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February 2, 2007

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By Hand

Honorable Magalie R. Salas, Secretary
Federal Energy Regulatory Commission
888 First Street N.E.
Washington, D.C. 20426

ER07-507-000

New York Independent System Operator, Inc.'s
Proposed Tariff Revisions Regarding Credit Requirements for Customers
Withdrawing from the NYISO-Administered Markets

Dear Ms. Salas:

Pursuant to Section 205 of the Federal Power Act,¹ the New York Independent System Operator, Inc. ("NYISO") hereby submits proposed revisions to Attachment K of its Market Administration and Control Area Services Tariff ("Services Tariff") and Attachment W of its Open Access Transmission Tariff ("OATT") to allow the NYISO to retain a portion of a Customer's collateral upon its withdrawal from the NYISO-administered markets to secure any remaining payment obligations to the NYISO.²

The proposed revisions allow the NYISO to retain a portion of a withdrawing Customer's collateral to secure payment obligations that may result from true-ups after its departure from the NYISO-administered markets. This will help protect the NYISO's remaining Customers from potential bad debt losses.

I. List of Documents Submitted

The NYISO submits the following documents:

1. This filing letter;
2. A clean version of the proposed revisions to the Services Tariff (Attachment I);
3. A blacklined version of the proposed revisions to the Services Tariff (Attachment II);
4. A clean version of the proposed revisions to the OATT (Attachment III); and
5. A blacklined version of the proposed revisions to the OATT (Attachment IV).

¹ 16 U.S.C. § 824d (2000).

² Capitalized terms that are not otherwise defined herein shall have the meaning specified in Article 2 of the Services Tariff. For purposes of this filing, "Customer" shall include the term "Transmission Customer".

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II. Copies of Correspondence

Copies of correspondence concerning this filing should be served on:

Robert E. Fernandez, General Counsel and Secretary
Elaine D. Robinson, Director of Regulatory Affairs
Andrew S. Antinori, Senior Attorney
New York Independent System Operator, Inc.
10 Krey Boulevard
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III. Proposed Effective Date

The NYISO respectfully requests that this filing become effective on April 3, 2007, 60 days after the date of this filing.

IV. Service List

The NYISO is electronically serving a copy of this filing on all market participants, on each participant in its stakeholder committees, on the New York State Public Service Commission, and on the electric utility regulatory agencies of New Jersey and Pennsylvania. In addition, the complete filing has been posted on the NYISO's website at www.nyiso.com. The NYISO will also make a paper copy available to any interested party that requests one.

V. Background

The NYISO invoices its Customers each month based in part on estimates of each Customer's payment obligations for the preceding service month.³ Later, when the metering authority provides the NYISO with updated metering information and the NYISO has calculated other adjustments to Customer settlements, it issues true-ups to the initial Customer invoices. Currently, this is done at four and twelve month intervals following the initial invoice and again prior to issuance of a final Close-Out Settlement.⁴

³ Services Tariff §§ 7.1, 7.2A; OATT §§ 7A.0, 7.1(i).

⁴ Services Tariff § 7.4.1; OATT § 7.2A.1. On November 2, 2006, the NYISO filed with the Commission to shorten its settlement cycle from approximately 19 months to approximately 10 months. Docket No. ER07-156-000. The NYISO requested that the proposed revisions to the shortened settlement cycle be given effect beginning on January 1, 2007. *Id.* The revisions proposed with this filing will continue to work under the new customer settlement timeframes insofar as the NYISO will continue to issue four-month true ups.

