

October 3, 2005

The Honorable Magalie R. Salas, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426
New York Independent System Operator, Inc.

Re: Report on Stakeholder Process and cost-benefit analysis in Docket No.
ER04-230-010

Dear Ms. Salas:

In its compliance filing submitted June 1, 2005 in the above referenced proceeding, the New York Independent System Operator, Inc. (“NYISO”) committed to work with market participants over the next several months to evaluate alternative designs in demand management participation in the Operating Reserves market. The NYISO specifically committed to reviewing opportunities to: (1) incorporate Demand Side Resources (“DSR”) into the ancillary service markets under the existing RTS design; (2) modify the real-time system (“RTS”) to accommodate DSR, and (3) create a role for DSR providing reserves outside of RTS.¹ This letter reports provides an update to the Commission on the status of this stakeholder process, particularly the status of the analysis of the costs and benefits available from implementing any one or all of these market changes to allow Demand Side resources to participate in the Operating Reserves market.²

As the NYISO discussed in its August 12, 2005 response to the Commission’s July 13, 2005 Letter Order requesting more information on this topic:

The key challenge in expanding the role of DSR is to avoid reversing [the] integration [in the ISO markets] and reducing the overall efficiency of the NYISO-administered markets. Integrating DSR into the RTS framework requires a complex and careful weighing of costs and benefits that should not be viewed as an “unnecessary barrier” to DSR.³

The NYISO also noted in its August Letter that it was not feasible to immediately incorporate DSR into the existing RTS market design (alternative 1 above), due in part to the lack of necessary metering signals. That is, the activation of DSR is not apparent to

¹ *Compliance Filing of the New York Independent System operator, Inc.* Docket No. ER04-230-000, ER04-230-001 (June 1, 2005).

² This filing is being made on the next business day from the promised October 1, 2005 filing date as that date fell on a Saturday.

³ *Response to Deficiency Letter*, Docket No. ER04-230-010 (August 12, 2005) (“August Letter”), p. 2.

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the RTS software as an increase in energy output, and therefore compensable, but rather as a simple drop in Load. However, the NYISO committed to work towards defining the modifications necessary to remedy this metering issue and otherwise accommodate DSR within RTS. The NYISO also committed to estimate the effort required to implement such modifications. Once that effort was completed, the NYISO noted in its August letter, it would focus on alternative programs outside of the RTS model, notably a 30-minute SCR-like program and aggregation program pilot projects.

Since that filing, the NYISO has worked with stakeholders through both the Price-Responsive Load Working Group (“PRLWG”) and in discussions with prospective DSRs to better define the modifications needed to RTS. The NYISO expects to complete this conceptual analysis in October, and will then turn to the task of evaluating non-RTS programs. The NYISO is following the process and schedule outlined in its August letter and anticipates sharing the results of its ongoing efforts with the PRLWG through monthly meetings. The results of costs-and-benefits evaluations will become available as each of these options is discussed.

When the results of stakeholder deliberations are complete, the NYISO expects to deliver to the Commission appropriate tariff changes, if any, which represent the consensus view of the NYISO and its stakeholders.

Respectfully submitted,

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New York Independent System,
Operator, Inc.

cc: Daniel L. Larcamp
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Certificate of Service

I hereby certify that I have this day electronically 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 3rd day of October, 2005.

/s/ Mollie Lampi
290 Washington Avenue
Extension
Albany, New York