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February 26, 2003

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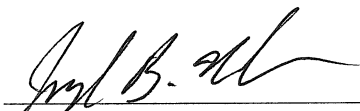
Garry Brown  
Chairperson, NYISO Management Committee

Dear Messrs. Museler, Fernandez, and Brown:

Pursuant to Section 7.13 (a) and (b) of the New York Independent System Operating Agreement, the Long Island Lighting Company d/b/a/ LIPA hereby appeals the NYISO Business Issues Committee's decision at its meeting of February 11, 2003 to reject Motion #3, addressing the Reopening of the 10-Minute Non-Synchronous ("10-MNSR") Portion of the NYISO's Reserve Markets. The appeal of this matter is attached.

If you have any questions, please feel free to contact me at (202) 298-1894

Respectfully,

  
\_\_\_\_\_  
Joseph B. Nelson  
Counsel for LIPA

cc: James Parmelee  
Roni Epstein  
Kevin Jones

## **Notice of Appeal**

**Appellants:** Long Island Lighting Company d/b/a LIPA

**Action Appealed:** Action on Motion #3: On February 11, 2003, the Business Issues Committee rejected a motion to revise the market monitoring procedures for the 10 minute nonsynchronous reserves market consistent with the recommendations of the Independent Market Advisor and NYSIO Staff.

### **I. Grounds for Appeal:**

The Long Island Lighting Company d/b/a LIPA (“LIPA”) files this notice of appeal of the Business Issues Committee (“BIC”) decision at its meeting of February 11, 2003 to reject Motion #3 which proposed the establishment of new market monitoring procedures for the 10-Minute Non-Synchronous (“10-Minute NSR”) portion of the NYISO’s operating reserves market in lieu of the existing bid cap. Both the Independent Market Advisor and the NYISO have determined that, given the enhancements to the reserves markets and the implementation of market monitoring provisions for the 10-Minute NSR market, the replacement of the existing \$2.52 per MW offer cap is appropriate. Motion #3 proposed the removal of the \$2.52 per MW offer cap and replacement with market monitoring procedures based on reference levels using the lower of \$2.52 or accepted bids. This proposal is consistent with the recommendations made by the recommendations of the Independent Market Advisor and is supported by the NYISO market monitoring staff.

## **II. The BIC Ignored the Reasoned Findings of the Independent Market Advisor and the NYISO staff**

David B. Patton, Ph.D., the Independent Market Advisor for the NYISO, has concluded that significant market enhancements have occurred which support the replacement of the existing \$2.52 bid cap with a reference level system. In particular, in presentations before the NYISO Board of Directors as well as a the Scheduling and Pricing Working Group, Dr. Patton noted significant market enhancements including:

- Lost Opportunity Cost payments to 10-Minute NSR suppliers have created an appropriate incentive for increased reserve market participation;
- Full Gilboa flexibility has been implemented and provides additional potential 10-Minute NSR supplies;
- An update in Locational Requirements has resulted in a reduction in 10-Minute locational reserve requirements;
- Locational clearing prices are now paid to suppliers;
- Regional reserve sharing between the NYISO and ISO-NE has been implemented and reduced 10-Minute NSR requirements in eastern New York.

In light of the fact that these market enhancements have significantly increased the excess capability in the market, Dr. Patton recommended the following changes to the 10-Minute NSR market:

- A mandatory offer requirement for ICAP units;
  - Removal of the \$2.52 bid cap;
  - Institution of reference price levels based on the lower of \$2.52 or accepted bids;
- and

- Assessment of the competitive performance of the market after the cap has been lifted.

Following the recommendations of the Independent Market Advisor, the NYISO's internal market monitoring staff has reviewed this recommendation and concurred.

On February 11, 2003, the NYISO market monitoring staff proposed the adoption of a new market monitoring process for the 10-Minute NSR market. *See attached, "Reopening the 10-Minute Non-Synchronous Portion of the NYISO's Reserve Markets"* Jim Savitt, NYISO Market Monitoring Unit, February 11, 2003. This program will involve (in summary):

- Adoption of the Independent Market Advisor's recommendations for: (1) mandatory offer requirements for ICAP units; (2) replacement of the \$2.52 bid cap with a reference level system based on the lesser of \$2.52 or accepted bids (resulting in an effective cap of \$10.08) and (4) assessment of competitive performance of the market;
- Continual screening of 10-Minute NSR in the Day-Ahead Market and BME;
- Units failing the conduct test and having impact are placed on the watch list;
- If the unit's bids continue to fail the conduct test they would be reset to default levels in the Day-Ahead Market and BME;
- Ongoing review of behavior of both ICAP and non-ICAP units.

