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October 31, 2005

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

New York Independent System Operator, Inc.
Report in Docket No. ER04-230-009

Dear Ms. Salas:

In compliance with the Commission's May 9, 2005, Order Accepting Tariff Revisions (the "May Order"),¹ the New York Independent System Operator, Inc. (the "NYISO") respectfully submits this report on its plan and schedule for shortening time periods for posting notices of price corrections and for correcting prices under its Temporary Extraordinary Procedures (the "TEP"), as well as eventually phasing out the TEP altogether.²

I. COMMUNICATIONS

Communications regarding this proceeding should be addressed to:

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¹ *New York Independent System Operator, Inc.*, 111 FERC ¶ 61,200 (2005).

² Unless otherwise specified, capitalized terms used herein have the meaning specified in the NYISO's Market Administration and Control Area Services Tariff (the "Services Tariff").

³ The NYISO respectfully requests waiver of 18 C.F.R. § 385.203(b)(3) (2004) to permit service on counsel for the NYISO in both Washington, D.C. and Richmond, Virginia.

II. REPORT AND SCHEDULE

A. Background

On March 9, 2005, the NYISO requested a waiver of tariff provisions to allow for correction of price errors resulting from the implementation of the Standard Market Design version 2 software (“SMD2”) outside of the timeframe established for corrections pursuant to the TEP. In the same filing, the NYISO prospectively sought a waiver of tariff provisions to allow ten days for price correction throughout the upcoming summer, beyond the normal timeframe established for corrections pursuant to the TEP.⁴

In its May Order, the Commission granted the NYISO’s request for a waiver to correct previous errors that had occurred following the implementation of SMD2 and approved the ten day correction window for errors discovered between March 8, 2005, and September 30, 2005.⁵ The May Order also required the NYISO to “file a report with the Commission, for informational purposes only, that includes a plan and schedule for shortening the time periods both for posting notices of price corrections and for correcting prices under the TEP as well as eventually phasing out the TEP altogether[.]”⁶ The instant filing provides such a plan and schedule as directed by the Commission in its May Order.

B. Unique Features of NYISO Market Design

To function efficiently, a competitive electricity market must provide sufficient price signals to enable buyers and sellers to make rational decisions based on prevailing market conditions. The NYISO markets are structured to provide high-quality price signals through a number of advanced market design features that are unique to the NYISO, including simultaneous co-optimization across the day-ahead and real-time markets for energy, operating reserves, and regulation and ex-ante pricing based upon scheduled generator basepoints rather than the more common approach of ex-post pricing based upon actual generator outputs.

While these features of the NYISO’s market design provide more complete price signals than do other ISOs, this increased level of technical sophistication creates additional possibility for errors in the initial calculation of market clearing prices. For example, the simultaneous day-ahead and real-time co-optimization of energy, operating reserves, and regulation requires a far more complicated analysis of suppliers’ offers in the selection of a least-cost mix of resources. The resulting solution, however, makes more efficient use of available resources and results in lower total costs to meet demand. Similarly, the NYISO’s unique ex-ante pricing structure

⁴ Attachment E to the Services Tariff and Attachment Q to the NYISO’s Open Access Transmission Tariff (the “OATT”) set forth the NYISO’s authority under the TEP.

⁵ May Order at 4.

⁶ May Order at 5.

greatly enhances the effectiveness of its scarcity pricing mechanisms because it permits the NYISO to determine prices based on reserve deficiencies instead of compelling a calculation based on dispatch instructions and generator output. At the same time, however, ex-ante pricing sometimes results in a higher incidence of initial price calculation errors because those price calculations are posted before the NYISO has opportunity to review them and correct any pricing anomalies that are inconsistent with the NYISO tariffs.

The NYISO's market structures necessitate a framework for price corrections that is appropriate for its particular market design features. As described further, below, the NYISO is working closely with its stakeholders to eliminate the TEP, as directed by the Commission, and to establish in its tariffs clear and effective rules for non-TEP price corrections to ensure that prices are correctly calculated in accordance with the NYISO tariffs in a timely and transparent fashion.

C. SMD2 Price Correction Activity

The NYISO has made important progress in correcting the software issues that followed the implementation of the SMD2 systems in February 2005. Following the deployment of the new market and grid management software, the NYISO introduced numerous software enhancements to eliminate price errors. These enhancements were reported by the NYISO in twice-monthly reports to the Commission.

