
DRAFT

NYISO Management Committee Meeting Minutes

April 21, 2010

10:15 a.m. to 3:00 p.m.

1. Introductions, Meeting Objectives, and Chairman's Report

The Chair of the Management Committee (MC), Mr. Glen McCartney (Constellation), called the meeting to order at 10:15 a.m. and welcomed the members of the MC. The members of the MC then identified themselves and attendance was recorded. A quorum was reached.

2. President's Report (see presentation under April 21, 1010 MC Meeting Material)

Mr. Stephen Whitley (NYISO) provided an update on the President's Report; March was a month of lower LBMPs compared to February and average cost was down significantly, LBMPs were down to around \$40 from \$52 in February. The average daily send out per day was down from 444 gigawatt hours per day in February to 410 gigawatt hours per day due to milder weather and lower natural gas prices.

Mr. Rick Gonzales reported that there were 25 NYISO initiated TLR events that covered 277 hours during the month of March. He reported that the NYISO had taken actions should result in a reduced impact of Lake Erie loop flows by reducing the Lake Erie loop flow threshold and by using RTC in addition to RTD for forecasting transmission constraints when initiating TLRs. Mr. Gonzales also reported that, on April 12, Ontario Power Generation had publically reported the maintenance shutdown of 3200MW of nuclear generation at Pickering station through the first half of June 2010 and this shutdown would likely affect Lake Erie loop flows. Mr. Gonzales additionally reported that IESO had received approval from the Ontario National Energy Board that was needed to complete work for the last phase angle regulator controlled interconnection between IESO and MISO. It is NYISO's understanding that, following the completion of this work, the IESO – MISO interconnections would be physically capable of operation although the transfer of operational control to IESO and MISO was not expected to be in place at that time.

Mr. Whitley reported the DOE Stimulus project is going well and contract between the DOE, NYISO and Asset Owners is expected to be signed in the near future.

Mr. Whitley also provided a status on the EIPC; he explained things are moving along, albeit a little slower than preferred. Meetings will take place over the next couple of days to work out the compilation of the Steering Committee. Mr. Howard Fromer (PSEG) asked who makes the final decision of a consensus is not reached. Mr. Whitley replied the EIPC Executive Committee.

Mr. Rich Dewey provided an update on the NYISO Infrastructure Master Plan Project; the project team has been successful so far in all the steps necessary to get the municipal approvals in the three towns that are involved in the project. The State Environmental Quality Review has been successfully completed in both Guilderland and in East Greenbush, finalizing the set of deliverables necessary for the NYS Public Service Commission to act on the NYISO financing petition to support the project. The NYISO is awaiting publication of the May 13 PSC meeting agenda to determine the schedule for a decision. Additionally, all but one of the necessary steps required for local site plan approvals have been completed. The final site plan approval is anticipated to be received in early May, enabling the planning phase of the project to remain on schedule.

Mr. Steve Whitley made the following statement regarding the NYISO Update:

I am pleased to announce a series of important organizational changes to the structure of our Board of Directors and the NYISO leadership team.

As you may recall, when I joined the NYISO as President and CEO in July 2008, the duties of the Board Chair were expanded to focus on strategic and public policy matters. In her role as Working Chair, Karen Antion, was instrumental in leading the NYISO to outstanding success as we capped a decade of accomplishments, with one of our best years ever in 2009.

Karen was instrumental in expediting our policy of pre-emptive spending reductions in the face of the recession, a plan that reduced spending by \$12 million last year.

With her extensive expertise in Information Technology, Karen initiated our successful Virtualization initiative, which has saved \$18.7M through the end of last year and is expected to produce savings over \$20M when completed.

Her leadership not only enabled us to fulfill our mission, she prompted us to expand our horizons with new initiatives. Karen's work with federal authorities helped us to win the \$38M in Federal stimulus funding for Smart Grid that will install Phasor Measurement Units and shunt capacitors across New York State.

At a one-on-one level -- with Board members from across the ISOs and RTOs serving the U.S. and Canada, Karen built widespread support for our vital Broader Regional Markets initiative. (*Which you will hear more about later today from Dr. Patton.*)

Because of these accomplishments, and at the same time, the development and outstanding performance of the NYISO management team, the Board has made a decision that it is now time to return to a more traditional structure and policy focus.

The Working Chair position, which was intended as transitional, will be eliminated. Likewise, the "Lead Director" position will also be eliminated as the Board returns to a traditional Board structure. I want to thank Dr. Schuler for serving with distinction in that role. We appreciate his hard work and dedication to the task.

I am pleased to announce that Karen Antion was re-elected by the Board in yesterday's Annual Meeting to continue her role as Chair for an additional year.

I am also pleased to announce that Bob Hiney has been elected by the Board to serve as Vice Chair. Bob will also continue to serve as Chair of the Board's Reliability and Markets Committee. As you know, Bob and Karen did great work serving as interim President and CEO in the months prior to my joining the NYISO. I have always appreciated the role they played in easing my transition to the job and their continued active guidance.

