

September 17, 1999

By Hand

The Honorable David P. Boergers, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Docket No. ER97-1523-000 *et al.*
New York Independent System Operator, Inc.
Installed Capacity Auction

Dear Mr. Boergers:

The New York Independent System Operator, Inc. ("NYISO") is hereby supplying additional materials to supplement the Detailed Capacity Auction Description, the NYISO's proposal for an installed capacity ("ICAP") auction market filed with the Commission on August 10, 1999. The additional materials will, in part, allow the ICAP auction to be conducted for the upcoming Winter Period even in the event of a delay in the start-up of the ISO Energy and Ancillary Services Markets. In addition, pursuant to Section 205 of the Federal Power Act and 18 C.F.R. § 35.13 (1998), the NYISO is filing two additional appendices to the New York Independent System Operator Market Administration and Control Area Services Tariff ("ISO Services Tariff").

Summary of Modified and Additional Materials

- The ICAP auction has been rescheduled to September 22, 1999;
- "Supplemental Rules, Installed Capacity Market, Winter '99 Capability Period" have been promulgated to apply only in the event that start-up of the ISO Energy and Ancillary Services Market is delayed beyond November 1, 1999, the start of the 1999-2000 Winter Capability Periods;¹
- Language has been added to permit only load serving entities ("LSE") to purchase ICAP in the auction and to limit the amount of ICAP an LSE can buy in the ICAP auction; and

¹ The 1999-2000 Winter Capability Period runs from November 1, 1999 through April 30, 2000.

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- The price cap previously approved by the Commission for ICAP sold within New York City has been incorporated;
- The forms of “Binding Bid to Purchase Installed Capacity in the ICAP Auction” (“Binding Bid to Purchase”) and “Binding Offer to Sell Installed Capacity in the ICAP Auction” (“Binding Offer to Sell”) are being filed as Attachments F and G to the ISO Services Tariff.

Effective Date and Requests for Waiver

The NYISO requests an effective date of September 22, 1999, the date on which the ICAP auction is scheduled to occur. The NYISO requests a waiver of the Commission’s notice requirements. The materials filed herein have been prepared in consultation with the market participants. That process is time-consuming and could not have been completed earlier. The NYISO requests that any Commission regulations or other requirements not satisfied by this filing be waived either because this filing relates to the detailed proposal the Commission has directed the NYISO to file or because those requirements are not applicable.

List of Documents Submitted

1. Supplemental Rules, Installed Capacity Market, Winter ’99 Capability Period (Attachment 1);
2. Revision to Section 6 of Installed Capacity Auction Description (Attachment 2);
3. Revision to Section 10 of Installed Capacity Auction Description (Attachment 3);
4. Amendment to ISO Services Tariff ; forms of Binding Bid to Purchase and Binding Offer to Sell (Attachment 4);
5. *Federal Register* Notice (Attachment 5).

Explanation of Changes

Delay in the ICAP Auction and Supplemental Rules

The delay in the date of the ICAP Auction to September 22, 1999, which reflects a deviation from Section 4(i) of the Installed Capacity Auction Description, has permitted the Market Participants to review and comment on the provisions of the Supplemental Rules. The NYISO advised the Market Participants of the delay on September 9, 1999. In addition, the underlying “Rules, Procedures and Guidelines for the 1999-2000 Winter Capability Period Installed Capacity Auction” (“Rules”) have been modified to respond to comments and suggestions of the Market Participants. The Supplemental

Rules,² a copy of which is provided as Attachment 1, permit the establishment of the ICAP Market independent of the commencement of NYISO operation of the Energy and Ancillary Services Markets.

Although the NYISO contemplates commencement of the Energy and Ancillary Services Markets on October 12, 1999, that date remains subject to the successful completion of another round of Market Trials. The Supplemental Rules govern the administration of the 1999-2000 Winter Capability Period, including related energy and transmission functions, prior to the start-up of the NYISO Energy and Ancillary Services Markets and are applicable only in the event that the NYISO Energy and Ancillary Services Markets are delayed beyond November 1, 1999 and only until such time as the NYISO Energy and Ancillary Services Markets are in operation. That approach will permit the NYISO to conduct an ICAP auction and to administer the ICAP Market and for the Member Systems of the New York Power Pool ("NYPP") and LSEs in the New York Control Area to rely on such auction and market administration even if the ISO Administered Markets are not yet in operation, notwithstanding any language in the NYISO documents that could be construed to the contrary. The ICAP Market should be effective for the full Winter Capability Period to enhance the flexibility of the NYISO to implement the Energy and Ancillary Services Markets under a range of possible schedules during the 1999-2000 Winter Capability Period.

