NYISO Business Issues Committee Meeting Minutes
Oct. 10, 2007
New York Independent System Operator
10 Krey Boulevard
Rensselaer, NY

1. Welcome and Chairman's Report:
Bill Palazzo (NYPA), Chairman of the Business Issues Committee (BIC), called the meeting to order at 10:01 a.m. and welcomed the members of the BIC.

2. Approval of minutes for Sept. 5, 2007
Ray Stalter (NYISO) offered the minutes for approval. No comments were made by MPs.

Motion #1:
Motion to approve the Minutes of the September 5, 2007 Minutes.
*(**Motion passed unanimously by show of hands**)*

3. Market Operations Report
Dr. Nicole Bouchez (NYISO) reviewed the market performance highlights for September 2007. In the report LBMP was $68.22/MWh; average monthly cost was $71.43/MWh; Day-Ahead and Real Time LBMPs were down from August. Fuel prices were mixed; natural gas was down, Kerosene and fuel oil were up.

Discussion

Mark Younger (Slater Consulting) said he requested the NYISO report on price corrections to the MIWG, and the NYISO hasn't reported yet. He also sent in questions asking for specific explanation about what one of the recent short descriptions means. He has not received a response and wanted to know why.

Mr. Stalter said he would take the MIWG report on price corrections as an action item.

4. Regional Market Enhancements
Chris Brown (NYISO) reviewed the Northeast Seams Report for the BIC, which was included in the meeting materials folder.
The presentation dealt with the following projects:

- Intra-Hour Transaction Schedule
- Cross-Border Controllable Line Scheduling
- Coordination of Interregional Planning
- Interregional Congestion Management
- Limitations Due to Loss of Large Source

Discussion

Stuart Nachmias (ConEd) asked when and where the IPSAC meeting was scheduled.

Mr. Brown said the ISOs are attempting to set the meeting for sometime during the 4th quarter.

In regard to Interregional Congestion Management, Mr. Palazzo asked if the NYISO and PJM are scheduled to meet again.

Mr. Brown said PJM and the NYISO have been meeting on the issue. Discussion on the issue has been on a conceptual level. He said the NYISO and PJM are working on scheduling a meeting, but he did not know if a meeting has been scheduled. Internally, both organizations are evaluating feedback.

Mr. Nachmias asked for clarification about the last bullet under Limitations Due to Loss of Large Source: "Next steps that consider a representative set of transmission improvements or alternative actions that might relieve the severity of the loss of source contingencies are underway and will be discussed with stakeholders by 4th Quarter 2007."

Mr. Brown said the wording was taken from the 3rd quarter Seams report. He was not sure which ISO put the wording in the report.

Rich Dewey (NYISO) said the question would be taken as an action item.**5. Working Group Updates**

A. Billing and Accounting (BAWG)
Mr. Dave Hall (NYSEG/RGE) submitted a summary of the BAWG's activities in writing and highlighted it for the BIC. He reviewed the Aug. 16 and Sept. 19 meetings for the BIC.

Highlights of the Aug. 16 meeting included discussion on the new billing calculation engine (SSR), the Customer Relations notification process and Thunderstorm Alerts.

Highlights of the Sept. 19 meeting were Thunderstorm Alerts, the Billing and Accounting manual, Finance Product Management and a Customer Relations update.

The next BAWG meeting is set for Oct. 23.

B. Electric System Planning (Joint OC/BIC WG)
Mr. Tariq Niazi (NYS Consumer Protection Board) reported on the ESPWG's meeting. He said they meet twice, on Sept. 21 and Oct. 4. Topics discussed on Sept. 21 were 2008 RNA analysis, the draft CRPP manual and the Order 890 technical conference.

Topics discussed on Oct. 4 were FERC Order 890, the CRPP manual review and DPS Staff Policy Direction.

The next meeting is scheduled for Oct. 22.