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The NYISO tariffs establish Customer credit requirements for participation in the NYISO-administered markets, but they do not provide for a means of securing true-up obligations that may arise after a Customer withdraws from the NYISO-administered markets. This creates the risk of bad debt losses if a Customer cannot or will not pay those obligations should they arise. Pursuant to the NYISO's tariffs, this bad debt loss would then be recovered from the NYISO's remaining Customers.⁵

VI. Description of Proposed Tariff Revisions

Under the proposed revisions to Attachment K of its Services Tariff and Attachment W of its OATT, the NYISO will use Customer-specific averages of previous true-up adjustments to determine the portion of the withdrawing Customer's cash collateral or letter of credit that the NYISO will retain to secure estimated future adjustments to the withdrawing Customer's initial invoices. As noted above, the NYISO calculates adjustments to each regular monthly invoice at four and twelve months following the initial invoice. Thus, each month, a Customer receives: (i) a new initial invoice for the previous service month, (ii) a four-month true-up invoice, and (iii) a twelve-month true-up invoice.

To determine the portion of a Customer's cash collateral or letter of credit that the NYISO will retain under the proposed revisions, the NYISO will calculate the average amount of four- and twelve-month true-up adjustments to the Customer's settlement invoices over the prior six-month period. The NYISO will then multiply these averages by the number of four- and twelve-month true-up invoices remaining to be calculated for that Customer. Finally, the NYISO will add together the four- and twelve-month calculations and retain this amount of the departing Customer's cash collateral and letter of credit. As such, the proposed tariff changes allow the NYISO to retain a portion of the departing Customer's cash collateral or letter of credit estimated to be sufficient to cover the Customer's remaining true-up payment obligations.

These minor changes to the NYISO's credit requirements provide a reasonable means of addressing the credit risk associated with the continuing payment obligations of a customer leaving the NYISO markets. The credit requirement established by the proposed revisions would be tailored to each individual customer, based on its own history of true-ups in the NYISO-administered markets. In this way, the proposed provisions create a reasonable measure to protect the NYISO and its customers against bad debt losses without unduly burdening those customers that will be subject to the new requirement.

VII. Requisite Stakeholder Approval

These proposed revisions were developed with stakeholder input and approved by unanimous vote of the NYISO's Management Committee at its meeting on December 18, 2006.

⁵ Services Tariff, Attachment I; OATT, Attachment U § 3.0.

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On January 8, 2007, the NYISO's Board of Directors approved a motion directing the NYISO to file the proposed tariff revisions approved by the Management Committee.

VIII. Conclusion

WHEREFORE, for the foregoing reasons, the New York Independent System Operator, Inc. respectfully requests that the Commission accept the proposed Tariff changes identified in this filing.

Respectfully submitted,



Andrew S. Antinori, Senior Attorney
New York Independent System Operator, Inc.

cc: Shelton M. Cannon
Larry Gasteiger
Connie Caldwell
Michael A. Bardee
Kathleen E. Nieman
Dean Wight
Lance Hinrichs

Attachment I

New York Independent System Operator, Inc.
FERC Electric Tariff
Original Volume No. 2
Attachment K

First Revised Sheet No. 506C
Superseding Original Sheet No. 506C

Owner if the WTSC due is not paid within two (2) business days of the letter, and (iii) may begin termination proceedings in accordance with the NYISO tariffs.

D. Transmission Owner Indemnification to the NYISO. As a prerequisite for ISO action listed in Section VII.C above, the Transmission Owner will indemnify and hold the ISO harmless against liability arising out of the use of security to satisfy a WTSC nonpayment, any proceeding to terminate service, or termination of service to a customer except to the extent the dispute arises out of the ISO's reporting to the Transmission Owner of whether the underlying wheel through, internal wheel or export transaction(s) actually occurred and the details of the transaction.

VIII. Retention of a Withdrawing Customer's Collateral

To the extent that a Customer's credit requirements are met with a cash deposit or a letter of credit, the ISO shall retain a portion of that collateral upon the Customer's withdrawal from the NYISO-administered markets to secure any remaining financial obligations, including true-up payments or other invoice adjustments. The amount retained by the ISO shall be determined according to the following formula:

$$RCC = (AFA \times F) + (ATA \times T)$$

where: **RCC = Retained Customer Collateral.** The amount of a Customer's cash deposit or letter of credit to be retained following the Customer's withdrawal from the NYISO-administered markets.