The NYISO has addressed and largely resolved numerous post-SMD2 software issues that impacted pricing, including: (i) an islanded generator bus modeling anomaly, (ii) real-time dispatch ("RTD") software unit ramping logic issues; (iii) desired net interchange constraint problem affecting external proxy pricing; (iv) an RTD commitment problem affecting gas turbines in corrective action mode ("RTD-CAM"); (v) an out of merit ("OOM") application incorrectly flagging committed combustion turbines as flexible units; (vi) generator operating status issues; and (vii) issues pertaining to the NYISO's load forecasting mechanism. The NYISO continues to monitor SMD2 performance and will pursue the implementation of any necessary software enhancements.

D. Billing and Price Correction Task Force

In response to the Commission's May Order, NYISO staff worked with stakeholders, through the Business Issues Committee, to establish a Billing and Price Correction Task Force (the "Task Force") for the development of a plan and schedule for shortening the time periods for reservation and correction under the TEP and to eventually phase out the TEP altogether. The NYISO and the Task Force have taken a comprehensive approach to this issue, undertaking a thorough examination of issues relating to price calculation, screening, reservation, and correction. Through these efforts, the NYISO plans to develop, in consultation with the Task Force and working through the NYISO's shared governance mechanisms, proposed tariff

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revisions for the elimination of the TEP authority and the development of a transparent, workable framework for non-TEP price corrections by the end of the year for submission to the Commission in early 2006.

To date, the NYISO has met with the Task Force on seven occasions to allow Market Participants an opportunity to provide input on this issue. Together with the Task Force, the NYISO has: (i) carefully examined its past price screening, reservation, and correction procedures; (ii) worked to develop a plan and schedule for eliminating the TEP; and (iii) begun to develop a framework for non-TEP price corrections to be incorporated into the NYISO tariffs. At each step in this process, the NYISO has sought to balance the sometimes competing objectives of price accuracy and finality.

E. Price Error Elimination Team

In addition to eliminating the TEP and developing a framework for non-TEP price corrections, the NYISO and the Task Force have recognized the importance of addressing the underlying issues that create a need for price corrections. In response, the NYISO formed the Price Error Elimination Team (“PEET”), an interdepartmental team composed of key NYISO staff that has been given the task of studying and proposing corrective actions to reduce initial pricing errors. The PEET investigates pricing errors, documents and categorizes the various causes of pricing errors, and develops proposals to address the underlying causes of price errors to limit their recurrence. The PEET provides status reports to the NYISO’s CEO weekly and to the Task Force at each of its meetings.

By adopting a multi-faceted approach, including software enhancements, process improvements, and rule-based solutions, the PEET seeks to substantially reduce the incidence of initial price errors. The aim of these projects is to achieve increased pricing accuracy, thereby reducing the need for price corrections. The PEET’s work compliments the NYISO’s SMD2 market performance review and has already resulted in an increased degree of initial price accuracy. The PEET is continuing to examine the underlying causes of initial price errors, and the NYISO expects to make further improvements as a result of these efforts.

F. Plan and Schedule

As directed by the Commission in its May Order, the NYISO has established a plan and schedule to shorten the time periods both for posting notices of price corrections and for correcting prices under the TEP as well as eventually phasing out the TEP altogether. NYISO staff will continue with a series of meetings with the Task Force in November and December 2005 to develop proposed revisions to the NYISO tariffs to eliminate the TEP and implement tariff provisions to provide a transparent and workable framework for non-TEP price corrections. Upon completion of its work with Task Force to develop the proposed revisions to the NYISO tariffs, NYISO staff will seek approval of the Business Issues Committee, the Management

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Committee, and the Board of Directors and has established April 2006 as a target for filing proposed revisions to the NYISO tariffs with the Commission.

III. SERVICE

The NYISO will 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, and on the electric utility regulatory agencies of New Jersey and Pennsylvania. The NYISO respectfully requests a waiver of the requirement of Rule 2010 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. Copies of this filing are also being served on all parties designated on the official service list maintained by the Secretary of the Commission in these proceedings.

IV. Conclusion

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

Respectfully submitted,

NEW YORK INDEPENDENT
SYSTEM OPERATOR, INC.

By: /s/ Ted J. Murphy

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