C. ICAP Working Group (ICAPWG)
Mr. Glenn Haake (IPPNY) reported on the ICAPWG's Sept. 12 meeting. Topics discussed were the Proposed Forward Capacity Market; Attachment A of the ICAP Manual; the Winter 2007–08 Capability Period; and the Demand Curve Report Discussion.

The next meeting is scheduled for Oct. 19.

D. Interconnection Issues Task Force (IITF)
Mr. Haake provided an update of IITF activity. The IITF met on Sept. 28; dealt with the Deliverability Test methodology. No further meetings are scheduled.

<u>Discussion</u>

Howard Fromer (PSEG) asked a question regarding the Deliverability proposal. He said there was an ambiguous sentence in respect to "pending UDRs being addressed separately." He wanted someone to elaborate on the "separate process." Mr. Stalter said he would take the question as an action item.

E. Resource Adequacy Issues Task Force (RAITF)
Mr. Haake said no meetings have been held. He said the work of this group has been finished and said the RAITF could be taken off the Working Group Updates list.

Market Issues Working Group (MIWG)
Mr. Norman Mah (ConEd) reported on MIWG meetings on Oct. 1. Topics discussed were TCC Collateral Requirement; Wind Forecasting Update and Market Rule; Astoria West Operating Protocol – LOC Proposal; Mitigation issues and Potential Tariff Revisions; and Market Rules Assessment projects update.

<u>Discussion</u>
Mr. Palazzo said regarding the Mitigation-related tariff modifications, it might make sense to set up a separate task force to deal with this issue. The concept is still being discussed at the NYISO.

G. Price Responsive Load Working Group (PRLWG)
Mr. Rick Mancini (Customized Energy Solutions) provided a report on the Sept. 27 meeting. Topics discussed were: Demand Side Ancillary Service Program; Targeted Demand Response Events update; Demand Response Program Registration update; Demand Response Metering Initiatives – NYSERDA; and the Con Edison Rider U Program. The PRLWG will meet next on Nov. 6.

6. BIC Vice Chairman Election – 2007-08 Term
Mr. Palazzo called for candidates for the election. Mr. Nachmias was elected as the BIC's Vice Chairman.

7. Proposed Settlement re: Astoria West Fault
Brad Kranz (NRG) made a presentation titled "Lost Opportunity Cost Proposal for the Astoria West Station Fault Current Mitigation Operating Protocol." The proposal was included in BIC meeting packets.

Mr. Kranz said that the lost opportunity impact of the operating protocol is unjust and unreasonable. He described NRG's proposal to recoup lost opportunity costs.

The described purpose of NRG's motion is to put a backstop in place in case the underlying issue isn't addressed by next summer, when the derates would be implemented. Mr. Kranz identified a 2001 study that called for replacement of the breakers. There were presentations to the TPAS and IITF in October 2001 explaining that the breakers were scheduled for replacement, but they have not been replaced.

Mr. Kranz said that limitations are being imposed on NRG's units in violation of the interconnection agreements and the company's right to be deliverable. He said NRG's proposal is a reasonable measure to account for the impacts in the interim.

<u>Discussion</u>
Mr. Fromer asked if this was a requirement that came out of a study and why the NYISO didn't monitor that.

Mr. Kranz said that the 2002 SRIS is clear in its determination that the interconnection was acceptable.

Mr. Nachmias said there was a "separate effort" to understand that. He said there was a study that indicated what was needed and that was done. There were other alternatives considered. There is a separate effort to determine what the fix is from this point; the conclusion that something was done incorrectly isn't necessarily the right conclusion at this point. Mr. Nachmias said additional review is needed to understand the issues.

Mr. Kranz said NRG is not trying to place blame. NRG is working within the BIC structure to resolve the issue.

Mr. Fromer said the BIC was being asked to look at the issue from a point of fairness and equity, and who should bear the financial consequences.

Mr. Nachmias said if the unit was committed in the Day-Ahead market, it was having a Day-Ahead payment. He asked for some comment from the NYISO on the matter.

