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May 8, 2002

FILE NO: 55430.000043

By Hand

The Honorable Magalie R. Salas, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E., Room 1A
Washington, DC 20426

**New York Independent System Operator, Inc.
Filing of Tariff Revisions to Conform the Pricing of Thirty-Minute Reserves in its
Balancing Market Evaluation and in its Security Constrained Dispatch
Real-Time Market and Request for Waiver of Sixty Day Notice Period
Docket No. ER02- -000**

Dear Ms. Salas:

Pursuant to Section 205 of the Federal Power Act,¹ the New York Independent System Operator, Inc. (“NYISO”) by counsel, hereby submits revisions to its Market Administration and Control Area Services Tariff (“Services Tariff”) to implement software enhancements that will better calibrate the information used by the NYISO’s Balancing Market Evaluation (“BME”) to commit units in real-time² with the information that the NYISO actually uses to calculate real-time prices. This will produce greater price convergence between the NYISO’s advisory “hour-ahead” prices³ and real-time prices, thereby increasing the efficiency of the NYISO-administered markets.

The proposed change will require BME to consider all units that are currently considered by the NYISO’s Security Constrained Dispatch (“SCD”) as potential Thirty-Minute Reserves

¹ 16 U.S.C. §824d (1994).

² The Balancing Market Evaluation (“BME”) is an automated system that the NYISO uses to perform the hour-ahead scheduling functions that all control area operators must undertake. It calculates advisory “hour-ahead” prices which are used to decide which units to commit in real-time. More information about BME is provided in Sections 2.10 and 4.14 of the Services Tariff.

³ Currently, “hour-ahead” BME prices are posted 75 minutes before the hour. BME prices are advisory for most purposes. They can, however, set real-time prices at the NYISO’s External Proxy Generator Buses under certain limited circumstances.

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Suppliers.⁴ The NYISO's proposal would also ensure that all units supplying Thirty-Minute Reserves in Real-Time receive the market clearing availability price for such reserves. Unless otherwise defined, capitalized terms in this filing letter shall have the meaning set forth in Article 2 of the Services Tariff, as amended by the proposed tariff revisions submitted herewith.

I. List of Documents Submitted

The NYISO submits the following documents:

1. This filing letter;
2. Clean revised tariff sheets from the Services Tariff incorporating the new provisions (Attachment I);
3. Blacklined revised tariff sheets from the Services Tariff incorporating the new provisions (Attachment II);
4. A form of Notice suitable for publication in the *Federal Register* (Attachment III).

II. Copies of Correspondence

Copies of correspondence concerning this filing should be served on:

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⁴ SCD is a computerized algorithm that performs the NYISO's real-time dispatch by evaluating the New York Control Area contingency set against the system conditions expected for the next five minutes, or a shorter period under certain circumstances. SCD's results are a key input in the calculation of real-time market-clearing prices.

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III. Proposed Effective Date

The NYISO respectfully asks that the Commission make this filing effective on May 30, 2002. The NYISO submits that good cause exists for waiver of the Commission's usual sixty-day notice period because the tariff revision proposed herein would significantly enhance the efficiency of the NYISO-administered markets in time for the peak summer demand season. In the event that it is not possible to grant this request, the NYISO asks that the Commission make this filing effective as soon as possible after May 30.

IV. Service List

The NYISO has mailed a copy to all parties that have executed Service Agreements under the Services Tariff, to the New York State Public Service Commission, and to the electric utility regulatory agencies in New Jersey and Pennsylvania.

V. Background

The NYISO experienced significant price anomalies on high load days during the summer of 2001. A number of these anomalies were attributable to divergences between BME advisory prices and the actual real-time prices determined by SCD. Since BME commits units based on its advisory price calculations but transactions actually settle at the SCD determined price, anomalous price divergences between BME and SCD can reduce the efficiency of the NYISO-administered markets.

The NYISO staff initiated an investigation and reported its initial findings in August 2001 to the NYISO stakeholders' Management Committee.⁵ Among the factors that the NYISO found that could artificially increase BME prices, relative to SCD prices, during periods of shortage was the limited set of resources that BME could consider for scheduling Thirty-Minute Reserves.

BME commits 1800 MW of Reserves every hour, a specific portion of which can be

⁵ See discussion by the Vice President for Operations, Michael Calimano, at the August 2, 2001 Management Committee meeting at www.nyiso.com/services/documents/groups/mgmt_comm/08_02_01/agenda5_rt_prices.pdf.

