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March 29, 2005

By Hand Delivery

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

**Re: *New York Independent System Operator, Inc.*
Docket Nos. ER04-1144-000 and ER04-1144-001**

Dear Ms. Salas:

In an order dated December 28, 2005,¹ the Commission largely accepted the Comprehensive Reliability Planning Process (“CRPP”) filing proposed by the New York Independent System Operator, Inc. (“NYISO”). The Commission also directed the NYISO to submit a progress report within 90 days on its implementation of the CRPP and its progress in developing an approach to economic planning issues. This filing complies with the Commission’s directive.

I. Documents Submitted

This filing consists of the following documents:

1. This filing letter;
2. A copy of the “Strawman Proposal” for a NYISO Economic Planning Process, approved by the NYISO Operating Committee (Attachment I); and
3. A form of *Federal Register* Notice (Attachment II).

¹ *New York Independent System Operator, Inc.*, 109 FERC ¶ 61,372 (2004) (“December 28 Order”).

II. Copies of Correspondence

Copies of correspondence concerning this filing should be served on:

Robert E. Fernandez, General Counsel and Secretary	Arnold H. Quint, Esq.
Elizabeth A. Grisaru, Esq.	Ted J. Murphy, Esq.
Elaine Robinson, Director of Regulatory Affairs	Hunton & Williams LLP
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III. Service List

The NYISO will serve the official service list compiled by the Secretary in this proceeding. As it has done with numerous other filings, the NYISO will also electronically serve a copy of this filing on the official representative of each of its customers, on each participant in its stakeholder committees, on the New York Public Service Commission (“PSC”), and on the electric utility regulatory agencies of New Jersey and Pennsylvania. The NYISO respectfully requests a waiver of the requirements of Rule 2010 to the extent necessary so that it may use electronic service methods. The NYISO’s use of such methods has been convenient for both the NYISO and for the recipients of the service, and to date it has engendered no complaints.

IV. Background

The NYISO’s original filing of its proposal to establish a CRPP contemplated that a number of issues would need to be addressed in future stakeholder deliberations. In particular, the development of an approach to potential needs for economic enhancements to the transmission system required further discussion. The NYISO also informed the Commission in its “Motion for Leave to Answer and Answer to Comments and Protests,” filed on September 27, 2004, that detailed procedures for the implementation of certain aspects of the tariff should be developed in collaboration with the NYISO’s stakeholders.

In the December 28 Order, the Commission accepted the NYISO’s CRPP, with modifications, endorsed the NYISO’s commitment to a further stakeholder process, and directed

the NYISO to file a progress report within 90 days regarding implementation of the CRPP, including cost allocation, and its efforts to develop an economic planning process. This report is filed in compliance with that directive.

V. CRPP Implementation Activities

The NYISO's CRPP proposal, as filed and accepted by the Commission, requires the NYISO and its stakeholders to identify certain implementation procedures. These procedures fall into four categories: General and Administrative Procedures; Procedures for Specific Topics; Procedures to be developed by the New York Department of Public Service Staff; and detailed Cost Allocation procedures. In anticipation of Commission approval of the CRPP, the NYISO began stakeholder discussions regarding these procedures immediately following its initial filing in August 2004. These discussions continue, primarily within the Electric System Planning Working Group ("ESPWG") and the Transmission Planning Advisory Subcommittee ("TPAS"), the principal stakeholder groups tasked with assisting the NYISO in planning matters. Monthly meetings have been held with each of these groups for this purpose. The status of each of these implementation issues is as follows:

A. General and Administrative Procedures

Attachment Y of the NYISO OATT specifies the General and Administrative Procedures as follows:

- NYISO shall adopt procedures for the implementation and administration of the CRPP and shall incorporate such procedures in its manuals. (Attachment Y, Section 3.a)

Status: As the first step in this process, the NYISO has developed a detailed implementation schedule which was submitted to the Commission with the NYISO's Compliance Filing on February 25, 2005. This schedule, together with the other associated procedures noted below, will be incorporated into the NYISO's procedural manuals at the appropriate time.

- NYISO shall establish a schedule for the collection and submission of data and the preparation of models. The schedule shall provide for an annual cycle of studies and reports (Attachment Y, Section 3.b)

Status: The schedule referenced above provides specific milestones for the collection and submission of data used for the preparation of the models used in the CRPP analysis. In accordance with that schedule, the data input stage for the first Reliability Needs

Assessment was conducted during January and February, and the base case development is presently underway.

