associated with the Cross-Sound Scheduled Line shall also be governed by Attachment N to the ISO Services Tariff.

Attachment V

Affidavit of Dr. David B. Patton Addressing the Application of the Special Pricing Rule to the Cross-Sound Scheduled Line

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

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

AFFIDAVIT OF DAVID B. PATTON, PH.D.

I. Qualifications and Purpose

1. My name is David B. Patton. I am an economist and President of Potomac Economics. Our offices are located at 4029 Ridge Top Road, Fairfax, Virginia 22030. Potomac Economics is a firm specializing in expert economic analysis and monitoring of wholesale electricity markets.

2. I currently serve as the Independent Market Advisor for the New York Independent System Operator, Inc. ("NYISO"), ISO-New England, Inc. ("ISO-NE") and the Midwest ISO ("MISO"). In these roles, I am responsible for assessing the competitive performance of the markets administered by these ISOs, including assisting in the implementation of monitoring plans to identify and remedy market design flaws and abuses of market power. I also provide recommendations regarding market mitigation measures and other market rules. I have served in this capacity for the NYISO since May 1999.

3. I have worked as an energy economist for fourteen years, focusing primarily on the electric utility and natural gas industries. I have provided strategic advice,

analysis, and expert testimony in the areas of electric power industry restructuring, pricing, mergers, and market power. I have also advised other existing and prospective RTOs on transmission pricing, market design, and congestion management issues. With regard to competitive analysis, I have provided expert testimony and analysis regarding market power issues in a number of mergers and market-based pricing cases before the Federal Energy Regulatory Commission, state regulatory commissions, and the U.S. Department of Justice.

4. Prior to my experience as a consultant, I served as a Senior Economist in the Office of Economic Policy at the Federal Energy Regulatory Commission ("FERC"), advising the Commission on a variety of policy issues including transmission pricing and open-access policies and electric utility mergers.

5. Before joining the Commission, I worked as an economist for the U.S. Department of Energy. During this time, I helped to develop and analyze policies related to investment in oil and gas exploration, electric utility demand side management, residential and commercial energy efficiency, and the deployment of new energy technologies. This work included the development of policies in former President Bush's National Energy Strategy and the Energy Policy Act of 1992. I hold a Ph.D. and M.A. in Economics from George Mason University and a B.A. in Economics with a minor in Mathematics from New Mexico State University.

6. The purpose of this affidavit is to set forth my analysis of the need for the NYISO's proposed Special Pricing Rule[1] that will apply at "designated" Scheduled Lines, including the need to apply the proposed Special Pricing Rule at the Proxy Generator Bus that is associated with the proposed Cross-Sound Scheduled Line. Unless otherwise specified, capitalized terms used in my affidavit have the same meanings specified in the NYISO Services Tariff, as modified by the NYISO's filing seeking authorization to make certain tariff revisions that are necessary to implement its Scheduled Lines software enhancements and to implement the Cross-Sound Cable as a Scheduled Line, with which this affidavit is submitted.

7. Section II of this affidavit describes the potential market power and gaming that the NYISO proposes to address by implementing its Special Pricing Rule. Section III provides a competitive analysis of the market to transact over the Cross-Sound Scheduled Line and provides a hypothetical example of a situation where opportunistic conduct by a Market Participant could result in anomalous and inefficient energy prices at a Proxy Generator Bus that is associated with a designated Scheduled Line. Section IV of the affidavit describes the pricing rule changes that are proposed to mitigate the competitive concerns outlined in the prior sections.

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[1] *See* §§ I.E.3, I.E.4 (sheet Nos. 457.01 through 457.03) of proposed Attachment J to the NYISO's Open Access Transmission Tariff ("OATT") and the parallel sections of proposed Attachment B (sheet nos. 335B through 335D) to the NYISO's Market Administration and Control Areas Services Tariff ("Services Tariff"); § 4.10 of the Services Tariff (sheet no. 106B).

II. Potential Price Anomalies at the Proxy Generator Bus associated with Scheduled Lines and, in particular, with the Cross-Sound Scheduled Line

8. The interface between New York and New England is composed of multiple transmission facilities connecting the two systems. In the New York market model, the entire New York – New England interface is currently represented as a single bus on the New York network for which a price is calculated – the Sandy Pond Proxy Generator Bus. The same is true for the Proxy Generator Buses representing the interface between the New York Control Area ("NYCA") and its other neighbors.

