

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

New York Independent	)	
System Operator, Inc.	)	Docket No. ER13-780-000
	)	
	)	

**COMMENTS OF THE INDEPENDENT MARKET MONITOR FOR PJM**

Pursuant to Rule 211 of the Commission’s Rules and Regulations,<sup>1</sup> Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor for PJM (“Market Monitor” or “MMU”),<sup>2</sup> submits these comments on the filing submitted by the New York Independent System Operator, Inc. (“New York ISO”) on January 18, 2013 (“January 18<sup>th</sup> Compliance Filing”), in compliance with the Commission’s prior orders in this proceeding.<sup>3</sup> As NYISO indicates (at 4), the Market Monitor has discussed this proposal with NYISO and the NYISO Independent Market Monitor. The Market Monitor does not object to NYISO’s method for calculating the bus prices which are components of interface prices, or NYISO’s method for calculating unscheduled power flows by using an historical, rolling 30-day on-peak and off-peak average in the Day-Ahead Market, and by using current power flows,

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<sup>1</sup> 18 CFR § 385.211 (2012).

<sup>2</sup> PJM Interconnection, L.L.C. is a FERC-approved Regional Transmission Organization. Capitalized terms used herein and not otherwise defined have the meaning provide in the PJM Open Access Transmission Tariff (“OATT”) or the PJM Operating Agreement.

<sup>3</sup> *New York Independent System Operator, Inc.*, 133 FERC ¶ 61,276 (2010) (“2010 Order”); 136 FERC ¶ 61,011 (2011) (“2011 Order”); 138 FERC ¶ 61,195 (March 15, 2012) (“March 15<sup>th</sup> Order”); 140 FERC ¶ 61,140 (August 22, 2012) (“August 22<sup>nd</sup> Order”).

modified to reflect expected changes over the real-time scheduling horizon in the Real-Time Market.<sup>4</sup>

These comments are limited to the interface pricing issue. The NYISO proposes (at 6–8) to continue to rely on the eTag path validation approach to price external transactions. The NYISO eTag path validation approach ensures accurate pricing for some, but not all, external transactions. A logical extension of the NYISO approach would ensure accurate pricing for all external transactions. If NYISO were to extend their eTag path validation approach, NYISO could ensure that all external energy transactions are scheduled on a market path on which the energy will actually flow and for which the NYISO calculates a price. NYISO could define a rule that would effectively ban all circuitous schedule paths and require market participants to submit external transactions on scheduled market paths consistent with actual flows. This approach would substitute a rule, that identifies scheduled paths to reject, for the approach that tries to identify, in advance, every possible circuitous path. This method would be entirely consistent with the current NYISO approach, and could provide for accurate transaction pricing and eliminate the pricing incentive for market participants to schedule along inefficient paths of the type which contribute to Lake Erie loop flows.

The PJM source/sink approach ignores the market path, and assigns an interface price, ex post, based on the expected actual energy flows from the generation balancing authority as specified on the eTag to the load balancing authority as specified on the eTag. The NYISO eTag path validation approach addresses the same issue, on an ex ante basis, by rejecting the scheduled market path if it does not reflect the actual flows and accepting only scheduled market paths which reflect the expected actual energy flows. While the NYISO

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<sup>4</sup> The NYISO's method for calculating such bus prices is comparable the PJM's method. However, the Market Monitor continues to recommend that both PJM and NYISO use a more dynamic approach which would calculate bus weightings used in calculating interface prices to more closely reflect the ongoing changes in real-time system actual flows.

eTag path validation approach is different than PJM's source/sink pricing approach, both methodologies are designed to price external transactions based on the expected actual flow of energy.

Under NYISO's eTag path validation approach, the NYISO rejects the submission of eight specific market paths that are known to create actual flows that differ from the flows represented by the scheduled path.<sup>5,6,7</sup> A modified eTag path validation approach would meet the Commission's directive that the NYISO specify "a revised pricing methodology for all interface transactions based on NERC tag information and actual energy flows, i.e. consistent PJM's methodology."<sup>8</sup> If NYISO modified their eTag path validation approach to ensure that all transactions are submitted at the interface where expected actual flows would occur, the result would be accurate interface prices and the elimination of pricing incentives for market participants to schedule along inefficient market paths which do not match actual flows.

## I. COMMENTS

PJM's source/sink approach to interface pricing ignores intermediate control areas included in the scheduled market path, specified on eTags, and directly assigns interface prices based on the actual flows created between the specified generation balancing authority (the source) and load balancing authority (the sink). This source/sink approach to

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<sup>5</sup> The scheduled path is also referred to as the specified market path, the scheduled market path or the contract path.