- NYISO's procedures shall provide for coordination with neighboring ISOs and reliability organizations (Attachment Y, Section 3.c)

Status: The NYISO executed the Northeastern ISO/RTO Coordination of Planning Protocol with PJM and ISO-NE in December 2004. That Protocol includes coordination of data inputs and model development among the ISOs for planning purposes. The NPCC Staff and its Canadian members, including the IESO, while not Parties to the protocol, are also participating in the data coordination provisions of the Protocol.

B. Specific Topics

- Development of Base Case for the RNA (Attachment Y, Sections 4.3.a & 4.3.e)

Status: As noted above, Base Case development began in January 2005 with the collection of input data, such as: load forecast updates, coordination with neighboring systems, Market Participant input, and submission of TO plans. The NYISO presented its proposed Base Case to stakeholders in early March and has held several review meetings. The target is to finalize the Base Case by the end of March.

- Development of Scenarios (Attachment Y, Section 4.5)

Status: NYISO has initiated discussions with stakeholders regarding scenario development for the RNA. Scenario development is expected to be completed in April.

- Qualifications for a valid market-based response (Attachment Y, Section 6.3)

Status: Completed.

- Criteria for the continued viability of a market-based response (Attachment Y, Section 6.3)

Status: Completed.

- Criteria for the continued viability of a regulated response (Attachment Y, Section 9.b)

Status: Completed.

- Criteria for halting a regulated solution (Attachment Y, Section 9.c)

Status: NYISO initiated stakeholder discussions in September but has not yet reached consensus on a set of criteria to apply in determining when a regulated project, once underway, should be halted in favor of a new market proposal. Discussions are ongoing.

- Criteria for determining the cutoff date for starting a regulated project (Attachment Y, Section 9.d)

Status: Completed.

C. Department of Public Service Procedures

- Procedures for DPS consideration of alternative regulated proposals, including “gap” proposals (Attachment Y, Sections 6.4.b & 7.4.d)

Status: In its Compliance Filing in response to the Commission’s December 28, 2004 Order, the NYISO modified the provisions of Attachment Y to make consultation with the DPS with respect to such alternative regulated proposals voluntary for either a TO or Other Developer. Such consultation would take place under existing mechanisms available to the DPS, thereby making the requirement for development of a specific procedure moot.

- Procedures for dispute resolution (Attachment Y, Sections 5.3 and 8.3)

Status: The DPS initially presented a draft of their dispute resolution procedures to the ESPWG in December 2004. There have been several ESPWG meetings since that time, and such discussions are continuing.

D. Cost Allocation

Status: Stakeholder discussions were initiated in February 2005 and are ongoing.

VI. Phase II: Economic Considerations

Immediately following the filing of the CRPP with the Commission, the NYISO began to engage its stakeholders, through the ESPWG, in discussions regarding the role of the NYISO in addressing economic planning issues. The backdrop for those discussions is the fact that an extensive analysis conducted over the past two years of historic congestion costs in New York

has not revealed any pressing need for economic upgrades to the bulk power system. For example, the maximum savings that could have been achieved from the complete elimination of transmission congestion in New York (which is the extreme -- but infeasible -- case) was \$85 million in 2003 and \$72 million in 2004. These are the maximum annual statewide historic congestion costs based upon the bid production cost impact analysis that is the agreed-upon methodology for reporting congestion costs in New York.² This is the analysis referenced in Appendix A of the CRPP.

After several months of discussions with ESPWG, the NYISO presented a "Strawman" proposal for an economic planning process in November 2004. Following several additional meetings and further discussion the proposal was modified to incorporate stakeholder input and then presented to the Operating Committee for approval at its meeting in February 2005. The Operating Committee approved the "Strawman" with only two objections and two abstentions.

As noted in the "Overview and Purpose" statement:

It is intended that this strawman will provide a viable process in response to FERC's policies which have indicated that ISOs/RTOs' planning processes should address both reliability and economic needs. It is structured in the context of the NYISO's preference for market-driven solutions, which is consistent with the recently approved Comprehensive Reliability Planning Process. This strawman recognizes the views of most of the NYISO's market participants and stakeholders that NYISO intervention in economic matters is to be minimized so as not to interfere with the operation of the market. In this context, the role of the NYISO with regard to economic needs is primarily one of providing information in a transparent manner to the marketplace so that appropriately informed decisions can be made, and actions taken, by market participants and other stakeholders. The proposed process will provide an opportunity—but not an obligation—for NYISO market participants to better assess and voluntarily respond to such economic issues.

