



Independent Power Producers of New York, Inc.

Gavin J. Donohue
President & CEO

From: Glenn D. Haake

Date: October 11, 2006

Re: ICAPWG Meeting

Attachment M Changes

This attachment that deals with ELRs and CLRs was brought to the last BIC meeting for discussion but was referred back to the ICAPWG for review prior to voting at BIC. The only change from the presentation at BIC relates to the definition of ambient condition dependent unit, which has been changed to include changes in cooling water conditions in addition to air temperature.

Howard proposed that Att M also should clarify the ability of generators to bid into the DAM consistent with the temperature curve that this Att addresses. Currently, you cannot use the curve to bid variable output. Howard's point is that he wants to be able to bid higher output in winter under cold conditions that he currently is allowed to do.

John acknowledged that bidding above the winter DMNC is a problem, but it is going to take some time to address the problem. He does not want to hold up Att M while this issue is corrected. There is IT work required.

Howard asked for a commitment that this would be done in time for this winter. John said that the expected schedule is to have this in place within a couple of months.

John agreed to put in the motion that the ISO will address this by a date certain. It may be able to be done manually at the outset prior to software changes.

Jim D raised the argument that until the correction is made, the ISO effectively is operating in violation of the tariff.

It appears that the ISO simply set PSEG's maximum (PMPC) too low. Originally, when the PMPC protocol was implemented at the ISO, it was done based on expected performance. John explained that over time the ISO moved to a process to set the PMC based on actual performance.

Attachment J

This Att was brought to the WG in April. It has a number of new details in it. The ISO is attempting to get the formulae cleaned up so that they are more easily understandable. John acknowledged that folks have not had time to review these yet. He brought them here as an introduction and will have a full discussion at the next meeting, aiming toward a BIC approval in January.

Howard noted that the ISO is growing more and more reliant on SCR capacity. He is concerned that we are tying the hands of the ISO in ways that may jeopardize reliability due to minimum notice requirements. We need to start the discussion now in advance of next summer about deleting the minimum 24 hour notice before being able to call these resources. John suggested that Howard bring forward a proposal.

Mark raised the fact that this summer we used the SCR program for new and different reasons, such as voltage support, etc. He argued we need to address the reasons for which they can be called as well.

John asked for comments over the next couple of weeks.

Demand Curve Update

There are 3 bidders: Levitan, ICF and Sargent & Lundy. The schedule has a couple of changes. ISO slipped the bids by two weeks and the decision one week. Their selection will be done by November 6.

A pre-bid conference was held recently, but there were really no issues raised by the bidders.

Painter said last time the Levitan study was kind of thin on the slope issue. It obviously will be a big issue this time around. Will the ISO focus on the assumptions bearing on slope issues? John said yes.

Section 6.1.2 of the Manual

Nothing to Report

Review of ICAP Export Rules to ISONE

The ISO issued answers last week to the questions that IPPNY and others had raised. Their answers included an erroneous requirement that ICAP units committed in NE had to be bid into the NYISO DAM. He indicated that this would be clarified that dispatchable resources committed in NE only need to be bid in the NYISO HAM, not the NYISO DAM; only firm transactions into NE must be bid in the NYISO DAM.

In City Mitigation Update

Scott Maves said their analysis is ongoing. Next week they are meeting with PJM. They are still some weeks away from having conclusions on the issue of the issues. Doreen asked if the ISO intends to have analysis ready for the November Board meeting at which any appeals will likely be addressed. Scott said they haven't committed to be done by the November meeting.

The ISO is doing a full evaluation of the capacity markets. They also are doing an evaluation of the in-City mitigation proposal.

Jim asked the ISO and ICAPWG to develop a fast tracked schedule to deal with monopsony power, elimination of the ban on bilaterals and reviewing the need for a price cap for DGOs. In addition, he wants slope to be discussed as a way to deal with the market power that exists on the demand side, if there is not another way to address it. On a longer term he wants a process to implement a long term forward market that incorporates a demand curve or other mechanisms to ensure revenue adequacy.

He suggests this can be done in 3 or 4 months. He indicated we may need to meet once a week if necessary. Scott said a lot of the analysis it is doing will feed into Jim's issues. Lawrence said

they need to see the results of the MMUs analysis. We can put it on the agenda for a few meetings down the road.

David said they are meeting with ISONE next week to discuss long term forward markets with them.

Dave said that another issue that will be coming to this group is deliverability.

Doreen asked where Patton is in the process of evaluating these proposals.

Tim volunteered on behalf of NRG to provide a presentation on capacity markets and long term requirements in other control areas.

Jim explained that the winter strip auctions, which are voluntary, cleared at over \$5-kw-month, for 3000 mw which is higher than load alleges should have cleared in the summer market. This shows the market

New Business

Mike Cadwalader's List

Impact of Combined Cycle Derates on the IRM

Mike wants this address asap so we can evaluate whether the assumed deratings are reasonable and what impact they are having on the IRM. Mike referred to whitepapers issued by the ISO in August 04 and another in August 05. He would like a similar whitepaper for this year.

Development of Forward ICAP Markets

Mike reiterated a request that we get PJM and NE to come here and give a presentation on how and why they designed their forward markets as they did.

Summer-Winter Differential

Should it be done based on equilibrium conditions or on the basis of what we expect over the next 3 years. I brought this up in July. We were expecting to have the ISO bring its assumptions on this in the November ICAPWG meeting.

Younger stated that we need to have Patton involved in the SW differential because he has very strong views on the matter.

Unsold ROS Capacity

Mike noted that in his August presentation, he identified that in addition to unsold NYC capacity, there was a significant amount of ROS capacity unsold and it could have had a large impact on clearing prices. He requested that we develop metrics to determine whether this failure to clear constitutes impermissible withholding or not.

Scott said the ISO is presently looking at both NYC and ROS and will likely have some conclusions in about 4 weeks time.

Tim Bush's Issue

The ISO apparently has made a change in the way costs for ICAP are allocated when customers switch LSEs. He asked why the change wasn't discussed here. Second, it apparently affects muni costs but by tariff the munis are not supposed to be affected by customer switching.

John said the changes were not a result of customer switching. It has to do with the allocation among LSEs of the ICAP requirement. Munis are LSEs and must be allocated on the same basis. He will have someone come to the meeting with a spreadsheet showing the result.

Import Rights Allocation

Paul Norris asked what happens with the import rights, since they haven't been fully subscribed. John gave an overview of the process. If the rights aren't fully subscribed, the parties holding the rights can return them at any time up to certification. After certification, there is no process for them to be returned, acquire more, or for new entities to get them.

Paul asked if there are unused rights and HQ bids more than what it had received and certified in advance of the monthly auction, would those rights still be available in the spot auction? If they offered more than they received, the ISO could not answer what would happen.

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The foregoing notes were prepared by Glenn Haake of IPPNY. No representation is made as to the accuracy or completeness of these rough notes.