AFA = Average adjustment to the Customer's initial invoices in its four-month true-ups calculated over the prior six months.

Issued by: Mark S. Lynch, President
Issued on: February 2, 2007

Effective: April 3, 2007

New York Independent System Operator, Inc.
FERC Electric Tariff
Original Volume No. 2
Attachment K

Original Sheet No. 506D

- F = Number of four-month true-ups remaining until all of the Customer's monthly invoices are finalized by the ISO.
- ATA = Average adjustment to the Customer's initial invoices in its twelve-month true-ups calculated over the prior six months.
- T = Number of twelve-month true-ups remaining until all of the Customer's monthly invoices are finalized by the ISO.

IX. Material Adverse Change.

The amount of Unsecured Credit granted to a Customer, if any, and the amount of the Customer's Operating Requirement shall be subject to change, at the discretion of the ISO, in the event that there is a material adverse change affecting the risk of nonpayment by the Customer.

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Issued on: February 2, 2007

Effective: April 3, 2007

Attachment II

New York Independent System Operator, Inc.
FERC Electric Tariff
Original Volume No. 2
Attachment K

First Revised Sheet No. 506C
Superseding Original Sheet No. 506C

Owner if the WTSC due is not paid within two (2) business days of the letter, and (iii) may begin termination proceedings in accordance with the NYISO tariffs.

D. Transmission Owner Indemnification to the NYISO. As a prerequisite for ISO action listed in Section VII.C above, the Transmission Owner will indemnify and hold the ISO harmless against liability arising out of the use of security to satisfy a WTSC nonpayment, any proceeding to terminate service, or termination of service to a customer except to the extent the dispute arises out of the ISO's reporting to the Transmission Owner of whether the underlying wheel through, internal wheel or export transaction(s) actually occurred and the details of the transaction.

VIII. Retention of a Withdrawing Customer's Collateral

To the extent that a Customer's credit requirements are met with a cash deposit or a letter of credit, the ISO shall retain a portion of that collateral upon the Customer's withdrawal from the NYISO-administered markets to secure any remaining financial obligations, including true-up payments or other invoice adjustments. The amount retained by the ISO shall be determined according to the following formula:

$$RCC = (AFA \times E) + (ATA \times T)$$

where: RCC = Retained Customer Collateral. The amount of a Customer's cash deposit or letter of credit to be retained following the Customer's withdrawal from the NYISO-administered markets.

AFA = Average adjustment to the Customer's initial invoices in its four-month true-ups calculated over the prior six months.

Issued by: William J. Musoler Mark S. Lynch, President
Issued on: June 16 February 2, 2004

Effective: August 16 April 3, 2004

New York Independent System Operator, Inc.
FERC Electric Tariff
Original Volume No. 2
Attachment K

Original Sheet No. 506D

F = Number of four-month true-ups remaining until all of the Customer's monthly invoices are finalized by the ISO.

ATA = Average adjustment to the Customer's initial invoices in its twelve-month true-ups calculated over the prior six months.

T = Number of twelve-month true-ups remaining until all of the Customer's monthly invoices are finalized by the ISO.

IX. Material Adverse Change.

The amount of Unsecured Credit granted to a Customer, if any, and the amount of the Customer's Operating Requirement shall be subject to change, at the discretion of the ISO, in the event that there is a material adverse change affecting the risk of nonpayment by the Customer.

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Issued on: February 2, 2007

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Attachment III

New York Independent System Operator, Inc.
FERC Electric Tariff
Original Volume No. 1
Attachment W

First Revised Sheet No. 735C
Superseding Original Sheet No. 735C

indemnify and hold the ISO harmless against liability arising out of the use of security to satisfy a WTSC nonpayment, any proceeding to terminate service, or termination of service to a customer except to the extent the dispute arises out of the ISO's reporting to the Transmission Owner of whether the underlying wheelthrough, internal wheel or export transaction(s) actually occurred and the details of the transaction.