<sup>6</sup> See *New York Independent System Operator, Inc.* Docket No. ER08-1261-000 (July 21, 2008).

<sup>7</sup> The banned paths as per the NYISO Exigent Circumstances filing are: (i) NYIS-ONT-MISO-PJM; (ii) NYIS-PJM-MISO-ONT; (iii) ONT-MISO-PJM-NYIS; (iv) PJM-MISO-ONT-NYIS; (v) PJM-NYIS-ONT-MISO; (vi) MISO-ONT-NYIS-PJM; (vii) ONT-NYIS-PJM-MISO; and (viii) MISO-PJM-NYIS-ONT.

<sup>8</sup> *New York Independent System Operator, Inc.*, 138 FERC ¶ 61,195 (March 15, 2012) ("March 15<sup>th</sup> Order").

interface pricing ensures accurate prices while allowing market participants to schedule their power along any market path they choose.

The NYISO evaluates external transactions at the interface where transactions are submitted. If a transaction is submitted at the interface where expected power flow occurs, the transaction would be accurately priced. However, the current NYISO eTag path validation validates and enforces this requirement for some, but not all, external transactions, although it could logically be extended to enforce the requirement for all external transactions.

In the January 18<sup>th</sup> Compliance Filing, NYISO proposes to continue to rely on the eTag path validation approach. The path validation approach could, if extended to define additional valid paths, recognize actual flows in a manner comparable to PJM's approach for all external transactions. This would address the pricing incentives for market participants to schedule along inefficient paths which contribute to Lake Erie loop flows which is the primary issue raised in this proceeding.

Under NYISO's current eTag path validation approach, NYISO rejects the submission of eight specific scheduled market paths that are known to create actual flows that differ from the specified scheduled market path.<sup>9</sup> The banned paths are circuitous scheduled market path transactions among the NYISO, the Ontario Independent Electricity System Operator (IMO), the Midwest Independent System Operator, Inc. (MISO) and PJM that do not reflect the actual physical flows associated with the transactions. If a participant submits a transaction along one of those eight paths, NYISO rejects the transaction at the time of submission, and the transaction does not enter the market and reliability system for evaluation. Through this validation, NYISO ensures that, when the scheduled market path is one of the eight identified paths, transactions are not scheduled across interfaces other

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<sup>9</sup> NYISO identified the eight paths in the NYISO Exigent Circumstances Filing. See *New York Independent System Operator, Inc.* Docket No. ER08-1261-000 (July 21, 2008).

than where actual flows occur. For these transactions, the NYISO eTag path validation approach requires a scheduled market path consistent with expected actual flows or the transaction is rejected.

For example, when NYISO is the source or the sink and PJM is the corresponding sink or source, the path validation approach rejects any submitted market path that is inconsistent with the actual expected flows at the NYIS/PJM Interface and thus ensures that parties to the transactions submit the transaction consistent with the actual flows. The NYISO eTag path validation approach also rejects identified wheeling paths through the NYISO market when actual flows through the NYISO market are not expected to occur at all. The NYISO rejects those wheeling transactions at the time of submission and they are not entered into the NYIS market and reliability systems for evaluation. For transactions on the banned paths, the NYISO eTag path validation approach operates comparably to PJM’s source/sink approach in ensuring accurate interface prices for transactions.

Table 1 shows the eight banned paths and the interfaces where the actual flow is expected to occur. As the table shows, the currently implemented eTag path validation approach rejects the submission of these market paths where the market path is not consistent with the actual flows.

**Table 1 Current NYISO banned paths and interface where actual flows are expected**

<b>Banned Path</b>	<b>Interface at which Actual Flows are Expected</b>
NYIS-ONT-MISO-PJM	NYIS/PJM
NYIS-PJM-MISO-ONT	NYIS/ONT
ONT-MISO-PJM-NYIS	NYIS/ONT
PJM-MISO-ONT-NYIS	NYIS/PJM
PJM-NYIS-ONT-MISO	MISO/PJM
MISO-ONT-NYIS-PJM	MISO/PJM
ONT-NYIS-PJM-MISO	MISO/ONT
MISO-PJM-NYIS-ONT	MISO/ONT

The January 18<sup>th</sup> Compliance Filing states (at 7) that the “e-Tag/path validation logic ensures that each External Transaction Bid is consistently represented in the NYISO’s market and reliability systems for evaluation.” The Market Monitor agrees that the eight

identified scheduled market paths are treated in this way, but other scheduled market paths also need to be addressed. The NYISO eTag path validation does not currently identify all potential scheduled market paths with actual flows that do not match the scheduled market path. Without addressing all such potential market paths, NYISO's eTag path validation logic would continue to permit pricing incentives that do not address the Lake Erie Loop Flow issues that are the subject of this proceeding. The most effective way to address all such market paths is by implementing a logical rule rather than trying to identify all such paths in advance.

