

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

New York Independent System Operator, Inc.

Docket No. ER03-647-

**April 1, 2005 Compliance Report on
Status of Resource Adequacy Markets Group**

Background

In its May 20, 2003, *Order Conditionally Accepting for Filing Tariff Revisions* (“Demand Curve Order”)¹, the Commission accepted for filing, with modifications, revisions that incorporated in the NYISO’s Market Administration and Control Area Services Tariff an Installed Capacity (“ICAP”) Demand Curve in the NYISO-administered ICAP markets. As directed by Ordering Paragraph E of the Demand Curve Order, on February 26, 2004, the NYISO submitted a compliance filing (“Initial Compliance Report”) describing the status of a Resource Adequacy Market (“RAM”) Group. In its October 7, 2004, *Order Accepting compliance Report and Providing Guidance*², the Commission accepted the Initial Compliance Report and directed the NYISO to submit an additional status report on or before April 1, 2005.

In its Initial Compliance Report, the NYISO informed the Commission that the RAM Group represented a collaboration of the NYISO, ISO-New England, Inc. (“ISO-NE”), and PJM Interconnection, L.L.C. (“PJM”) (“Joint ISOs/RTOs”) that had begun in 2001. The group’s objective has been to provide an open forum to discuss a new resource adequacy market design for possible separate applications in each of the regions and to continue to further reduce seams among the three control areas.

To that end, the Joint ISOs/RTOs commissioned a consultant to develop a comprehensive analysis of a central resource adequacy market during 2003. The Initial Compliance Report indicated that each individual ISO or RTO intended to review this analysis with their respective market participants and stakeholders in light of then recent developments in their respective resource adequacy markets to determine whether any modifications would be desirable and, if so, how to adopt those changes. The outcomes of the individual ISO/RTO stakeholder reviews were to be compared among the ISOs/RTOs, possibly through one or more joint RAM Group all-stakeholder meetings. The intent was for each individual ISO or RTO to seek market participant

¹ 103 FERC ¶ 61,201 (2003).

² 109 FERC ¶ 61,023 (2004).

approval for any tariff modifications that would be necessary to implement a compatible regional capacity market design and/or ensure continued coordination with neighboring markets.

The NYISO also informed the Commission that, while the objective of the ISOs/RTOs would be to submit their individual proposed tariff amendments in the latter part of 2005, it was possible that the implementation of some new capacity market provisions in the individual control areas (such as the NYISO's ICAP Demand Curves) and the consideration of other potential new provisions in each of the regions could require additional time.

Current Developments through April 1, 2005

In the period since the Initial Compliance Report, each region, in varying degrees, has been reviewing forward capacity market concepts in their respective resource adequacy or ICAP working groups. The NYISO presented a hybrid ICAP market proposal to its ICAP Working Group in early 2004 that would incorporate a forward capacity market for a portion of New York's future ICAP requirements. This proposal has not received any further meaningful review and development pending the completion of the Demand Curve periodic adjustment process.

As a practical matter, the administration of current market models or the implementation of new resource market provisions within the various regions received the greatest attention during 2004. In addition to completing just the second year of operating experience with the New York's ICAP Demand Curves, the NYISO and its stakeholders spent a significant portion of 2004 conducting the first periodic (every three years) review and adjustment of the Demand Curve values. New values were submitted to the Commission in early January 2005³ and a Commission-ordered Technical Conference was held by FERC staff on March 21, 2005, to consider additional evidence from NYISO stakeholders regarding several issues raised in earlier interventions. The NYISO anticipates a final Commission order on new Demand Curve values during April 2005.

ISO-NE is currently engaged in a comprehensive and lengthy Commission evidentiary hearing process regarding certain aspects of its proposed locational capacity market, which was submitted to the Commission on March 1, 2004. The design of this market was initially based on New York's locational capacity market design. In an order issued June 2, 2004, the Commission established the hearing procedures currently under way and specified that a locational capacity market would be implemented in New England on January 1, 2006. PJM introduced a proposal for a Reliability Pricing Model ("RPM") in June 2004 and has subsequently presented and revised the proposal at numerous PJM stakeholder meetings. The proposal has also been presented and discussed with its Members Committee, at FERC, and at its jurisdictional state commissions. PJM has also presented training programs and tutorials to members and interested parties.

³ Docket No. 05-428-000.

Through the remainder of 2005 and into 2006, the NYISO anticipates the following efforts or milestones towards continuing to remove capacity market seams and coordination among the regions⁴:

The NYISO's hybrid capacity market proposal will receive renewed consideration from NYISO stakeholders, along with any other proposals that may be brought forth by stakeholders.

The Partial Unit ICAP Sales project, listed as Item P19 in the seams resolution report, was undertaken in response to a Commission directive that ISO-NE develop functionality that would allow New England capacity suppliers to sell portions of their units' capacity to external markets. This enhancement, which will significantly improve the ability to trade capacity between regions, has been submitted to the Commission and is expected to be implemented on or around June 1 of this year (2005).

Following New England's implementation of a locational capacity market, ISO-NE will conduct an assessment to identify enhancements that may be desirable to further facilitate the trading of capacity between the regions. ISO-NE is expected to issue a report June 30, 2007.

The PJM Board of Managers has taken the consideration of the RPM program under advisement and intends to decide after receiving Member comments at the May 5, 2005 Annual Meeting whether to pursue this model further. To inform that decision, the Board is asking for stakeholder input regarding the concerns that they and the Board find compelling, including the impact of capacity market alternatives upon reliability, and the ability of PJM's current energy and capacity markets to assure continued generation adequacy.

A joint meeting of NYISO and PJM stakeholders will be held during the second quarter of 2005 to review and discuss each region's respective capacity market proposals.

The NYISO's ICAP Working Group will continue to review both the PJM and ISO-NE capacity market proposals, as well as any developments regarding the implementation of those proposals, as a part of the Working Group's ongoing activities.

⁴ In its order approving the ISO-NE RTO status effective February 1, 2005, the Commission also approved a Revised Seams Agreement between ISO-NE and the NYISO, which reflected these projected milestones. (cite to be filled in).

Respectfully submitted,

/s/ Gerald R. Deaver
Counsel for
New York Independent System Operator, Inc.

Robert E. Fernandez, General Counsel and Secretary
Gerald R. Deaver, Senior Attorney
New York Independent System Operator, Inc.
290 Washington Avenue Extension
Albany, New York 12203

April 1, 2005

Certificate of Service

I hereby certify that I have this day served the foregoing document upon all parties designated on the official service list compiled by the Secretary in this proceeding in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure, 18 C.F.R. §385.2010 (2003).

Dated at Albany, New York this 1st day of April, 2005.

Gerald R. Deaver
Senior Attorney
New York Independent System Operator, Inc.
290 Washington Avenue Extension
Albany, New York 12203
(518)356-7549