To continue to build on the success the NYISO has achieved in its first decade and to enhance the value we provide to the electricity consumers and suppliers of New York, we are making some key management changes.

A keystone to our new structure will be the appointment of a Chief Operating Officer, and I am particularly pleased to announce that Rick Gonzales will serve as the NYISO's Sr. Vice President & COO.

Rick has been with the NYISO since our inception. As you know, he has extensive, direct experience with the grid operations of the NYISO and its predecessor, the New York Power Pool. He knows the power system, our priorities, our processes, and our people. I greatly trust his judgment and value his advice. I know he'll be a great second-in-command.

In his new job, Rick will be responsible for the parts of our organization that handle Operations, System Planning, and Information Technology.

We are also promoting two others to key leadership positions at the NYISO – Rich Dewey and Rana Mukerji.

Rich Dewey is being promoted to Senior Vice President and Chief Information Officer with responsibilities for Information Technology, Facilities Management, and implementation of the \$75 million DOE Smart Grid project. He will be immediately given a rotational assignment to lead the System Operations organization for 18 months, reporting to Rick Gonzales. While gaining direct operations experience, Rich Dewey will retain his responsibilities for Facilities Management, which includes development of the new NYISO Control Center, and the DOE Stimulus project during this period. Rick Gonzales will supervise the IT organization during this period.

Rana Mukerji will be promoted to Senior Vice President of Market Structures with the additional responsibility of implementation of the Broader Regional Markets initiative. You will hear more about the value of this initiative from Dr. Patton of Potomac Economics later today. As you know, we will be implementing this initiative in conjunction with PJM, MISO, ISO-NE, and the IESO. Rana's role in this very complex effort will be critical. I look forward to continuing to benefit from his vision and expertise.

As you will also hear from Potomac Economics today, this initiative will reduce wholesale power cost to NY consumers by up to \$200 million/year when implemented by the NYISO in conjunction with PJM, MISO, ISO-NE, and the IESO. Rana's role in this very complex effort will be critical. I look forward to continuing to benefit from his vision and expertise.

As you know, we conducted a series of sector meetings in March that are part of our ongoing effort to share ideas and receive your input regarding the NYISO's priorities and operations. In 2009, a number of ideas were brought to the NYISO with the goal of improving the transparency of our operations. As Tom Rumsey recently reported to you, we have already incorporated a number of changes, including:

- Posting Board of Director meeting minutes to our website.
- Implementing a comprehensive website redesign to ease navigation and provide a more user-friendly look. The homepage of the website now displays the current price of wholesale electricity by zone.

- Reducing the time for public release of offer and bid data from six months to three months.
- Providing quarterly reports, available on the NYISO website, from the NYISO's market monitor, Potomac Economics.
- Increasing our outreach efforts with state elected officials and agencies.

We are committed to a mindset of continuous improvement. The changes we're announcing today illustrate that commitment. We know that excellence is a moving target and must be earned over a long period of time. We are dedicated to keeping our sights on that target.

I thank you for your attention this morning and your continued active involvement in our effort to sustain and enhance the NYISO and its value to New York.

As many of you are aware, we enlisted Dr. Susan Tierney of The Analysis Group to assess the NYISO's past ten years of operation and make recommendations for further changes. I'm now pleased to introduce Dr. Tierney who will review her findings and take questions. I will follow her with the NYISO response to the report.

3. Preliminary Results of Analysis of the Broader Regional Markets Initiatives (see presentation under April 2010 MC Meeting Material)

Mr. David Patton (Potomac Economics) reviewed his report on the Preliminary Results of Analysis of the Broader Regional Markets Initiatives. He explained there are two sets of analyses that were done to evaluate the Broader Regional Market Initiatives. One focused on the loop flow around Lake Erie and the measures that are proposed to coordinate those flows and price them correctly. The second broad area that was analyzed were the benefits of improving the utilization of the interfaces between New York and its neighbors. The one exception in terms of benefits that we're going to be reporting is the interface with HQ.

The vast majority of the savings shown here are production cost savings, these are in my view and most economists view, the best and most accurate measure of economic efficiency. Generally, the consumer savings would be larger than the production cost savings because the price effects of the improved coordination would be felt by all of the loads and not just be related to the incremental benefits.

Mr. Kevin Jones (LIPA) requested the report be footnoted to state that none of this analysis includes the significant ties between Long Island and New England and Long Island and PJM. Mr. Steve Whitley replied that the NYISO will work with Potomac Economics to develop a model to capture those benefits going forward.