9. In the filing that this Affidavit supports, the NYISO is proposing to distinguish the Cross-Sound Scheduled Line from the rest of the transmission facilities that comprise the New York - New England interface and to permit the separate and distinct scheduling of transactions over those transmission facilities. The NYISO's implementation of the Cross-Sound Scheduled Line as a distinct scheduling path will recognize that the Cross-Sound Scheduled Line is a transmission facility that relies in part on "physical rights" (in the form of Advance Reservations) to determine which transactions will be permitted to flow and the priority of each proposed transaction. Successful implementation of the Cross-Sound Scheduled Line's physical reservation regimen is complicated by the fact the Cross-Sound Scheduled Line interconnects two transmission constrained areas in separate markets (New York and New England) that generally[2] employ

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[2] Section II of ISO-NE's FERC Electric Tariff No. 3 includes provisions that explicitly recognize the "physical rights" nature of the Cross-Sound Scheduled Line "Advance Reservation" process

Location Based Marginal Cost Pricing ("LBMP") and "financial" (economic bid-based) regimens to allocate scarce transmission capacity.

10. In the course of performing my duties and responsibilities as the independent Market Advisor for the NYISO and providing input on the NYISO's development of its Scheduled Lines software solution, I have determined that price at the Cross-Sound Scheduled Line may diverge substantially from competitive levels when it is congested (i.e., when the constraint on imports or exports over the line is binding). Congestion affecting the Proxy Bus for the Cross-Sound Scheduled Line may occur when (i) proposed transactions that are supported by Advance Reservations exceed the Cross-Sound Scheduled Line's Total Transfer Capability or "TTC," or when (ii) a ramp constraint limits schedules over the Cross-Sound Scheduled Line. For reasons I explain below, the Special Pricing Rule the NYISO has proposed in this filing will only apply in situations when the TTC constraint is binding.

11. One condition that can cause the Cross-Sound Scheduled Line to become severely congested in real time can occur when ISO-NE derates the capability of the Cross-Sound Scheduled Line to address problems with the line itself, or to maintain system reliability. Such derates can reduce the capability of the interface to a level lower than the net interface schedules from the NYISO's Day-Ahead Market ("DAM"). When this happens, the NYISO's Real Time

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and resulting schedules. There are a total of 330MW of firm Advanced Reservations available over the CSC. *See* ISO-NE FERC Electric Tariff No. 3, Section II.44 and Schedule 18.

Commitment software ("RTC") that schedules External Transactions on an hourly basis must buy back some of the DAM transactions or purchase counter-flow transactions to resolve resulting congestion.

12. On most interfaces, this process will predictably result in a competitive price to resolve this congestion because all market participants have the opportunity to submit offers to import or export power. However, only entities holding Advance Reservations over the Cross-Sound Scheduled Line will be able to submit counterflow offers or offers to reduce their DAM transaction quantity that will resolve the congestion. This advance reservation requirement limits the potential respondents, which can be as few as a single participant in some circumstances. The maximum quantity of offers for this line is 660 MW (330 MW firm and 330 MW non-firm) in each direction.

13. Similarly, if the Cross-Sound Scheduled Line is derated and transactions from New York into New England cause the Cross-Sound Scheduled Line to become export-constrained, the price at the Proxy Generator Bus could be raised to arbitrarily high levels to schedule counter-flow imports into New York or curtail DAM export transactions. Again, this risk is related to the limited competition that can exist to import or export physical power in real time. If all potential suppliers were capable of simultaneously submitting offers to import or export over the Cross-Sound Scheduled Line, as is possible at most of New York's other interfaces, the proposed Special Pricing Rule would not be necessary.

14. Another issue that can arise at a Scheduled Line (including the Cross Sound Scheduled Line) occurs when reservations in excess of the line's physical capacity are scheduled in the NYISO's DAM based on DAM counterflow schedules. For example, although the Cross-Sound Scheduled line can carry no more than 330 MW in reality, 550 MW could be scheduled in the DAM if 200 MW were scheduled in the other direction (counterflow). If the counterflow transactions is subsequently not scheduled in real-time or is curtailed in the real time by the other Control Area, 200 MW of the DAM transaction in the forward direction will become infeasible, causing the NYISO to buy-back some of the DAM transaction or purchase counterflow at non-competitive prices.

