

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

New York Independent)	Docket No(s) ER08-1281-005,
System Operator, Inc.)	-006,-007 and -010
)	
)	

**ANSWER AND MOTION FOR LEAVE TO ANSWER
OF THE INDEPENDENT MARKET MONITOR FOR PJM**

Pursuant to Rules 212 and 213 of the Commission’s Rules and Regulations,¹ Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor for PJM² (“Market Monitor”), provides these comments on the response of the New York Independent System Operator, Inc. (“NYISO”) filed on January 27, 2012, to the comments filed in this proceeding by the Market Monitor on January 12, 2012. The Market Monitor submitted those comments on the Compliance Notice regarding the development of new interface pricing software filed by the New York Independent System Operator, Inc. (“NYISO”) on December 22, 2011 (December 22nd Filing) in compliance with prior orders in the above captioned proceeding.³

¹ 18 CFR §§ 385.212 & 385.213 (2011).

² PJM Interconnection, L.L.C. is a Commission approved Regional Transmission Organization. Capitalized terms used herein and not otherwise defined have the meaning provided in the PJM Open Access Transmission Tariff (“OATT”) or the PJM Reliability Assurance Agreement (“RAA”).

³ *New York Independent System Operator, Inc.*, 133 FERC ¶61,276 at PP 27, 31 (2010), *order on reh’g*, 136 FERC ¶61,011 at P 15 (2011).

I. ANSWER

A. The Conforming Mode is Not Necessary to Meet The NYISO's Objectives.

In response to a Commission Order, the NYISO created a method that will assign one of two scheduling modes to calculate interface prices.⁴ Once a scheduling mode is selected, it is expected to remain in place for a three month period. The scheduling modes are "Conforming" and "Non-Conforming."⁵ The "Conforming" scheduling mode assumes that scheduled flows equal actual flows and the "Non-Conforming" scheduling mode assumes that scheduled flows do not equal actual flows.

The conforming mode is the current method applied by NYISO that was to be replaced with the new method. The non-conforming mode is the new method that was intended to reflect actual power flows, consistent with the PJM method.⁶

The conforming mode is not consistent with the Commission order and is unnecessary to meet the NYISO's stated objectives. The non-conforming mode is not described in enough detail to reach a conclusion about whether it is consistent with the Commission order.

⁴ *New York Independent System Operator, Inc.*, 133 FERC ¶61,276 at PP 27, 31 (2010), *order on reh'g*, 136 FERC ¶61,011 at P 15 (2011).

⁵ Draft NYISO Technical Bulletin 213. Attached.

⁶ The NYISO states (at 4) that it engaged in an effort, including discussions with PJM, "to develop and implement a new non-conforming Scheduling Mode that is consistent with the NYISO's market model, and that will produce prices that are fundamentally similar to the prices PJM's interface pricing method produces."

B. The Correctly Implemented Non-Conforming Mode Alone Would Meet The NYISO's Objectives

NYISO does not explain why the non-conforming method would not address all the issues addressed by the conforming method. The issue is not whether actual power flows conform to scheduled power flows, but whether prices reflect the actual power flows. The scheduled power flows are irrelevant. If scheduled power flows are sometimes the same as actual power flows, that does not change the fact the prices should reflect the actual power flows.

NYISO has not explained why it continues to need the conforming mode. The non-conforming mode can address all situations including the unlikely case that scheduled power flows equal actual power flows. But the conforming mode will be incorrect most of the time and is unnecessary if the non-conforming mode is done correctly.

NYISO states (at 9) that the Market Monitor "is not correct when it suggests that the NYISO will continue to use the conforming Scheduling Mode at times when actual power flows are not consistent with scheduled power flows." NYISO also states (at 9) that, "The transition from one Scheduling Mode to the other within a market day could result in schedules that are inconsistent with market clearing prices."

NYISO proposes to establish its Scheduling Mode on a quarterly basis. It is reasonable to expect that actual and scheduled flows will differ from hour to hour during a month. It would be reasonable to expect divergence over weekly or daily periods. During those hours when scheduled and actual flows are not consistent and NYISO is operating in the conforming scheduling mode, divergence will occur. This is the inconsistency to which the Market Monitor refers. The NYISO should implement an interface pricing method that consistently reflects actual power flows, regardless of whether scheduled and actual flows

are equal. If the underlying pattern of power flow changes, the distribution factors used should be changed.

The use of only a correctly implemented non-conforming mode will achieve the NYISO's objective and eliminate the NYISO's concerns about changing modes and imposing uncertainty on market participants. A single, accurate interface pricing methodology with detailed documentation would address the identified issues. Market participants should have confidence that the formulation of interface prices in the NYISO accurately reflects the economics of the system.

C. The Correctly Implemented Non-Conforming Mode Will Resolve the Identified Issues.

NYISO argues (at 9–10), “Using different Scheduling Modes in the Day-Ahead and Real-Time Markets for a market day could result in significant uplift when real-time schedules diverge from Day-Ahead schedules due to the different methods of determining market clearing prices.”

The use of a non-conforming scheduling mode alone will address the NYISO's concerns. There would be no change in mode and therefore no uplift.

NYISO also argues (at 10), that “Permitting the Scheduling Mode to change without providing adequate advanced notice to Market Participants will also reduce price certainty and increase the risk of undertaking forward power supply obligations.”

If participants are confident that the interface pricing reflects actual power flows then participants can be confident about prices. In a well functioning market, prices should reflect economic fundamentals. That would be the result of using a correctly formulated non-conforming mode.