Mr. Fromer asked if the units in question were "peakers" largely intended to run in the Real-Time market more so than in the Day-Ahead market.

Mr. Nachmias said the generators were still receiving capacity payments. Whether or not a make-whole payment is warranted or provided for in the tariff is another issue. He asked the NYISO for its opinion on the matter.

Michael Martin (NYISO) said that "without passing judgment on any of the circumstances that led to the current situation, we had concerns proceeding with the proposal that NRG outlined on a couple of grounds. First, and probably foremost, was recognition that lost opportunity cost probably isn't appropriate by its current definition in this case because the interim operating protocol that's put in place is there in lieu of, or to act as a proxy for, a constraint that can't be modeled in the NYISO's modeling software. If that constraint was fully modeled in the NYISO's modeling software, these units would not be scheduled due to the reliability constraints on the system. The interim operating protocol, in and of itself, doesn't subject NRG to a lost opportunity. It's a proxy for a constraint. For if it were there, these units would not be scheduled. So there is no lost opportunity. Secondly, we noted that requests for a lost opportunity in this case is a little different than some of the precedents cited – for example, voltage support – where units that are derated or decommitted to provide another service are compensated for that derate or decommitment. In this case, there isn't an alternate service being requested by the NYISO that sort of initiates the derate or decommittment. Those were some circumstances that the NYISO considered carefully, and evaluating whether we thought this was an appropriate lost opportunity cost in this case and led to us concluding that we could not support the proposal as it was outlined."

Ray Kinney said that the DAMAP payment is provided solely because the software doesn't adequately identify the constraint and put a proper price at their bus. He asked if that was correct and if it was driving the issue.

Mr. Martin said "I think the DAMAP payment is appropriate and is consistent with other DAMAP payments in that if a unit has a Day-Ahead schedule that results in a margin any circumstances that should surface in Real-Time that would cause a decommittment or a derate of the unit that resulted in less margin in Real-Time the Day-Ahead than the damap does apply. Specifically for the Real-Time lost opportunity cost, if the unit wasn't scheduled Day-Ahead, if it wasn't scheduled in Real-Time due to a real time constraint on the system, we don't have situations today where units receive lost opportunity costs because they can't be scheduled because they are on the wrong side of a constraint. We had difficultly sort of trying to draw a line in how this set of circumstances could be separated from other types of constraints where other suppliers might request like opportunity lost opportunity costs in other circumstances."

Mr. Kinney said he heard Mr. Martin say that the pricing is inaccurate. He said what is being seen in real time, is based on the failure to model the constraint as a price higher at your bus than really should exist because it's not seeing its constraint; the system is not modeling it. If it modeled the constraint in real time, the Real-Time price would reflect that constraint and the Day-Ahead-to-Real-Time margin would likely have been preserved due to the natural functioning of the market.

Mr. Martin said "that's not what I intended to communicate. What I was talking about, the inability to model the constraint in real time, if the constraint was in the Real-Time commitment software, that unit would not receive a schedule due to a reliability constraint."

Mr. Kranz said that this is an overdue breaker condition. By the NYISO's own acknowledgement, it is a constraint that should not exist and should have been addressed appropriately. He said the issue is about providing appropriate compensation for something that should not be happening. He said the proposal is very straightforward and something the NYISO can accommodate in a fair way.

Bill Heinrich (NYSDPS) said he was sympathetic to NRG's situation and hoped it would be rectified quickly. However, he said making lost opportunity payments in this situation was heading down a "slippery slope." If make-whole lost opportunity payments are made to NRG's units, they could be requested any time a generator is restricted due to something happening on the system. Mr. Heinrich said he didn't think the payments were appropriate in this case.

Mr. Kranz said that NRG's case is a very distinct scenario. To suggest that "it's too bad that NRG drew the short straw this time and gets to pay for the consequences of others' actions" is unfair. A fair compromise should be reached.

Mr. Martin said "the NYISO does sympathize with the situation and would like to move forward with a solution as soon as possible. The NYISO fully supports the Operating Committee's direction to work toward a physical solution expeditiously. The NYISO is committed to doing that."