15. Prior to the Cross-Sound Cable's implementation as a Scheduled Line that is paired with a Proxy Generator Bus, the transmission facility has been modeled as a generator and a load in New York and has been limited to a single user, the Long Island Power Authority ("LIPA"). Because the NYISO has modeled the Cross-Sound Cable as a generator/load, schedules have been strictly limited to 330 MW in each direction and it was not possible for counterflow transactions to be scheduled. Once the NYISO is permitted to implement the additional scheduling capabilities that are described in the filing this Affidavit supports, it will face significant additional exposure to the potential exercise of market power unless the Special Pricing Rule is permitted. The Special Pricing Rule will protect New York loads from paying non-competitive prices for counterflow when the Cross-Sound Scheduled Line is subject to a(n) unexpected reduction of transfer limits.

16. A similar pricing rule, the "Non-Competitive Proxy Bus rule", was approved by the Commission and implemented for the HQ Proxy Generator Bus.[3] When this interface had been constrained prior to implementing the Non-Competitive Proxy Bus rule, prices for counter-flow transactions into Quebec have dropped as low as negative $999.99 per MWh, forcing the NYISO to *pay* parties $999.99 per MWh to receive power in Quebec from the New York system. Such costs are collected from the loads in New York in the form of uplift charges. This occurred on July 5, 2002 when operators derated the import capability from 1,500 megawatts to 500 megawatts for one hour. Since 1,350 megawatts had been sold into New York Day-Ahead Market at $34.68 per MWh, the NYISO's Balancing Market Evaluator was required to schedule 700 megawatts of uneconomic export counter-flow and to curtail 150 megawatts of day-ahead market import transactions at $999.99 per MWh.

17. Thus, the NYISO effectively paid day-ahead importers $999.99 per MWh for curtailment service that for transactions that were originally accepted at $34.68 per MWh. Since HQ's bids were needed to resolve the interface congestion, they had no incentive to bid at more economic prices. Had other market participants with the ability to receive power in Quebec been bidding to purchase power from New York at more economic price levels, their bids would have been accepted and set prices at more efficient levels. Hence, greater liquidity provided by competing suppliers at the HQ Proxy Generator Bus would likely have prevented

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[3] *See New York Independent Transmission System Operator, Inc.*, 104 FERC ¶ 61,220 (2003); *on reh'g*, 105 FERC ¶ 61,347 (2003).

pricing inefficiencies on July 5, 2002. It is my opinion that the limitation on competition to resolve congestion over the Cross-Sound Scheduled Line presents a risk of pricing inefficiency that could produce results similar to those experienced at the HQ Proxy Generator Bus if the proposed Special Pricing Rule is not permitted to become effective.

18. Even though pricing anomalies similar to those that could occur on the Cross-Sound Scheduled Line have generally occurred for relatively brief periods, the economic costs have been substantial. For example, the pricing event at the HQ Bus on July 5, 2002 resulted in uplift costs to loads in New York of approximately $850,000 in a single hour. When these price anomalies are sustained, the costs are much higher. Costs of greater than $6,500,000 were generated on April 17, 2002 when real-time prices paid by the NYISO at the HQ Proxy Generator Bus ranged from $750/MWh to $903.69/MWh in eleven consecutive hours.

19. The NYISO's proposed Special Pricing Rule will not apply at times when congestion is caused by ramp constraints between the two control areas. The NYISO applies ramp limits only at the New York Control Area ("NYCA")-wide and Control Area-to-Control Area (New York to New England) levels, but does not presently have specific ramp limits for Scheduled Lines. Therefore, the NYISO will have the ability to accept bids at either the Sandy Pond Proxy Generator Bus or the Proxy Generator Bus that is associated with the Cross-Sound Scheduled Line to resolve inter-Control Area ramp constraints. Because offers at

multiple interfaces can resolve the ramp constraint, competition should be sufficient establish reasonable prices at the Proxy Generator Buses.

20. If, for operational or reliability reasons, at some future time the NYISO determines that it is necessary to implement a Scheduled Line specific ramp limit for the Cross-Sound Scheduled Line, then it will be necessary to modify the Special Pricing Rule to address situations when the ramp constraint for the Scheduled Line is binding.

21. The following section provides an analysis of the competition that could exist at the Proxy Generator Bus that is associated with the Cross-Sound Scheduled Line.