NYISO contends (at 10) that implementation of its Interface Pricing approach will produce accurate price signals because its approach:

(A) permits the Scheduling Mode to be modified when a change in system topology makes it clear that the current Scheduling Mode will produce inaccurate prices and schedules; (B) incorporates an Unscheduled Power Flow (“UPF”) expectation in the Day-Ahead Market (that ordinarily change on a weekly basis, following notice to Market Participants); and (C) initiates every real-time evaluation using actual power flows (including actual loop flows, measured at the NYISO/IESO border) to determine real-time prices and schedules.

None of these factors ensures accuracy. Changes in system topology happen continuously. When the topology changes, there can be a significant lag in making the scheduling mode change under the NYISO proposal. The NYISO methodology requires advance notice of any changes to a previously announced scheduling mode, and applies a single scheduling mode for a three-month period. This lag time in modifying scheduling modes restricts the NYISO’s ability to continuously produce accurate price signals.

D. NYISO Has Not Provided Adequate Information to Evaluate its Non-Conforming Mode Proposal

NYISO has not explained how its interface pricing method is fundamentally equivalent to PJM’s interface pricing method. Such an explanation would set forth exactly how prices are determined and how market participants know what price they will pay or receive for transactions with the NYISO under both of the scheduling modes. The NYISO should also explain the interface price definitions and identify the buses (with weightings) included in its calculations.

NYISO claims (at 5) that the information it has posted “appears to be comparable to the information PJM has posted on its web site explaining how PJM’s interface prices are calculated.” This does not appear to be correct. PJM posts the aggregate definitions of its

interface pricing points⁷, and market participants know exactly what price they will get based on the ultimate source and sink as specified on the tag through an online application known as the “Pricing Point Calculator.”⁸ NYISO does not post such information. As a result, market participants do not know how prices are determined or what they will pay or receive for transactions with the NYISO.

NYISO claims (at 12–13) that its “scheduling software reviews the NERC Tag of each transaction and rigorously enforces direct path scheduling as part of the bid validation process.”

NYISO has not explained how NERC Tag information is used in the NYISO’s interface price calculations. The NYISO business rules do not require a completed NERC Tag to be submitted with market participant bids, only that the unique identifier be specified. For this reason, it is not possible for the NYISO to use the NERC Tag to enforce direct path scheduling as part of the bid evaluation, as the complete market path cannot be determined at the time of bid evaluation.

The NYISO could do correct interface pricing with information about the generation control area (GCA) and load control area (LCA) of each transaction. The details of the scheduled path are irrelevant to the correct calculation of interface prices, which makes moot the question of whether or not a transaction is scheduled on a direct path.

NYISO also claims (at 14) that it does not need to explain how it calculates LBMPs at external Proxy Generator Buses because that information is already set forth in its tariff.” It

⁷ See PJM website: <<http://www.pjm.com/markets-and-operations/energy/lmp-model-info/fwaad.aspx>>.

⁸ See PJM website: <<http://www.pjm.com/markets-and-operations/etools/form-pricing-point-calculator.aspx>>.

is not clear what the NYISO believes is the relationship between the calculation of LBMPs and the calculation of interface prices. This calculation is not relevant to interface pricing for generators not located in the contiguous control area. The NYISO Tariff does not reference scheduling mode differences, nor does it explain how the calculation of interface prices differs between scheduling modes.

E. NYISO Has Not Explained How Its Proposal Will Result in the Convergence of Interface Prices.

NYISO states (at 6) that its proposal will “[r]ecognize the incremental distribution of power flows around Lake Erie when evaluating and pricing the marginal impacts of transaction and generation schedules,” but does not explain how that information is used in calculating the NYISO interface prices. If the recognition of the incremental distribution of power flows around Lake Erie is a real-time input to the calculation of interface prices, then having a conforming scheduling mode would not be necessary, as there would not be a reason to attempt to determine whether loop flows are conforming or not, and the prices under the non-conforming mode would reflect the actual power flows.

II. MOTION FOR LEAVE TO ANSWER

The Commission’s Rules of Practice and Procedure, 18 CFR § 385.213(a)(2), do not permit answer to answers or protests unless otherwise ordered by the decisional authority. The Commission has made exceptions, however, where an answer clarifies the issues or assists in creating a complete record.⁹ In this answer, the Market Monitor provides the

⁹ See, e.g., *N.Y. Indep. Sys. Operator, Inc.*, 121 FERC ¶61,112 at P 4 (2007) (answer to protest accepted because it provided information that assisted the Commission in its decision-making process); *PJM Interconnection, L.L.C.*, 119 FERC ¶ 61,318 at P 36 (2007) (accepted answer to answer that “provided information that assisted ... decision-making process”); *California Independent System Operator*

Commission with information useful to the Commission's decision-making process and which provides a more complete record. Accordingly, the Market Monitor respectfully requests that this answer be permitted.

Corporation, 110 FERC ¶61,007 (2005) (answer to answer permitted to assist Commission in decision-making process); *New Power Company v. PJM Interconnection, L.L.C.*, 98 FERC ¶ 61,208 (2002) (answer accepted to provide new factual and legal material to assist the Commission in decision-making process).

III. CONCLUSION

The Market Monitor respectfully requests that the Commission afford due consideration to this answer as the Commission resolves the issues raised in this proceeding.

Respectfully submitted,



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Dated: February 16, 2012

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Eagleville, Pennsylvania,
this 16th day of February, 2012.



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