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satisfied by committing Thirty-Minute Reserves.⁶ Currently, BME is only able to call on units that have actually been scheduled to supply Thirty Minute Reserves either Day-Ahead or hour ahead. By contrast, SCD has a broader set of resources available because it determines Reserve availability through unit ramp rates rather than Reserve commitment schedules. Thus, at present, more Capacity is generally available to supply reserves in SCD than in BME. This phenomenon is due solely to differences between the two software programs, rather than physical differences in the system at the time that BME and SCD run.⁷

One consequence of BME's limited ability to secure reserves is that on days when Load is unusually high, BME will schedule expensive Internal and External resources for Energy and back down other Internal NYCA resources to create reserves. If reserve requirements still cannot be met, the high cost of attempting to solve the reserve constraint manifests itself as a high BME advisory price. Indeed, on July 24th and 25th, 2001 BME chose several very expensive Energy Imports in order to back down Internal units for reserves. These Imports were not necessary in real-time as a broader set of Internal resources were available for meeting the NYISO's reserves requirement and were visible to SCD. Consequently, the SCD-determined Real-Time prices were lower than the advisory BME prices.

The additional capacity that is currently visible to SCD, but not BME, is what is known as "latent reserves," or the capacity on "Class A" or "dispatchable" units that falls between their current operating basepoints and their Upper Operating Limits ("UOL").⁸ Class A units can

⁶ See Section 6.1, NYISO Ancillary Services Manual at <www.nyiso.com/services/documents/manuals/index.html>; NPCC Operating Reserve Requirement A-6 Document, Section 3.0 Minimum Requirements at <www.npcc.org/PublicFiles/Reliability/CriteriaGuidesProcedures/A-06.pdf>

⁷ The NYISO is proposing to improve price convergence by expanding the resources available to BME for Thirty-Minute Reserves rather than artificially restricting the resources available in SCD. This is the most efficient and cost-effective approach because SCD is housed in a legacy system that is significantly harder and more expensive to reprogram than the newer BME system. Expanding the scope of BME's vision is thus the best choice from both a market design and a practical perspective. (The NYISO is also developing functional specifications to replace both BME and SCD with a single real-time commitment and dispatch system which will be available in late 2003 to either the NYISO or a successor RTO.)

⁸ A unit's UOL is the maximum generation that the unit can bid into the system in a given

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respond to dispatch signals every five (5) minutes, whereas non-dispatchable “Class B” units receive basepoints that change only on the hour. Latent reserves are available to SCD whether or not a unit has been scheduled to supply reserves in either the Day-Ahead or Real-Time Market. SCD, thus, has the ability to take advantage of Class A units’ willingness respond to price changes.

In a series of Working Group and Business Issues Committee meetings, the NYISO reviewed with Market Participants a number of modeling and operational changes that would better align prices determined by BME and SCD. The NYISO discussed the improvements in price convergence that would occur if the way in which BME and SCD secure reserves were better calibrated.⁹ It was agreed that expanding the set of resources BME may call upon to schedule reserves to also include resources with latent reserves would reduce artificial price divergences on high load days.

The instant filing proposes Services Tariff amendments that will require BME to consider all latent reserves on dispatchable units to be available before securing any additionally necessary Thirty-Minute Reserves on other units. Because latent reserves will be ‘must take’ in BME, all dispatchable units that receive a BME Energy schedule will be assumed to have also provided an Availability Bid Price of zero for Thirty-Minute Reserves. In this way all units selected by BME to provide Thirty-Minute Reserves will be assured of receiving the applicable Thirty-Minute Reserves Availability price. Non-dispatchable units eligible to provide Thirty-Minute Reserves in real-time, such as Thirty-Minute gas turbines and off-dispatch units with available Capacity, may bid above zero and, when selected, would be eligible to set the real-time clearing price for Thirty-Minute Reserves. All units selected to provide Thirty-Minute Reserves in real-time without an offsetting day-ahead schedule will be paid the applicable real time locational Thirty-Minute Reserve clearing price.

As is noted below, the NYISO is also proposing tariff revisions to clarify, consistent with previous Commission orders,¹⁰ that Thirty-Minute Reserves suppliers will no longer be subject

hour.

⁹ See Presentation by Mr. Robb Pike at the September 27, 2001 Business Issues Committee meeting at www.nyiso.com/services/documents/groups/bus_issue_comm//09_27_01/agenda7_pricing_issues.pdf. >

¹⁰ See *New York Independent System Operator, Inc.*, 96 FERC ¶ 61, 112 (2001).

to regulation performance charges. Nonetheless, the NYISO will continue to monitor all units to ensure that they respond appropriately to base point signals. Units scheduled to supply Thirty-Minute Reserves that fail to adequately respond to a call for Thirty-Minute Reserves, may be identified as inappropriately lagging behind their basepoints. Non-responding units will be subject to persistent undergeneration charges, will not be paid for Energy not provided, and will be assessed balancing charges for any undelivered Energy that they were scheduled to provide. In addition, Suppliers that fail to appropriately respond to their basepoints when called upon to supply Thirty-Minute Reserves will be subject to reduced Availability payments and reduced Lost Opportunity Cost payments, when applicable.