III. Competitive Analysis of External Transactions Associated with the Cross-Sound Scheduled Line

22. It is not necessary to perform a full competitive analysis in order to determine that the potential for competition at the Cross-Sound Scheduled Line is limited at times when the Cross-Sound Scheduled Line is congested. I assume for purposes of this analysis that: (i) the supply that can support import transactions from New England to New York over the Cross-Sound Scheduled Line is not concentrated, and (ii) the load that can support export transactions from New York to New England over the Cross-Sound Scheduled Line is not concentrated.

23. Regardless of whether competitive conditions exist in New York or in New England, the universe of eligible economic offers to transact over the Cross-Sound Scheduled Line in real time will be limited to those participants holding

Advance Reservations. There are only 330 MW of firm Advance Reservations available in each direction, all of which are initially held by LIPA. If LIPA schedules under these reservations, no other participant may offer to transact in real time. An additional 330 MW of non-firm Advance Reservations can be "created" if the LIPA voluntarily releases their Advance Reservations on a non-firm basis.

24. However, as explained above, LIPA is not the only entity that is capable of causing non-competitive prices to prevail at the Cross-Sound Generator Proxy Bus. For example, if the limited quantity of Advanced Reservations are released by LIPA and purchased by a single supplier on a non-firm basis, any congestion that must be resolved in real time would have to be resolved with offers from only two suppliers.

IV. Scheduled Pricing Rule Recommendation

25. I understand that the NYISO is requesting authority for a new Special Pricing Rule that would operate as follows:

- If the Proxy Generator Bus associated with a Designated Scheduled Line is constrained for net imports to New York, the LBMP at the Proxy Generator Bus will be the higher of: (i) the RTC-determined price for the Proxy Generator Bus; or (ii) the lower of the LBMP determined by RTD for the Bus or zero.

- If the Proxy Generator Bus associated with a Designated Scheduled Line is constrained for net exports from New York, the LBMP at the external Proxy Generator Bus will be the lower of: (i) the RTC-determined price at the Proxy Generator Bus; or (ii) the higher of the LBMP determined by RTD for the Proxy Generator Bus or the Day-Ahead LBMP determined by SCUC for the Proxy Generator Bus.

- The NYISO will not make Real-Time Bid Production Cost Guarantee payments to External Generators or other Suppliers for imports scheduled at a Proxy Generator Bus that is associated with a designated Scheduled Line if the Proxy Generator Bus is export constrained.

26. I was consulted by the NYISO in connection with the formulation of the Special Pricing Rules, and support their adoption. I also support the application of these Special Pricing Rules to the Cross Sound Scheduled Line. These rules will appropriately limit Market Participants' ability to exercise market power in relieving real-time congestion at Proxy Generator Buses that are associated with designated Scheduled Lines, which can result in inefficient pricing at the relevant Proxy Generator Bus and substantial costs to New York loads.

27. The rule for import constrained situations will prevent the NYISO from being subjected to paying uneconomic prices to export power to New England. Under the Special Pricing Rule, at times when the Cross-Sound Scheduled Line is constrained and Market Participants may be able to exercise market power, competitive market-derived prices may be substituted for real-time prices that result from the exercise of market power.

28. This is consistent with the results at other interfaces that are subject to greater competition. In theory, a participant should be willing to export (or reduce its imports) as long as the cost paid for the exports is less than the cost of generating power in the adjacent area. Under most conditions, this value should correspond to the most expensive internal generator whose output can be reduced. A negative price (*i.e.*, a participant being paid to accept an export energy from New York) should only occur if no internal generator can be reduced to accommodate the

export from New York without incurring significant expected costs. This is unlikely to be the case except in a minimum generation condition where the only option is to shut down an operating generating unit. The pricing rules are designed to preclude pricing at the Proxy Generator Buses that are associated with designated Scheduled Lines that are not consistent with competitive expectations (i.e., the outcomes that would be expected were there many participants transacting over the interface).

29. Similarly, the rule for export constraints will prevent Market Participants from extracting substantial market power rents when their imports must be accepted in real-time as counter-flow to relieve the export constraint, by limiting prices to the lower of: a) the RTC-determined price, or b) the higher of LBMP determined by RTD or the Day-Ahead LBMP determined by SCUC.

