

STATE OF NEW YORK DEPARTMENT OF PUBLIC SERVICE

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Secretary

May 26, 2005

Honorable Magalie R. Salas, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Room 1-A209
Washington, D.C. 20426

Re: Docket Nos. ER05-941-000 - New York Independent
System Operator, Inc.

Dear Secretary Salas:

For filing, please find the Notice of Intervention and Comments of the New York State Public Service Commission in the above-entitled proceedings. Should you have any questions, please feel free to contact me at (518) 473-8178.

Very truly yours,

David G. Drexler
Assistant Counsel

Attachment

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

New York Independent System) Docket No. ER05-941-000
Operator, Inc.)

NOTICE OF INTERVENTION AND COMMENTS
OF THE PUBLIC SERVICE COMMISSION
OF THE STATE OF NEW YORK

BACKGROUND

In September 2001, the Federal Energy Regulatory Commission (FERC or Commission) approved the New York Independent System Operator, Inc.'s (NYISO) implementation of "Virtual Transactions" to allow for the submission of bids, either as load or supply, for non-physical (i.e., financial only) purchase or sale of energy in the Day-Ahead Market (DAM).¹ In order for market participants to engage in such Virtual Transactions, acceptable collateral was required in the form of cash or letters of credit, and in an amount equal to seven days of transactions.

On May 5, 2005, the NYISO filed proposed modifications to the collateral requirements for market participants engaging in Virtual Transactions. Specifically, the NYISO proposes to: 1)

¹ Virtual Transactions allow market participants to bid non-physical generation and load into the DAM and settle those bids in the Real-Time Market (RTM). See, New York Independent System Operator, Inc., 97 FERC ¶61,091 (2001).

allow "netting" whereby amounts due to a market participant from the NYISO can be used as an acceptable form of collateral; and 2) reduce the amount of collateral required from seven days to four days. On May 12, 2005, the Commission issued a Notice of Filing (Notice), inviting comment on the NYISO's proposed modifications.

NOTICE OF INTERVENTION

The New York State Public Service Commission (NYPSC) submits its Notice of Intervention pursuant to the Notice and Rule 214 of the Commission's Rules of Practice and Procedure. Copies of all correspondence and pleadings should be addressed to:

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COMMENTS

The NYPSC supports the NYISO's proposed modifications. The modifications will encourage participation in Virtual Transactions by reducing the amount of collateral required and by providing for an additional form of collateral. Increased participation in Virtual Transactions will directly produce two benefits for the market by opening up the wholesale electric market to more participants. First, as additional market

participants seek to arbitrage price differences between the DAM and RTM in order to hedge their risks, prices in those markets should tend to converge, as typically occurs in efficient markets. Second, additional supply bids into the DAM will make the DAM more resistant to the exercise of market power by increasing the amount of supply that can set the market clearing price.

Netting is a reasonable form of collateral because it allows market participants to offset their collateral requirements with amounts the NYISO already owes them. As the NYISO indicated, it would simply withhold payments due to a market participant in the event of a default on Virtual Transactions obligations.

In addition, the NYISO indicated that it has over three years of experience in administering Virtual Transactions markets, and during that time it has not had to terminate a Virtual Transactions market participant for non-payment. Based on this experience, we concur with the NYISO that moving to a four-day collateral requirement strikes a reasonable compromise between the need to adequately protect the market from loss with the need to reduce undue barriers to market participation.

CONCLUSION

For the reasons discussed above, the Commission should approve the NYISO's proposed modifications.

Respectfully submitted,

Dawn Jablonski Ryman
General Counsel

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Dated: May 26, 2005
Albany, New York

CERTIFICATE OF SERVICE

I, Tammy Mentis, do hereby certify that I will serve on May 26, 2005 the foregoing Notice of Intervention and Comments of the Public Service Commission of the State of New York by e-mailing a copy to each of the parties of record, indicated on the official service list compiled by the Secretary in this proceeding.

Date: May 26, 2005
Albany, New York

Tammy Mentis