Limitation on Eligibility to Purchase ICAP and Quantities

The Rules have been modified to require that a potential purchasing auction participant must be an LSE. Each LSE that is participating as a bidder in the ICAP auction is limited in the amount of Installed Capacity for which it may bid. The limitation on who may purchase ICAP in the auction is consistent with Section 5.12 of the ISO Services Tariff. The limitation on the quantity of ICAP that may be purchased is intended to prevent speculation and to avoid an end-run around the Commission-imposed price cap described below. These changes are reflected in a change to Section 6 of the Detailed Capacity Auction Description, a copy of which is provided as Attachment 2 hereto. A red-lined comparison to the version of Section 6 submitted on August 10, 1999 is also included in Attachment 2.

Price Cap

The Commission adopted a proposed price cap for generation in New York City to address the potential for in-city generation owners to exercise generation dominance. *See Consolidated Edison Company of New York*, 84 FERC ¶ 61,287 (1998). The language in Section 10 of the Detailed Capacity Auction Description filed on August 10 did not address that price cap. Revised language for

² The NYISO would not normally file such Supplemental Rules since they are a part of the ISO Procedures, which the Commission has determined need not be filed with the Commission. Here, however, the Supplemental Rules are being submitted as an addendum to the detailed proposal filed August 10, 1999.

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Section 10 is provided as Attachment 3 hereto. A red-lined comparison to the version of Section 10 submitted on August 10, 1999 is also included in Attachment 3.

Binding Bid to Purchase and Binding Offer to Sell

The NYISO has developed a Binding Bid to Purchase and a Binding Offer to Sell to provide a consistent format and to bind the purchasers and sellers of ICAP. An amendment to Section 5.12 of the ISO Services Tariff incorporates them as Attachments F and G to that tariff. Copies of the amended language for the ISO Services Tariff and the Binding Bid to Purchase and Binding Offer to Sell are included in Attachment 4 hereto.

Notice

A draft *Federal Register* notice is provided as Attachment 5 hereto. A copy of the notice on disk in WordPerfect 5.1 format is also being provided.

Respectfully submitted,

Arnold H. Quint
Counsel for the New York Independent
System Operator, Inc.

Attachments

cc: Official Service Lists in
ER97-1523-000, OA97-470-000,
and ER97-4234-000
(not consolidated)

**SUPPLEMENTAL RULES
INSTALLED CAPACITY MARKET
WINTER '99 CAPABILITY PERIOD**

ICAP Rules:

ISO ICAP Rules will be in effect for the full Winter '99 Capability Period subject to Supplemental Rules.

Supplemental Rules:

Supplemental Rules govern the administration of the Winter ICAP Market prior to the start-up of the ISO Energy and Ancillary Services Markets. These Rules are applicable only in the event that the ISO Energy and Ancillary Services Markets are delayed beyond the start of the Winter Capability Period and only until such time as the ISO Energy and Ancillary Services Markets are in operation. Except as noted in these Supplemental Rules, the ISO will administer the ICAP auction and the Winter ICAP market in accordance with its rules and procedures.

Procurement of ICAP:

- The ISO will determine the amount of Installed Capacity that must be sited within the NYCA and the amount of Installed Capacity that may be procured from areas external to the NYCA, while meeting NYSRC Reliability Rules.
- Existing ICAP contracts/arrangements will be subject to their normal termination provisions.
- Winter ICAP procured from Transmission Owners (TOs) through bilateral contracts, retail access programs or applicable arrangements with other providers of ICAP will count towards an LSE's ICAP Requirement.

ICAP Deficiency Payments:

- ICAP deficiencies and associated deficiency payments will be in accordance with the ISO Tariff and applicable Rules.

Transmission Service:

- Firm Transmission Service will not be required for ICAP procured from within the New York Control Area (NYCA) through the ICAP auction. External ICAP Energy must be deliverable by whatever means the host control area requires. The NYISO does not require Firm Transmission Service.
- Energy deliveries associated with ICAP procured through the ICAP auction will be subject to Non-Firm Transmission service under the OATTs of the individual TO's.

- Transmission service under existing agreements will continue until start-up of the ISO Energy Market, at which time ISO Rules will be in effect.
- Transmission losses will continue under present agreements until the start-up of the ISO Energy Market, at which time ISO rules will be in effect.