Mr. Haake said MPs need to think about the risk this sets up to attracting new suppliers. This issue needs to be considered in setting the demand curve.

Mr. Heinrich said he agreed that the system failed in this case and he hoped the system will be back on track so the failure will not happen again.

Mr. Haake said paying the opportunity costs here would provide the right incentive for the TO and the NYISO to make sure it doesn't recur. It would put the cost for the failure on the party that caused it.

Mr. Nachmias said he didn't think there was any conclusion to which party was responsible. He said Mr. Haake's statement was unfair. He said that ConEd agrees that the precedent issue is significant and agreed with Mr. Heinrich's comments. He said such a precedent would open the door to various forms of compensation and defeats the LBMP model.

Doreen Saia (Mirant) said she had two concerns. The first was that there was no directive that can be brought, except possibly from FERC, to fix the line. She said it was unclear to her how long the situation could continue. In regard to setting a precedent, she said NRG's situation has very specific issues associated with it. An operating protocol for this situation was worked through and approved. She said she was concerned that the "precedent" issue is being used an excuse to not address NRG's concerns.

Liam Baker (Reliant Energy Services) said that precedence in this case is one of "fundamental fairness." One MP's rights are being affected by the failure of some other MP to satisfy an obligation they have. He said this situation is not without cost for loads. He said the finger should be pointed "squarely at either ConEdison or NYPA, or the NYISO," to have this problem fixed quickly. He said it's not just NRG's money at risk.

Mr. Kinney asked how NRG's proposal is distinguished from normal good utilities practices that still occur that cause an identical set of circumstances to any number of generators as things go on. He was concerned that this measure would spur lost opportunity cost claims every time there is an outage that is less than the normal transfer capability.

Mr. Kranz said the distinction is that this situation is a failure of a planning process that anticipated the need, required the upgrade, and didn't follow through.

Motion was offered, moved and seconded.

Mr. Kinney asked that an amendment be made to say that "The BIC recommends the Management Committee's approval for tariff amendments to implement the lost opportunity cost proposal."

Bruce Bleiweis (DC Energy) said he was interested in a specific time frame to fix the problem. He called the NRG measure a "Band-Aid" that takes value out of the LMP, puts into uplift and prevents the right price signal from being sent.

Mr. Kranz said the Management Committee has addressed that issue. The intent is to address the physical underlying issue by summer 2008.

Motion #2:

The Business Issues Committee ("BIC") hereby recommends the Management Committee approve Tariff Amendments to implement the Lost Opportunity Cost Proposal for the Astoria West Station Fault Current Mitigation Operating Protocol, as discussed at the Market Issues Working Group on August 27, 2007 and October 1, 2007 and as presented to the BIC on October 10, 2007.

Motion failed with 40.61% Affirmative votes.

8. Proposed TCC Credit Requirement

Sheri Prevratil (NYISO) gave the presentation, which was included in the BIC meeting packet materials. The final proposal is expected to be sent to the MC on Oct. 24.

Discussion

Mr. Younger asked for a clarification on the collateral obligation. He said he was comfortable with the concept of the proposal. However, he was not comfortable on voting on a motion for a holding credit requirement when the presentation package does not define the holding credit requirement.

Charles Garber (NYISO) said what is being recommended is that on an annual TCC, positively or negatively price, that the 5 percent curve is used. On six-month TCCs, and monthlies, the 3 percent curve is used.

Mr. Younger said he appreciated the explanation. However, this is not the formula for the holding credit requirement. He said he is not voting on the analysis, he is voting on the formula. He said he had a problem that the formula isn't included in the proposal.

Mr. Garber said the formulas were provided in the white papers. The formulas are complicated statistical formulas. He said the formulas can be provided; it is the concept of what the formulas produce that is important here.

Mr. Younger asked if the formula is going to be included in the tariff.