V. **Description of Proposed Tariff Changes**

The NYISO proposes to amend various sections of Rate Schedule 4 of the Services Tariff, which governs payments to reserves Suppliers. Section 3.2 of Rate Schedule 4, addressing real-time markets for Ten-Minute Non-Spinning Reserves (“NSR”) and Thirty-Minute Reserves, would be amended to limit to zero any real-time Availability Bid from a Class A Unit for Thirty Minute Reserves. The NYISO also proposes to amend this section to clarify that all Class A units that have submitted real-time Energy Bids will be deemed to have also submitted a zero price Bid to supply Thirty-Minute Reserves. Section 3.2 would be further amended to preclude Class A Suppliers from changing their Thirty-Minute Reserves Availability Bids in real-time.

The NYISO also proposes to amend Section 3.4 of Rate Schedule 4, which discusses Ten-Minute NSR and Thirty-Minute Reserve service in real-time operation, to preclude the NYISO from assessing financial penalties on Class A Units that provide Thirty-Minute Reserves.

The NYISO also proposes to amend Section 5 of Rate Schedule 4, which discusses failure to provide reserves, by eliminating existing subsection 5(3). Subsection 5(3) currently imposes regulation penalties on Suppliers that fail to provide the amount of Energy requested by the NYISO within the time applicable for the scheduled Thirty Minute Reserves. Pursuant to previously accepted Commission-accepted tariff amendments, the NYISO no longer assesses regulation penalties.¹¹ Eliminating Section 5(3) will, therefore, conform this section to previous tariff revisions that have had a positive effect on the NYISO-administered markets.

¹¹ See *supra* n. 10.

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VI. Governance Approval

The tariff amendment proposed herein was approved, in concept, by the Management Committee at its January 10, 2002 meeting. The Management Committee's approval motion specified that specific tariff language would be developed by the NYISO Staff and the Scheduling & Pricing Working Group, and reviewed and approved by the Chairs of the Operating Committee, Business Issues Committee and Management Committee.

The final tariff language included herein was distributed to the Scheduling and Pricing Working Group, on March 13, 2002. No comments were received. The language was subsequently shared with the Chairs and Vice Chairs of the Management and Business Issues Committees on April 2, 2002 for their approval. No disapprovals were received.

VI. No Costs Relating to Discriminatory Employment Practices

The NYISO has no expenses or costs that have been alleged or judged to be illegal, duplicate or unnecessary costs that are demonstrably the product of discriminatory employment practices.

VII. Federal Register Notice

A form of *Federal Register* Notice is provided as Filing Attachment III hereto. A diskette of the Notice is also provided in WordPerfect format.

VIII. Conclusion

WHEREFORE, for the foregoing reasons, the New York Independent System Operator, Inc. respectfully requests that the Commission accept for filing the tariff amendments described herein.

Respectfully submitted,

Ted J. Murphy
Counsel for
New York Independent System Operator, Inc.

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cc: Daniel L. Larcamp, Director Office of Markets, Tariffs and Rates, Room 8A-01,
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Attachment I

Attachment II

Attachment III

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

New York Independent System Operator, Inc.) Docket Nos. ER02-_____

NOTICE OF FILING

Take notice that on May 8, 2002, the New York Independent System Operator, Inc. (“NYISO”) filed proposed revisions to its Market Administration and Control Area Services Tariff that would improve the ability of its Balancing Market Evaluation to call on potential providers of Thirty-Minute Reserves. The NYISO has requested a waiver of the Commission’s usual sixty-day notice period so that the proposed revisions may become effective on May 30, 2002. The NYISO has mailed a copy of this compliance filing to all persons that have executed Service Agreements under the NYISO’s Market Administration and Control Area Services Tariff, to the New York State Public Service Commission, and to the electric utility regulatory agencies in 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, N.E., Washington, D.C. 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 compliance filing are on file with the Commission and are available for public inspection in the Commission’s Public Reference Room. This filing may also be viewed on the Internet at <http://www.ferc.fed.us/online/rims.htm>

Magalie R. Salas
Secretary

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person that has executed Service Agreements under the Market Administration and Control Area Services Tariff, to the New York State Public Service Commission, and to the electric utility regulatory agencies in New Jersey and Pennsylvania with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.2010 (2001).

Dated at Washington, D.C., this 8th day of May, 2002.

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