

March 5, 2003

**TO:** Committee Members  
**FROM:** Bill Museler  
**SUBJECT:** The NYISO – 2003 and Beyond

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As I reported at the last Management Committee meeting, I was only able to have a brief discussion with the Board at the February meeting due to the heavy agenda including the extensive discussion that preceded the authorization to sign the contract with ABB to proceed with development of RTS. The Board is committed to the process and there will be more detailed discussions when we meet in March.

Before the next plenary session with you, the Market Participants, I want to review what we have done so far and what we have heard you say. I hope that this will help us focus our discussion on March 24 and prepare for the joint meeting with the Board on April 14.

From both the five Market Participant sector meetings during January and the plenary session in February, we believe that the following list encompasses the general areas that emerged as those you want to address:

- Situation Analysis,
- Overall Market Direction,
- Governance,
- NYISO Business Plan, and
- Implementation Plan.

What follows here is an attempt to summarize what we heard at the plenary session starting with the overall impression that there is no rationale for a hasty filing for a change in status but rather that we should take the time to plan well, especially since a FERC order on SMD is not imminent.

I think that all of you, like FERC and the NYISO Board, expect us to work aggressively to resolve seams issues with all adjoining control areas and that you agree that the following are key issues:

- Eliminating rate pancaking in the Northeast,
- Working with the TO's, PSC, and FERC to resolve revenue requirement issues regarding pancaking, and
- Coordinating with adjoining control areas to avoid creating additional seams as new technologies are implemented

In addition, there was substantial support, and opposition from some MPs, for the NYISO's proposal for coordination of dispatch across ISO borders.

We believe we heard most you say that mid-2003 to mid-2006 timeframe:

- NY will and should remain a single-state ISO (or RTO) and concentrate on market efficiency
- No urgency to make any FERC filings prior to issuance of the final SMD Order
- Near-term market improvements (Summer 2003 projects and SMD compliant projects – e.g., RTS) take NY in the right direction and should be pursued
- Developing a 5-year Strategic Plan for the NYISO makes sense

On the other hand, it is clear that there are at least two clearly defined positions on governance:

- The current process works well, continue shared governance with an independent, self-perpetuating Board; and
- The current process fails on “pocketbook issues”; MPs should be advisory only on all matters.

There was also some interest in discussing lesser modifications to various aspects of the current governance process, including mechanisms for increased stakeholder participation in the NYISO’s budget, audit and project priority processes.

Related to governance, some sectors want to explore possible changes in the relationship between the NYSRC and the NYISO, and others have suggested changes in the reporting structure of the MMU.

In the planning arena, we see general agreement that the planning proposal contained in the NERTO filing could be used as starting point for the NYISO but also that there are major areas of disagreement about:

- What type of data the ISO should acquire, analyze and publish;
- The appropriateness of the NYISO doing any analysis of economic needs;
- The degree to which congestion and associated costs should be addressed;
- The appropriate cost allocation method for new construction; and
- Whether the ISO should be able to direct the TOs to build transmission.

Most sectors see benefits in expanding the coordination of interregional planning with ISO-NE and the surrounding control areas of NPCC, and many believe that PJM must also be included in this effort.

We are looking forward to the meeting on March 24 as an opportunity to discuss these points further and use the Joint Meeting in April to maximum advantage.