For example, if we assume that the expected actual flows of a transaction with a generation balancing authority (source) of TVA and a load balancing authority (sink) of NYISO occur at the NYIS/PJM interface, the current path validation utilized by NYISO does not address the inconsistency between the scheduled market path and the actual flows. If a participant schedules a transaction on the TVA-MISO-ONT-NYIS market path, NYISO's current eTag path validation approach would not reject this transaction, and NYISO would price the transaction at the NYIS/ONT Interface, as if the source were ONT and the sink were NYIS. This price is based solely on the fact that the scheduled market path shows the power entering NYISO at the ONT/NYIS Interface and ignores the fact that the expected actual flows occur primarily on the NYIS/PJM Interface.

Alternatively, if a participant schedules a transaction on the TVA-PJM-NYIS market path, NYISO would price the transaction at the NYIS/PJM Interface. This price is based solely on the fact that the market path shows the power entering NYISO at the NYIS/PJM interface.

Although both transactions have the same generation (source) and load balancing (sink) authorities and therefore the same expected actual flows, the current NYISO eTag path validation approach to interface pricing would price the two transactions differently.

This example demonstrates that the currently implemented NYISO eTag path validation does not ensure that the “External Transaction Bid is consistently represented in the NYISO’s market and reliability systems for evaluation,”<sup>10</sup> and continues to provide pricing incentives for market participants to schedule on inefficient paths that contribute to loop flows including Lake Erie loop flows.

The Market Monitor recommends that the NYISO create a reference document that identifies the primary flows from every external balancing authority to and from the NYISO and modify their path validations to ensure that each submitted transaction path is assigned a single NYISO interface pricing point which is consistent with actual power flows. NYISO would reject any scheduled market path that was not consistent with the correct interface pricing point. NYISO would accept any scheduled market path that was consistent with the correct interface pricing point. This approach would substitute a rule, that identifies scheduled paths to reject, for the approach that tries to identify, in advance, every possible circuitous path.

By including a one-to-one relationship between external balancing authorities and the NYISO interface pricing points where actual power flows will occur, more accurate pricing would result, and the ability to submit inefficient scheduling paths would be eliminated. In the example with a source of TVA, NYISO’s eTag path validation should ensure that when TVA is specified as the generating balancing authority (source) and NYISO is specified as the load balancing authority (sink), only scheduled market paths that enter NYISO at the NYISO/PJM Interface should be accepted. A similar validation for all generation and load balancing authorities external to the NYISO would not require significant time or resources to implement and would ensure that the “e-Tag/path

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<sup>10</sup> January 18<sup>th</sup> Compliance Filing at 7.

validation logic ensures that *each* External Transaction Bid is consistently represented in the NYISO's market and reliability systems for evaluation"<sup>11</sup> (emphasis added).

In the event that expected flows to or from any external balancing authority do not reflect flows over a single NYISO interface, the Market Monitor suggests that the NYISO either create a separate interface price that reflects the distribution of flow across the multiple interfaces or that the NYISO modify their market and reliability systems to recognize this distribution of flows to accurately model and price the transaction based on the expected actual flows.

If NYISO's eTag path validation approach identified the expected actual flows between each external balancing authority and NYISO, and rejected transactions where the market path identified an interface inconsistent with the expected actual flow, NYISO would ensure accurate interface pricing and eliminate the incentive to submit inefficient scheduling paths that contribute to Lake Erie loop flows. Therefore, the Market Monitor suggests that the Commission provide an Order on Acceptance of the NYISO Compliance Filing contingent on the implementation of the recommended eTag path validation modifications described herein.

The Market Monitor also recommends that FERC make clear that it is a tariff violation to break a circuitous path into separate pieces in order to change the price that would be assigned compared to the price that would be assigned if the generation control area and load control area were specified consistent with the entire transaction.

## II. CONCLUSION

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

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<sup>11</sup> January 18<sup>th</sup> Compliance Filing at 7).



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Respectfully submitted,



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## 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 8<sup>th</sup> day of February, 2013.



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