4. The New York Independent System Operator: A Ten-Year Review

Dr. Tierney conducted an independent analysis of market data and statistics, which was supplemented by extensive interviews with stakeholders and other interested observers. The report evaluates the performance of the markets in New York in light of the understandings and expectations that gave rise to the restructuring of the state's electric industry. It also assesses the performance of the NYISO as an organization in executing its core responsibilities and identifies areas of strength and opportunities for

improvement. With regard to our role in “keeping the lights on,” the report states, “NYISO has performed its reliability functions exceptionally well.” In its evaluation of markets, the report says, “NYISO (and more generally, New York’s competitive wholesale market) has performed extremely well on many if not most of the outcomes to which the state’s restructuring of its electric industry aspired. In many respects, NYISO stands as a model of a well-functioning electric market that relies extensively on competitive markets to provide benefits to the state’s electricity consumers,” the report states. A copy of the report is available on the NYISO website, as is a copy of the NYISO’s Management Response. The report addresses four major areas; including electricity prices, performance of competitive markets, end-use consumer concerns, and the NYISO as an organization.

The report notes that the reduction of electricity prices was among the goals of the government policies that authorized restructuring of New York’s electricity industry. Prior to restructuring, New York’s electricity rates were high compared to other states and those rates have remained relatively high. The report explains that the cost of fuels used to generate power, along with the high cost of doing business in New York, have offset the gains from power production efficiencies and other savings in wholesale electricity costs. The report also makes the point that New Yorkers might pay higher electricity rates than consumers in other states, but New Yorkers spend less of their personal income on their power bills than the average American.

The report points out that nearly all observers agree that the NYISO has the “best market design in the country.” In fact, the report quotes a report from the staff of the New York State Public Service Commission, which said, “New York’s wholesale markets are among the most advanced in the nation and that wholesale competition has led to significant efficiencies.” In addition to the anecdotal evidence, the report references a number of important metrics that demonstrate the positive impact of the NYISO’s market design. These include the improved efficiency of New York’s fossil-fueled power generating fleet, the overall reduction in maintenance outages, and the improved performance of nuclear units. Furthermore, the markets have provided the incentive for a significant private investment in needed capacity, a majority of which has been sited near the state’s load centers. The market has also made room for electricity consumers to play a more significant role with the advent of demand response programs. Yet, the report points out that there is room for improvement. One of the most important areas of improvement is in regard to the inefficiencies between the NYISO and our neighboring control areas. In addition, the NYISO’s response to market problems has been slower than many market participants would have liked.

5. NYISO Response

Steve Whitley provided the NYISO response (see presentation posted under April 2010 MC). He highlighted the following initiatives, developed in response to suggestions made in the Analysis Group’s Report.

Electricity Prices in New York State

NYISO Actions

- NYISO remains focused on reliability & market efficiency...driving for minimum cost while protecting reliability
- Significant focus on process improvements
- Expanded planning from reliability to include economic (CARIS)

End-Use Consumer Concerns

NYISO Actions

- Increased outreach to all stakeholders and influencers
- Exploring creation of a funding mechanism for consumer advocacy groups to more effectively engage in governance process
- Internal organizational changes to foster more focus on consumer interests; establish a consumer liaison position

NYISO as an Organization

NYISO Actions

- Continued financial and operational rigor
- Several initiatives to increase transparency (posting board meeting notes, updated website, bid data released in 90 days)
- Re-examining issues the fairness of current cost allocation (RS1)

Performance of the Competitive Markets

NYISO Actions

- Initiated & Leading Broader Regional Markets efforts
- Structural changes have been implemented
- Operations Performance & Analysis Group created
- MMU restructured
- New protocols for issue reporting
- Enhanced mitigation efforts and processes

Key Focus Moving Forward

- Continuous improvement in every aspect of the organization...lean Six Sigma
- Increased focus on transparency and consumer interests
- Improving reliability & reducing seams

Mr. Liam Baker (US PowerGen) stated the role of a Consumer Liaison position would have to be clearly identified to work with smaller organizations such as the Consumer Protection Board, but larger organizations such as Transmission Owners should not utilize the position.

6. Late Day Starts

Mr. John Hickey (NYISO) reviewed Late Day Start Shortfall Ratio Adjustment. If a generator modifies their DAM bid minimum generation MW value, the historical trended shortfall ratio (SR) value could over or under value the costs that could be incurred by the Generator on the day following the Dispatch Day. This could result in a Late-Day Startup reference that is either overestimated or underestimated; potentially resulting in improper mitigation or missed mitigation.

Benefits of Adjusting Shortfall Ratio include: Provides inclusion of Minimum Generation MW changes in the SR value, reduces potential for inappropriate mitigation/missed mitigation, minimize the processing that must occur after the market close.

Mr. Hickey stated that goal of the Late Day Start enhancement is to provide the inputs necessary to the day-ahead commitment so that the most economic day-ahead solution may be obtained. A future phase that is still under discussion with the market participants deals with one specific issue pertaining to modifications to the reference calculation if a generator modifies their MinGen megawatt level. The shortfall ration and Attachment H tariff revisions were presented.

7. New Business

There was no new business.

The meeting was adjourned at 3:00 PM.