

Update on New External Proxy Activity

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Management Committee
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- ◆ There are 2 new external proxy busses that require Tariff language changes to implement.
 - *Neptune (PJM – NYISO Zone K)*
 - *Cedars (HQT – NYISO Zone D)*

Neptune

- ◆ Neptune is an HVDC tie between New Jersey and Long Island.
- ◆ Will initially support only import (to NYCA) transactions (PJM Tariff limitations).
- ◆ LIPA has purchased the full import capacity of the Neptune Line.
 - Unused import capability will be subject to release requirements for qualified third party use consistent with FERC orders
- ◆ Neptune is scheduled to commence live testing (within market constructs) in April 2007 and is expected to become commercial in July 2007.

Neptune—Supporting Tariff Changes

- ◆ Supporting Tariff Changes for Neptune
 - The NYISO must identify the Neptune Line as a Scheduled Line in Section 2.161a of the Services Tariff and Section 1.39d.02 of the OATT and add a defined term “Neptune Scheduled Line” to the Services Tariff and the OATT.
 - Because Neptune will operate based on physical transmission reservations (like CSC), the following tariff revisions will also be necessary:
 - Attachment N to the Services Tariff will need to be modified to address Neptune or a similar, new Attachment will have to be created
 - The reference to Attachment N on Sheet No. 111 of the OATT will require a corresponding revision
 - The DAM and Real-time Market will close 10 minutes prior to normal market close times (like CSC) for Neptune, necessitating changes to the following Tariff sections:
 - Services §§ 2.153a (HAM), 4.2.2(A) (DAM), 4.4.2(B) (HAM), OATT § 1.36d.1 (HAM)

Neptune—Supporting Tariff Changes, Cont.

- ◆ *Necessary tariff revisions, cont.:*
 - *The definition of Advance Reservation will need to be modified (or a similar new term will need to be added) to recognize the long term physical rights related to Neptune.*
 - *Services § 2.1.2., OATT § 1.0b*
 - *Section 13.6 of the OATT, addressing the in-hour curtailment of transmission service, will need to be modified to reflect the NYISO's intent to curtail Neptune transactions based on the transmission priority (firm/non-firm) of the associated Advance Reservation (like CSC).*

Neptune—Special Pricing Rule

- ◆ The NYISO Market Advisor has designated the Neptune Line as being subject to the Special Pricing Rule for Scheduled Lines.
 - See Attachment B to the Services Tariff, Sheet Nos. 335B and 335B.00 and Attachment J to the OATT, Sheet Nos. 475.01 and 475.01a.
 - *When the DA scheduled flow exceeds what is feasible in Real-Time, there will be limited competition to provide relief.*
 - MPs will not initially be able to schedule Real-Time exports to PJM (counterflow).
 - Even after it becomes possible to schedule exports to PJM over Neptune, only entities holding reservations will be eligible to offer to supply the exports. This limits the universe of potential offerors.
 - *Competition from MPs willing to curtail DA imports at Neptune will be limited to transactions scheduled DA.*
 - The owner of firm rights is likely to be pivotal in many cases where DA scheduled imports must be curtailed.

Market Monitoring Data Sharing

- ◆ Establishment of multiple proxy buses representing the interfaces between two Control Areas may present gaming opportunities
- ◆ To address this concern, the NYISO will seek authority to share information with PJM's Market Monitoring Unit regarding transactions at all PJM proxy buses similar to the authority the NYISO was granted to share data with ISO-NE
- ◆ The NYISO already possesses limited authority to share confidential data with the PJM Market Monitoring Unit
 - See *Market Monitoring Plan § 6.5*
- ◆ The NYISO will require that certain protections be in place before the two market monitoring units begin sharing Confidential or Protected Information
 - See *Market Monitoring Plan § 6.5; OATT Att. F § 4.0 Sheet Nos. 373B, 373B.00, 373B.01*

Cedars

- ◆ New Proxy Bus at Dennison based upon a Scheduled Line between Dennison (NYCA) and Les Cedres (HQT) - the “Cedars Interconnection.”
 - *Controlled via generation at Cedars and a Variable Frequency Transformer (VFT) at Langlois.*

- ◆ Implementation planned for late in Q1 2007.

Cedars

- ◆ Supporting Tariff Changes for Cedars
 - *The NYISO must identify the Cedars Interconnection as a Scheduled Line in Section 2.161a of the Services Tariff and Section 1.39d.02 of the OATT.*

Cedars – Special Pricing Rule

- ◆ The NYISO Market Advisor has determined that the Cedars Proxy should be subject to the Special Pricing Rule for Scheduled Lines.
 - See *Attachment B to the Services Tariff, Sheet Nos. 335B and 335B.00 and Attachment J to the OATT, Sheet Nos. 475.01 and 475.01a.*
 - The Cedars Interconnection will be subject to the same competitive conditions that limit the number of MPs capable of relieving RT import constraints at the HQ proxy bus.
 - Historically, market concentration has been much higher at the HQ proxy bus than at other proxy buses.
 - *Competition from MPs willing to schedule RT exports at Cedars will be limited:*
 - On short notice, it may be difficult for MPs to find a buyer in HQ and reserve transmission service on the HQ-side in order to complete a RT export transaction.
 - *Competition from MPs willing to curtail DA imports at Cedars will be limited to transactions scheduled DA.*
 - If a single entity has a high market share, it is likely to be pivotal.
 - *The vast majority of RT exports and DA imports continue to be scheduled by a single entity.*