Energy:

- Purchasers of auctioned ICAP may purchase energy from those or other sources on a bilateral basis.
- The requirement for an ICAP provider to the NYCA to bid into the ISO Energy Market Day-Ahead is waived until the ISO Energy Market is started.
- ICAP providers (when not selling energy in the NYCA) may sell energy (but not capacity) outside the NYCA subject to recall in the event of emergencies within the NYCA, even prior to the start of the Energy and Ancillary Services Markets. Such energy will be considered emergency purchases from those neighboring control areas and priced at the rate for energy from the associated control area.
- The ISO will not recall Energy produced by a Generator serving Load if that Generator is not providing ICAP (and has not indicated that it wishes to qualify as a provider of ICAP) in the NYCA, except that any transaction may be curtailed in response to invocation of Transmission Loading Relief procedures by the ISO or operators of other Control Areas.

Voltage Support:

- The ISO Voltage Support function will not exist (nor would ISO payments for such support be applicable) until the ISO Energy Market is established.

Generator Availability:

- Generators will provide DMNC tests and all data required per ISO rules for Generator qualification.

Generator Outage Scheduling:

- ISO rules will prevail for generator outage scheduling. ICAP providers shall be subject to rescheduling due to other contingencies to ensure the reliability of the electric system.
- Those entities that will be a provider of ICAP to the NYCA will be subject to the ISO rules associated with generator maintenance outage scheduling.

**REVISION TO SECTION 6 OF
INSTALLED CAPACITY AUCTION DESCRIPTION**

6. Limitations on Bidders' Participation in the Auction

A potential purchasing auction participant must be a NYISO Customer and a Load Serving Entity ("LSE"). The amount of Installed Capacity that each such LSE will be permitted to bid to purchase in each sub-auction will be limited to the MW Bid Cap determined by the ISO for that LSE for the month in which Installed Capacity sold in that sub-auction is valid. Any bids submitted to purchase an amount of Installed Capacity that exceeds the MW Bid Cap will be rejected by the ISO. The MW Bid Cap that applies to an LSE for a given month shall be defined as the sum of (i) the Installed Capacity requirement (the "Required Amount") established by the ISO for the bidding LSE for that month, plus (ii) five percent of the Required Amount, plus (iii) any amount of Installed Capacity valid in that month that the bidding LSE has contracted to sell pursuant to a bilateral contract, plus (iv) any amount of Installed Capacity valid in that month that the bidding LSE has sold in a previous Auction; minus the sum of (i) any amount of Installed Capacity valid in that month that the bidding LSE has contracted to purchase, plus (ii) any amount of Installed Capacity valid in that month that is available to the bidding LSE from a resource that it owns, plus (iii) any amount of Installed Capacity valid in that month that the bidding LSE has purchased in a previous Installed Capacity Auction.

As part of its evaluation of each Bidder's creditworthiness, the ISO may establish credit limits for each Bidder. The ISO will reject bids from Bidders if acceptance of that bid could cause the total amount owed by that Bidder as a result of the Auction to exceed that Bidder's credit limit. Procedures for ensuring this does not occur will be detailed in the ISO Procedures.

RED-LINED COMPARISON

6. Limitations on Bidders' Participation in the Auction

Only Customers A potential purchasing auction participant must be a NYISO Customer and a Load Serving Entity ("LSE"). The amount of Installed Capacity that each such LSE will be permitted to bid to purchase ~~Installed Capacity in the~~ in each sub-auction will be limited to the MW Bid Cap determined by the ISO for that LSE for the month in which Installed Capacity sold in that sub-auction is valid. Any bids submitted to purchase an amount of Installed Capacity that exceeds the MW Bid Cap will be rejected by the ISO. The MW Bid Cap that applies to an LSE for a given month shall be defined as the sum of (i) the Installed Capacity requirement (the "Required Amount") established by the ISO for the bidding LSE for that month, plus (ii) five percent of the Required Amount, plus (iii) any amount of Installed Capacity valid in that month that the bidding LSE has contracted to sell pursuant to a bilateral contract, plus (iv) any amount of Installed Capacity valid in that month that the bidding LSE has sold in a previous Auction; minus the sum of (i) any amount of Installed Capacity valid in that month that the bidding LSE has contracted to purchase, plus (ii) any amount of Installed Capacity valid in that month that is available to the bidding LSE from a resource that it owns, plus (iii) any amount of Installed Capacity valid in that month that the bidding LSE has purchased in a previous Installed Capacity Auction.