In addition the proposal provides that the NYISO Market Monitoring and Performance Unit and the Independent Market Advisor will evaluate and report on market conditions. If the Market Monitor and the Market Advisor conclude that market is not workably competitive, the NYISO will propose mitigation measures via a Federal Power Act,

Section 205 filing. If necessary, the NYISO will make an Exigent Circumstance filing to immediately impose a cap or other measures to protect market participants.

The proposal presented to BIC and on appeal in this action is a replacement of the existing bid cap with a more appropriate market monitoring system—not a wholesale removal of any controls on the 10 Minute NSR market. Under this proposal, there will be the establishment of reference prices at a level of the lower of \$2.52 or accepted bids. With these reference prices in place, suppliers will have their bids effectively capped at 4 times that level or a maximum of \$10.08. Aggressive market monitoring will continue and the NYISO can, through an Exigent Circumstances filing re-impose a lower cap by the next day should problems arise.

### **III. Opponents to Reopening of the 10-Minute NSR Portion of the NYISO's Reserve Markets Identified No Analytical or Market Design Impediments to the Reopening of the Market**

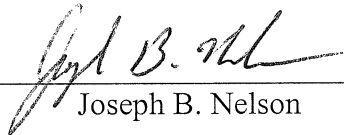
The reports of Dr. Patton and presentations by NYISO Market Monitoring Staff firmly establish that significant enhancements to the 10 Minute NSR market are now in place. Further, in response to requests by market participants, the NYISO presentation also provides analyses demonstrating that average clearing prices were well below the existing bid cap. While certain market participants argue for delaying the Independent Market Advisor and the NYISO's recommendation, they offer no substantive reasons for further delay. In the discussions at the Scheduling and Pricing Working Group and before BIC, no proposals were made by opponents for additional structural changes to the 10 Minute NSR market. Further, market participants proposing to delay Dr. Patton's recommendations offered no concrete examples of situations where the NYISO would

not have the ability to act if the reserves market demonstrated evidence that it was not workably competitive.

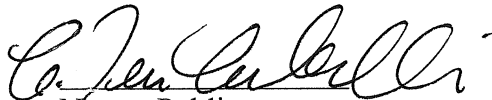
The 10 Minute NSR Market has four (4) times the supply capability necessary to serve this segment of the operating reserve market. Further, the NYISO Market Monitoring Unit's proposal will continue a significant market monitoring program that includes a mitigation program that will implement an effective cap of approximately \$10.08. The proposed market monitoring program simply allows for a return to a system that is more consistent with the NYISO markets structure (subject to an effective \$10.08 cap) while maintaining a strong market monitoring and mitigation program that protects against market manipulation. The existing bid cap was put into place almost three years ago as a temporary measure to allow the NYISO time to determine the necessary market conditions that are required to ensure workable competition. Those efforts have been undertaken and, as recognized by Dr. Patton, have resulted in significant market enhancements. The approval of the NYISO Market Monitoring Unit's proposal is an important and necessary step to maintaining the NYISO's commitment to open markets. Further, this will give current and prospective market participants the confidence of receiving a market price to maintain or increase supplies of quick start reserves to the market. Accordingly, the BIC's rejection of Motion #3 should be overturned and the NYISO Market Monitoring Unit should be directed to institute its proposed market monitoring program for 10 Minute NSR.

**IV. Recommendation**

LIPA respectfully requests that the Management Committee reverse the decision of the BIC and approve the institution of new market monitoring procedures for the 10-Minute Non-Synchronous Reserve Market as proposed by the Independent Market Advisor and the NYISO staff.

  
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Joseph B. Nelson

Sworn to before me this  
Day of February 26, 2003

  
\_\_\_\_\_  
Notary Public

**C. Teresa Cribelli**  
**Notary Public, District of Columbia**  
**My Commission Expires 12-14-2006**



## Reopening the 10-Minute Non-Synchronous Portion of the NYISO's Reserve Markets

Presented by  
Jim Savitt  
to the BIC  
11 February 2003

## FERC Comments and Requirements

- ↘ On 8 November 2000 FERC extended the bid cap on 10-NSR until the NYISO demonstrates that the market is competitive in all situations.
- ↘ FERC agreed with the NYISO in its 20 March 2002 Comprehensive Filing that the review process described therein was appropriate for reexamining the 10-NSR market.