VIII. Retention of a Withdrawing Transmission Customer's Collateral

To the extent that a Transmission Customer's credit requirements are met with a cash deposit or a letter of credit, the ISO shall retain a portion of that collateral upon the Transmission Customer's withdrawal from the NYISO-administered markets to secure any remaining financial obligations, including true-up payments or other invoice adjustments. The amount retained by the ISO shall be determined according to the following formula:

$$RCC = (AFA \times F) + (ATA \times T)$$

where: RCC = Retained Customer Collateral. The amount of a Transmission Customer's cash deposit or letter of credit to be retained following the Transmission Customer's withdrawal from the NYISO-administered markets.

AFA = Average adjustment to the Transmission Customer's initial invoices in its four-month true-ups calculated over the prior six months.

F = Number of four-month true-ups remaining until all of the Transmission Customer's monthly invoices are finalized by the ISO.

ATA = Average adjustment to the Transmission Customer's initial invoices in its twelve-month true-ups calculated over the prior six months.

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Issued on: February 2, 2007

Effective: April 3, 2007

New York Independent System Operator, Inc.
FERC Electric Tariff
Original Volume No. 1
Attachment W

Original Sheet No. 735D

T = Number of twelve-month true-ups remaining until all of the
Transmission Customer's monthly invoices are finalized by the
ISO.

IX. Material Adverse Change.

The amount of Unsecured Credit granted to a Transmission Customer, if any, and the amount of the Transmission Customer's Operating Requirement shall be subject to change, at the discretion of the ISO, in the event that there is a material adverse change affecting the risk of nonpayment by the Transmission Customer.

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Issued on: February 2, 2007

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Attachment IV

New York Independent System Operator, Inc.
 FERC Electric Tariff
 Original Volume No. 1
 Attachment W

First Revised Sheet No. 735C
Superseding Original Sheet No. 735C

indemnify and hold the ISO harmless against liability arising out of the use of security to satisfy a WTSC nonpayment, any proceeding to terminate service, or termination of service to a customer except to the extent the dispute arises out of the ISO's reporting to the Transmission Owner of whether the underlying wheelthrough, internal wheel or export transaction(s) actually occurred and the details of the transaction.

VIII. Retention of a Withdrawing Transmission Customer's Collateral

To the extent that a Transmission Customer's credit requirements are met with a cash deposit or a letter of credit, the ISO shall retain a portion of that collateral upon the Transmission Customer's withdrawal from the NYISO-administered markets to secure any remaining financial obligations, including true-up payments or other invoice adjustments. The amount retained by the ISO shall be determined according to the following formula:

$$\text{RCC} = (\text{AFA} \times \text{F}) + (\text{ATA} \times \text{T})$$

where: RCC = Retained Customer Collateral. The amount of a Transmission Customer's cash deposit or letter of credit to be retained following the Transmission Customer's withdrawal from the NYISO-administered markets.

AFA = Average adjustment to the Transmission Customer's initial invoices in its four-month true-ups calculated over the prior six months.

F = Number of four-month true-ups remaining until all of the Transmission Customer's monthly invoices are finalized by the ISO.

ATA = Average adjustment to the Transmission Customer's initial invoices in its twelve-month true-ups calculated over the prior six months.

Issued by: William J. Museler Mark S. Lynch, President
 Issued on: June 16 February 2, 2004/7

Effective: August 16 April 3, 2004/7

New York Independent System Operator, Inc.
FERC Electric Tariff
Original Volume No. 1
Attachment W

Original Sheet No. 735D

T = Number of twelve-month true-ups remaining until all of the
Transmission Customer's monthly invoices are finalized by the
ISO.

IX. Material Adverse Change.

The amount of Unsecured Credit granted to a Transmission Customer, if any, and the amount of the Transmission Customer's Operating Requirement shall be subject to change, at the discretion of the ISO, in the event that there is a material adverse change affecting the risk of nonpayment by the Transmission Customer.

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