

April 16, 2006

Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

**Status Report of the New York Independent System Operator, Inc.
in Docket Nos. ER03-552-011 and ER03-984-009**

Dear Ms. Bose:

In its order issued on February 22, 2006 (“February 22 Order”), the Commission directed the New York Independent System Operator, Inc. (“NYISO”) to file within 60 days a “timetable for implementation of the Netting Bilaterals Project (the “Project”) that includes, *inter alia*, specific dates for completion of the COO [*i.e.* Concept of Operation], and realistic dates for implementation.”¹ In addition, the Commission directed the NYISO to submit “quarterly status reports on its progress with the Commission, within 15 days after the end of each calendar quarter, beginning with the calendar quarter ending June 30, 2006.”²

In response to the February 22 Order, the NYISO submitted a compliance filing on April 24, 2006, and quarterly status reports on July 17, 2006, October 16, 2006 and January 16, 2007. In its order issued on October 6, 2006, the Commission referred the matter to the Commission’s Dispute Resolution Service “to see if the parties can reach agreement on the scope of work and on a timetable for implementation of the Project.”³ The parties reached an understanding which was memorialized in the quarterly status report filed on January 16, 2007. The instant quarterly report discusses the progress made on the Project from January 1, 2007 to the present.

In early January 2007, the NYISO began work to develop a COO, the document that defines the proposed scope of a project, preliminarily identifies related market rule changes, and serves as a “straw man” for subsequent stakeholder discussions. NYISO staff and selected outside consultants completed the first draft of the COO in late March 2007 and issued a copy to Strategic Energy, L.L.C. (“Strategic”), the original sponsor of this initiative, shortly thereafter. On April 11, 2007, representatives of Strategic and the NYISO met to review the COO and ensure that it met Strategic’s expectations before the COO was reviewed with a larger group of market participants. Strategic has

¹ *New York Independent System Operator, Inc.*, 114 FERC ¶ 61,189 at P 14 (2006).

² *Id.*

³ *Id.* at P 16.

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authorized the NYISO to state that the initial draft of the COO contains the functionality and user features necessary to provide the trading flexibility that Strategic desires. Moreover, Strategic considers the approach to be very similar to the PJM e-schedules and adequate, if implemented, to support Strategic's desired business model in the NYISO energy market.

The next step is for the NYISO's business and technical staff to review the draft COO with selected likely users of the Project based upon historical trading patterns and determine if the function described is suitable to meet their desired business model in the NYISO energy market. Subsequent to a final agreement with market participants on the functionality, the NYISO will perform a detailed analysis of the Project based on the final COO. That detailed analysis will include developing a cost estimate and generic schedule for the implementation of the technical aspects of the Project as well as creating the business processes necessary to support the new functionality.

WHEREFORE, for the foregoing reasons, the NYISO respectfully submits this quarterly progress report as directed in the February 22 Order.

Respectfully submitted,

/s/Andrew S. Antinori
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NEW YORK INDEPENDENT
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