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**REVISION TO SECTION 10 OF
INSTALLED CAPACITY AUCTION DESCRIPTION**

10. SETTLEMENT

Subject to the exceptions noted in the next paragraph, the ISO will pay each Offeror whose offer to sell Installed Capacity is selected in a sub-auction the market-clearing price determined in that sub-auction at the location of each of its resources that have been selected in that sub-auction to provide Installed Capacity, for each MW of Installed Capacity that resource has been selected to supply. Also subject to the exceptions noted in the next paragraph, each Bidder for Installed Capacity whose bid to purchase Installed Capacity is selected in a sub-auction will pay to the ISO the market-clearing price at the location specified in the bid(s) that have been selected, for each MW of Installed Capacity that it purchased in that sub-auction.

If an Offeror's offer to sell Installed Capacity provided by a given Generator has been accepted in the Auction, but Installed Capacity provided by that Generator is subject to market power mitigation procedures which have been accepted by the Commission, and which specify a maximum amount that may be paid for Installed Capacity provided by that Generator, that Offeror shall not be paid more than that maximum amount for Installed Capacity sold in the Auction. The Bidders who have purchased Installed Capacity provided by such a Generator in a sub-auction (as determined in Section 11 of this document) shall be charged the amount that was paid to that Offeror for that Installed Capacity in that sub-auction.

RED-LINED COMPARISON

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Attachment 4

1. Revision to Sheet No. 80 of the New York Independent System Operator Market Administration and Control Area Services Tariff (“ISO Services Tariff”).
2. Binding Bid to Purchase Installed Capacity in the ICAP Auction (Attachment F to ISO Services Tariff).
3. Binding Offer to Sell Installed Capacity in the ICAP Auction (Attachment G to the ISO Services Tariff).

Interruptible Load Resources. A Bid-based auction will be held upon an LSE's request for an auction. The auction will make available Installed Capacity resources for a Capability Period to meet the ISO requirements including Locational Installed Capacity Requirements, and will establish a separate market clearing price for each Locality and for the remainder of the NYCA. Each LSE purchasing Installed Capacity in the auction will pay the market clearing price(s) for Installed Capacity resources for the Locality where it requested the resource to be located. Each LSE requesting Installed Capacity will be pro-rated Installed Capacity resources at auction per their request and in the proper Locality and be charged accordingly. In establishing bidding rules, the ISO will accommodate requirements related to tax-exempt bonds. The ISO will enforce market power mitigation measures as approved by the Commission in the auction. LSEs procuring Installed Capacity through an auction shall be awarded a common interest in all resources participating in the auction, subject to locational requirements for Capacity. The auction will be conducted in accordance with ISO Procedures. Bilateral contracts for Installed Capacity will be permitted for those LSEs desiring to engage in such Transactions and will be separate from the auction process. Forms of a Binding Bid to Purchase Installed Capacity in the ICAP Auction and of a Binding Offer to Sell Installed Capacity in the ICAP Auction are provided as Attachments F and G hereto.

LSEs may receive Installed Capacity credit for meeting Installed Capacity requirements from Generators located outside the NYCA provided that those Generators meet the ISO requirements for Installed Capacity providers. Subject to provisions for existing contracts for

Effective October 12, 1999

External Installed Capacity, the amount of Installed Capacity provided by Generators located outside the NYCA will be limited to a level, to be determined by the ISO, which will not reduce the Interconnection assistance benefits from neighboring Control

Effective October 12, 1999

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

Central Hudson Gas & Electric Corporation)	
Consolidated Edison Company of New York, Inc.)	
Long Island Lighting Company)	
New York State Electric & Gas Corporation)	Docket Nos. ER97-1523-012
Niagara Mohawk Power Corporation)	OA97-470-011
Orange & Rockland Utilities, Inc.)	ER97-4234-009
Rochester Gas & Electric Corp.)	(not consolidated)
Power Authority of the State of New York)	
)	
New York Power Pool)	

NOTICE OF COMPLIANCE FILING

Take notice that on September 17, 1999, the New York Independent System Operator, Inc. (“NYISO”) submitted additional materials to supplement its detailed proposal for an installed capacity auction. The NYISO requests an effective date of September 22, 1999.

A copy of this filing was served upon all persons on the Commission’s official service lists in Docket Nos. ER97-1523-000, OA97-470-000 and ER97-4234-000 (not consolidated), and the respective electric utility regulatory agencies in New York, New Jersey and Pennsylvania.

Any person desiring to be heard or to protest this filing should file a motion to intervene or protest with the Federal Energy Regulatory Commission, 888 First Street, NE, Washington, DC 20426, in accordance with Rules 211 and 214 of the Commission’s Rules of Practice and Procedure (18 C.F.R. §§ 385.211 and 385.214). All such motions or protests should be filed on or before _____. 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 motion to intervene. Copies of this application are on file with the Commission and are available for public inspection.

David P. Boergers
Secretary