

June 1, 2005

**E-Filed**

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

**Compliance Filing of the  
New York Independent System Operator, Inc.  
in Docket Nos. ER04-230-000 and ER04-230-001**

Dear Ms. Salas:

Pursuant to the Federal Energy Regulatory Commission's ("Commission") February 11, 2004 order in this proceeding accepting revised tariff sheets implementing new real-time scheduling software ("RTS") and related market rules ("RTS Order"),<sup>1</sup> the New York Independent System Operator, Inc. ("NYISO") respectfully submits this compliance filing. In the RTS Order, as clarified in an order issued August 10, 2004,<sup>2</sup> the Commission required the NYISO to report on the status of certain demand side provisions within 120 days of RTS implementation. The NYISO implemented RTS on February 1, 2005. Accordingly, the NYISO submits the following status report.

**I. Service List**

Copies of this filing are being served on all parties designated on the official service list maintained by the Secretary of the Commission in this proceeding. 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 State Public Service Commission and on the New Jersey Board of Public Utilities. The NYISO will serve the Pennsylvania Public Utility Commission with a hard copy of this filing, as requested by that agency.

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<sup>1</sup> *New York Independent System Operator, Inc.*, 106 FERC ¶ 61,111 (2004).

<sup>2</sup> *New York Independent System Operator, Inc.*, 108 FERC ¶ 61,188 (2004).

## II. Status of Demand Side Provisions

As explained in the NYISO's November 26, 2003 filing letter in this proceeding ("Filing Letter"), the NYISO, with its Market Participants,<sup>3</sup> has been seeking ways to increase the participation of Demand Side Resources in the NYISO's markets. The NYISO's existing demand side programs include the Emergency Demand Response Program, which pays resources that reduce demand during emergencies, the Day-Ahead Demand Response Program, which effectively permits qualified entities to supply energy in the Day-Ahead Market, and the ICAP Special Case Resources Program, which allows Demand Side Resources to qualify for capacity payments in return for load reduction or onsite generator operation during forecast or actual reserve deficiencies. Existing reliability rules allow Demand Side Resources to provide non-synchronized Operating Reserves but do not currently allow them to provide synchronized Operating Reserves or Regulation Service.<sup>4</sup>

As explained in the Filing Letter, the NYISO's preliminary RTS software design supported greater demand side participation. The NYISO initially developed tariff revisions and market rules that would have made certain expanded demand side bidding options in the non-synchronized Operating Reserves market available as soon as RTS was implemented. However, during the stakeholder process, it became clear that Demand Side Resource owners had significant concerns with the new bidding options that would effectively preclude their use. Therefore, the NYISO requested postponing the implementation of the new bidding options until key market design and software issues could be addressed.

The NYISO is committed to working with Stakeholders over the next several months to explore alternative methods of permitting Demand Side Resources to provide non-synchronized Operating Reserves. Stakeholder discussions to date have not resulted in proposals that would satisfy the concerns of Demand Side Resource owners while addressing the operational constraints of the NYISO's markets. The NYISO envisions three possible approaches to accomplishing this goal: (1) incorporating Demand Side Resources into the ancillary service markets under the existing RTS design, (2) modifying RTS to accommodate Demand Side Resources, and (3) creating a role for Demand Side Response providing reserves

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<sup>3</sup> Capitalized terms not otherwise defined herein have the meaning ascribed to them in Article 1 of the NYISO's Open Access Transmission Tariff or Article 2 of its Market Administration and Control Area Services Tariff, as appropriate.

<sup>4</sup> The Northeast Power Coordinating Council ("NPCC") is currently evaluating the ability of Demand Response Resources to provide synchronized Operating Reserves. The NPCC's Task Force on Coordination of Operation has undertaken a formal study process intended to produce a report and, depending on study results, recommend rule changes in early- to mid-2006. Providing synchronized Operating Reserves is likely to be more attractive to Demand Side Resources than providing non-synchronized Operating Reserves because of their relative value.

Honorable Magalie R. Salas  
June 1, 2005  
Page 3

outside of RTS. The NYISO commits to provide an update to the Commission on the status of this stakeholder process by October 1, 2005.

In conjunction with the stakeholder process identified above, the NYISO will undertake a cost-benefit analysis of implementing market changes that would allow Demand Side Resources to participate in the Operating Reserves market. This analysis will compare the costs of making necessary software changes, implementing new communication processes, and completing other changes with the benefits of having Demand Side Resources participate in the Operating Reserves market. Over the course of the next few months, the NYISO will have more data available regarding Operating Reserve prices under RTS which will facilitate this cost-benefit analysis. The NYISO commits to provide the Commission the results of this analysis by October 1, 2005.

In addition, the NYISO is exploring the possibility of initiating pilot programs in New York that would likely involve the aggregation of Demand Side Resources. These programs would allow the NYISO to address issues such as integrating Demand Side Resources into the existing markets, real-time communications with Demand Side Resources and other operational issues on a limited basis.

### **III. Conclusion**

WHEREFORE, for the foregoing reasons, the New York Independent System Operator, Inc. respectfully requests that the Commission accept this compliance filing.

Respectfully submitted,

/s/ Karen Georgenson Gach

Karen Georgenson Gach

Counsel for the

New York Independent System Operator, Inc.

Attachment

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

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon each person designated on the official service lists compiled by the Secretary in this proceeding in accordance with the requirements of Rule 2010 of the Rules of Practice and Procedure, 18 C.F.R. § 385.2010.

Dated at Albany, New York this first day of June, 2005.

/s/ Karen Georgenson Gach  
Karen Georgenson Gach  
290 Washington Avenue Extension  
Albany, NY 12203