The NYISO process will include the following key elements, all of which fall within the scope of the NYISO's existing planning authorities:

² This methodology is different from the one the NYISO has used in reporting congestion costs in the past. It is the methodology developed and agreed upon in the development process of the CRPP. The new methodology is intended to capture the maximum net statewide benefits and costs of eliminating congestion.

- ***Expanded reporting of historic congestion:*** to include postings on the NYISO website; congestion tracking by key constraints; the performance of analysis to indicate the potential savings and/or cost increases when specific constraints are eliminated; and reporting on other economic parameters of interest to stakeholders
- ***Focus on enhanced market-based initiatives:*** to include an analysis of the performance of all of the NYISO markets to identify areas for improvement; improvements will be pursued through the NYISO committee process. The NYISO intends to convene a technical workshop to invite industry experts to explore potential market design changes which could provide further enhancements for transmission development in New York.
- ***Providing estimates of future congestion:*** to include a 10-year projection of congestion costs consistent with the CRPP process; development of scenarios; and analysis of the benefits of relieving constraints.
- ***NYISO analysis of proposed upgrades:*** NYISO will perform reliability analysis of any proposed upgrades in order to ensure reliability under its CRPP and interconnection procedures. This analysis will also include cost allocation for needed interconnection and system upgrade facilities as well as TCC allocation for expansion of the transmission system.

The NYISO and its stakeholders are cognizant of the fact that intervention for economic purposes, in the form of mandated solutions, can have a chilling effect on the markets that the NYISO's tariff design is intended to foster. The approved process on economic planning, which was strongly endorsed by stakeholders, seeks to avoid that outcome. Therefore, under this process, while the NYISO will continue to monitor the major causes of congestion, it will not attempt to define a threshold for congestion as a trigger to a specific action. While the NYISO will perform "what if" analysis to estimate on both historic and forward-looking bases the potential savings or cost increases that may result from relieving a specific constraint, it will neither propose nor mandate solutions.

VII. Conclusion

In summary, since there presently is no pressing justification for the NYISO to intervene in mandating solutions to economic needs, the NYISO intends to proceed with its plan to pursue additional market enhancements with its stakeholders and to develop the expanded economic information process described above. The NYISO and its stakeholders believe that this is an appropriate procedure for New York, and one that supports its market-based philosophy that the enhanced information will encourage development of appropriate market-based responses. Market design enhancements, once designed and implemented, are anticipated to provide the appropriate incentives for market-based solutions to develop. In short, the marketplace should be given a chance to work.

Respectfully submitted,



Michael E. Haddad

NEW YORK INDEPENDENT
SYSTEM OPERATOR, INC.

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Counsel to the New York Independent System Operator, Inc.

March 29, 2005

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

ATTACHMENT I

APPROVED BY NYISO OPERATING COMMITTEE 2/17/05

“STRAWMAN PROPOSAL” FOR A NYISO ECONOMIC PLANNING PROCESS

OVERVIEW AND PURPOSE

It is intended that this strawman will provide a viable process in response to FERC’s policies which have indicated that ISOs/RTOs’ planning processes should address both reliability and economic needs. It is structured in the context of the NYISO’s preference for market-driven solutions, which is consistent with the recently approved Comprehensive Reliability Planning Process. This strawman recognizes the views of most of the NYISO’s market participants and stakeholders that NYISO intervention in economic matters is to be minimized so as not to interfere with the operation of the market. In this context, the role of the NYISO with regard to economic needs is primarily one of providing information in a transparent manner to the marketplace so that appropriately informed decisions can be made, and actions taken, by market participants and other stakeholders. The proposed process will provide an opportunity—but not an obligation—for NYISO market participants to better assess and voluntarily respond to such economic issues.