30. Under the pricing alternatives established in the proposed Special Pricing Rules applicable to both import and export constrained situations, the real-time prices at Proxy Generator Bus that are associated with designated Scheduled Lines will be allowed to rise to levels associated with competitive market conditions in New York but not to arbitrarily high levels reflecting a lack of competition at the interface. A competitive RTD or Day-Ahead Market (SCUC) price can be a reasonable competitive proxy for a Real-Time Proxy Generator Bus LBMP (determined by RTC) that has been inflated to arbitrarily high (or arbitrarily low negative) levels as a result of a lack of competition. Such prices will thus be used

to set the price at a Proxy Generator Bus that is associated with a Designated Scheduled Line when appropriate.

31. The foregoing rules may, under certain conditions, cause the Real-Time LBMP at Proxy Generator Buses that are associated with designated Scheduled Lines to be set to a significantly lower level than would otherwise apply, and indeed may cause LBMPs to be set to zero. This remedy for the lack of competition could be undermined by elevated guarantee payments brought about by the very noncompetitive conditions the filing seeks to address. Thus, it is appropriate to include the limitation on guarantee payments that is included in the proposed revision to section 4.10 of the NYISO's Market Services Tariff (sheet no. 106B).

32. I will be closely monitoring the performance of prices at the Proxy Generator Bus that is associated with the Cross-Sound Scheduled Line in conjunction with Market Monitoring and Performance Unit of the NYISO to ensure that the Special Pricing Rules are achieving their intended purpose and not resulting in any significant inefficiencies. I will review proposals to implement additional Proxy Generator Busses that are associated with Scheduled Lines to determine if they present pricing problems similar to those described herein and should be implemented as "designated" Scheduled Lines that are subject to the proposed Special Pricing Rule. I support limiting the proposed Special Pricing Rule to designated Proxy Generator Buses that are associated with Scheduled Lines.

33. For the reasons set forth above, I recommend that the Commission approve the Special Pricing Rule proposed by the NYISO for implementation at the Proxy Generator Bus that is associated with the Cross-Sound Scheduled Line.

34. This concludes my affidavit.

ATTESTATION

I am the witness identified in the foregoing Affidavit of David B. Patton, Ph.D. dated March 25, 2005 (the "Affidavit"). I have read the Affidavit and am familiar with its contents. The facts set forth therein are true to the best of my knowledge, information, and belief.

David B. Patton

March 25, 2005

Subscribed and sworn to before me

this 25th day of March, 2005

Notary Public

My commission expires: December 31, 2007

Attachment VI

Form of *Federal Register* Notice

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

New York Independent System Operator, Inc. Docket No. ER05-____-000

NOTICE OF FILING

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Take notice that on March 25, 2005, the New York Independent System Operator, Inc. ("NYISO") submitted proposed tariff revisions to its Open Access Transmission Tariff and its Market Administration and Control Area Services Tariff. The proposed tariff revisions implement rules for "Scheduled Lines" and establish the Cross-Sound Cable as the NYISO's first Scheduled Line.

Copies of the filing were electronically served upon the official representative of each of its customers, on each participant in its stakeholder committees, on ISO-NE, on the New York Public Service Commission, and on the electric utility regulatory agencies of New Jersey and Pennsylvania. In addition, the complete filing has been posted on the NYISO's website at www.nyiso.com.

Any person desiring to intervene or to protest this filing must file in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedure (18 CFR 385.211 and 385.214). 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 notice of intervention or motion to intervene, as appropriate. Such notices, motions, or protests must be filed on or before the comment date. Anyone filing a motion to intervene or protest must serve a copy of that document on the Applicant. On or before the comment date, it is not necessary to serve motions to intervene or protests on persons other than the Applicant.

The Commission encourages electronic submission of protests and interventions in lieu of paper using the "eFiling" link at http://www.ferc.gov. Persons unable to file electronically should submit an original and 14 copies of the protest or intervention to the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426.

This filing is accessible on-line at http://www.ferc.gov, using the "eLibrary" link and is available for review in the Commission's Public Reference Room in Washington, D.C. There is an "eSubscription" link on the web site that enables subscribers to receive email notification when a document is added to a subscribed docket(s). For assistance with any FERC Online service, please email FERCOnlineSupport@ferc.gov, or call (866) 208-3676 (toll free). For TTY, call (202) 502-8659.

Comment Date: 5:00 pm Eastern Time on _____.

Magalie R. Salas
Secretary