## NYISO Reserve Markets

- ↘ Committee Process.
  - The S&P Working Group has considered the proposal three times since February 2002.
- ↘ Recommendations.
  - Market Advisor
  - NYISO
- ↘ Market Developments and Enhancements.
- ↘ Future NYISO Actions.



## Recommendation

- ↘ Market Advisor
  - Mandatory offer requirement for ICAP units.
  - Remove the \$2.52 bid cap.
  - Reference levels are based on the lower of \$2.52 or accepted bids.
  - Assess the competitive performance of the market after the cap has been lifted.



## The NYISO Position

- ↘ The NYISO agrees with the recommendations of the Market Advisor.
- ↘ The NYISO Market Monitoring Process.
  - Continual screening of 10-NSR in DAM and BME.
  - Units failing conduct and having impact are placed on a watch list.
  - If the unit's bids continue to fail conduct, they are reset to default levels either in the DAM or the BME.
  - Review behavior of both ICAP and non-ICAP units.

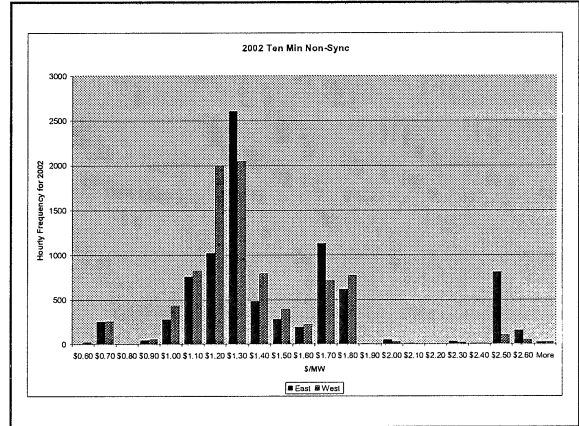
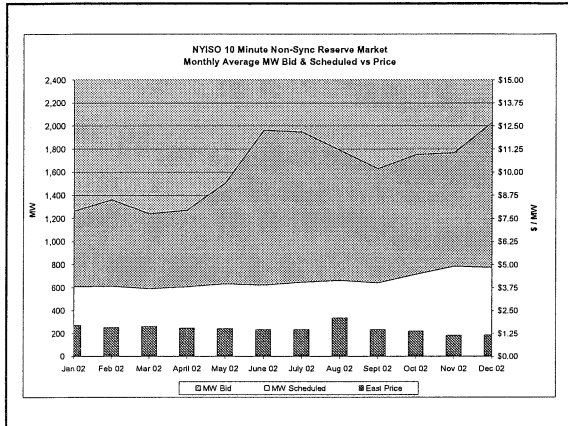


## Completed Reserve Market Enhancements

- ↘ Technical Conference Convened.
- ↘ Lost Opportunity Cost Payments to 10-minute NSR Supplies – Incentive for increased reserve market participation.
- ↘ Full Gilboa Flexibility implemented – provided additional potential 10-MNSR supply.
- ↘ Update of Locational Requirements. – *reduction in locational reserve requirements.*
- ↘ Locational Clearing Price Payments to Suppliers.
- ↘ Regional Reserve Sharing (NYISO/ISO-NE) implemented on 15 June 2001 – reduced 10-Min. reserve requirements in the east.







### Future NYISO Actions

- MMP and IT to coordinate removing the cap in the MIS; minimal resources required.
- MMP to develop enhanced 10-NSR screens that will facilitate monitoring and quick actions.
  - Monitor for quick run-up in 10-NSR prices immediately after the cap is removed and on an on-going basis.
- MMP to review procedures for placing units on the watch-list.
- Legal determines the necessary changes to the tariff, including the Mitigation Measures.



### Assessment of Market Performance

- After market reopens, the NYISO Market Monitoring and Performance Unit and the Market Advisor will evaluate and report on market conditions.
- If the Market Monitor and the Market Advisor conclude that market outcomes are not workably competitive, the NYISO will propose mitigation measures via a 205 filing.
- If necessary, the NYISO will make an "Exigent Circumstances" filing to impose a cap or other measures.