OUTLINE OF NYISO ECONOMIC PLANNING PROCESS

NYISO ROLE

Historical Analysis

- **With stakeholder participation/transparent process**
- **Use approved “congestion matrix” format for reporting**
- **Identify additional reporting formats**
- **Post on NYISO website on a monthly basis**
 - **Include both daily and monthly data**
 - **Include appropriate definitions, assumptions & caveats**
 - **Post in a usable format**
- **Adjust for “unusual day” events**
- **Perform “What if” analyses**
 - **Estimate potential savings and/or cost increases when specific constraints are reduced or eliminated**
 - **Identify zonal impacts**
 - **Identify next binding constraint**
- **Track congestion by key constraints**

- **Post other economic parameters**
 - **ICAP prices by location**
 - **Ancillary services costs**
 - **Losses**
 - **Post in a usable format**

Market-Based Initiatives

- **Analyze market performance**
 - **Include all NYISO markets**
 - **Transmission**
 - **Generation**
 - **Demand Response**
 - **Identify key drivers which have a major impact on the markets**
 - **Identify potential market design problems**
- **Identify areas for improvement in market design**
 - **To produce correct price signals**
 - **To encourage market-based solutions**
- **Consider qualitative (and, where possible, quantitative) impact of intangibles, e.g.:**
 - **Widened markets**
 - **Barriers to market entry**
 - **Fuel diversity**
 - **Environmental implication**
- **Pursue market enhancements through NYISO committee process**

Future Estimates of Congestion & Other Costs

- **With stakeholder participation/transparent process**
- **Selection of model or models**
- **Utilize CRPP planning horizon (10 years)**
- **Develop base case assumptions based on CRPP**
- **Develop future scenarios**
- **Perform what if analyses**
 - **With and without a proposed improvement**
- **NYISO will provide a range of information to the marketplace**
 - **Unconstrained energy prices**
 - **Forecast congestion costs**
 - **ICAP costs by location**
 - **Ancillary services costs**
 - **Losses**
- **Include appropriate definitions, assumptions and caveats**

Reliability Analysis of Economic Upgrades

- **Perform reliability analysis of proposed economic upgrades through its existing Interconnection Process (Attachment X) to ensure that reliability will be maintained**
- **Perform cost allocation analysis for Attachment Facilities and System Upgrade Facilities associated with proposed economic upgrades through its existing Attachment S process**
- **Perform TCC allocation analyses for economic upgrades**
- **Determine eligibility for UDRs for economic upgrades**

NYISO will NOT:

- **Determine congestion thresholds**
- **Draw any conclusions pertaining to the potential economics of a proposed upgrade**
- **Perform cost/benefit analyses**
- **Perform cost allocation analyses**
- **Mandate solutions**

MARKET PARTICIPANT VOLUNTARY ROLE

- **Participate in development of input assumptions**
- **Recommend scenarios for analysis**
- **Review of NYISO analysis**
- **Perform independent business assessment based upon consideration of NYISO data**
- **Development of economic responses**

ATTACHMENT II

**UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION**

New York Independent System Operator, Inc.) Docket Nos. ER04-1144-000
ER04-1144-001

NOTICE OF FILING

(, 2005)

Take notice that on March 29, 2005 the New York Independent System Operator, Inc. (NYISO) submitted a progress report concerning its implementation activities associated with the Comprehensive Reliability Planning Process as well as its stakeholder process to develop Phase II of its Planning Process to address economic issues. This progress report is submitted in accordance with the Commission's December 28, 2004 order issued in this docket

The NYISO states that it has served all parties on the official service list in this proceeding. The NYISO also states that it 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 the New York State Public Service Commission, and on the electric utility regulatory agencies of New Jersey and Pennsylvania.

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, 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 and all the parties in this proceeding.

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.

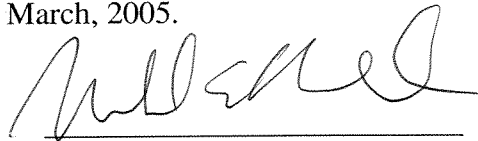
Comment Date:

Magalie R. Salas
Secretary

Certificate of Service

I hereby certify that I have on this day served this filing upon each party on the official service list compiled by the Secretary. I have also electronically served a copy of this filing on the official representative of each of its customers, on each participant in its stakeholder committees, on the New York State Public Service Commission, and on the electric utility regulatory agencies of New Jersey and Pennsylvania.

Dated at Washington, DC this 29th day of March, 2005.

A handwritten signature in black ink, appearing to read "Michael E. Haddad", written over a horizontal line.

Michael E. Haddad
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