Andy Antinori (NYISO) said the formula is very complicated. The credit calculator produced by the NYISO would get MPs to a result very close to what the formula would show.

Ms. Prevratil said the formula is in a white paper that was included in the May 24 MIWG materials. She said she would agree to have those materials included in the presentation sent to the MC.

Mr. Younger again asked if there will be a formula in the tariff.

Mr. Antinori said something that discusses the calculation must be put into the tariff. However, given the complexity of the mathematical model, he wasn't sure it would go into the tariff.

Mr. Bleiweis said he would rather see the specific formulas in the manual and not the tariff.

Mr. Stalter said the NYISO will consider how to appropriately draft the relevant tariff language. This issue can be addressed at the MC.

Mr. Kinney said the FERC has opined in past on the level of detail and ability to identify how things are calculated in the tariff. FERC has been against having things reflected in manuals when they should be thoroughly detailed in tariffs.

Mr. Antinori said that there are two changes to make: the holding requirement and the bidding requirement. The NYISO would like to make them together, in time for the initial spring TCC auction. But the holding requirement change can't be made in that timeframe because it has a dependency on the credit automation project. The current plan would require two separate FERC filings; one for the bidding requirement change, which would be made in time for the spring TCC auction. The holding requirement change would be tied to the completion of the credit automation system, which would come after the initial spring TCC auction.

Mr. Fromer said that anyone going into the spring TCC auctions should understand that when the holding requirement becomes effective, it will affect any TCC holdings at that time.

Ms. Prevratil said that was true. The NYISO should know prior to the spring TCC auction when the holding requirement would take effect. The NYISO will give MPs as much time as possible about what the new requirements would be before the holding requirement takes effect.

Erik Abend (Epic Merchant Energy NY) questioned the point of making the bidding requirement change now, without also making the holding requirement change. He said implementing bidding requirements without the holding requirement change will not address the NYISO's market risk.

Ms. Prevratil said the NYISO is able to do the bidding change now. There is a potential exposure of a MP coming into the markets and not posting anything and bidding; this will help mitigate that situation.
Mr. Abend said that does not address his concern.

Mr. Antinori said that MPs at lower committee levels supported the idea of making the bidding requirement change first because the NYISO couldn't do both at the same time.

Mr. Abend said he didn't see an incremental improvement.

Mr. Garber said there are several risks the NYISO is trying to resolve at the same time. The NYISO wants to be as transparent as possible through this whole process.

Mr. Abend said he was going to vote against the motion. He said he would support something that's more focused on collaterizing the value and risk. It might be more appropriate to hold off on the whole process until both are ready to be implemented together.

Mr. Younger requested that the May 22 white paper by Scott Harvey be included in the meeting materials. That is where the mathematical model is referenced.

Mr. Fromer suggested giving 30 days notice of the effective date of holding requirement filing.

Mr. Stalter said the NYISO has no problem with that.

Mr. Palazzo said the NYISO has committed to giving 30 days notice and asked that the commitment be noted in these minutes.

Mr. Fromer suggested a clarification to the motion to specifically state that the measure be applicable to all TCCs. He suggested a change that said "…will be in conjunction with implementation…"

Mr. Antinori suggested adding a sentence to the motion that said: "All TCCs to which credit requirements are applicable, existing at the effective date of the new holding requirement, shall be subject to that new holding requirement."

Motion #3:

The Business Issues Committee ("BIC") hereby recommends that the Management Committee ("MC") approve revisions to attachment K of the Market Administration and Control Area Services Tariff and Attachment W of the Open Access Transmission Tariff (collectively, "Credit Requirements") as follows:
Part 1:
Modify the TCC Bid Component to be the higher of (i) the method in which the TCC Bid Component is currently calculated under the Credit Requirements or (ii) a "floor" of $1,500, $2,000, and $600 per MW for one-year, six-month, and monthly TCCs, respectively, all as presented to BIC on October 10, 2007. The BIC agrees the NYISO should present this proposal for MC consideration on October 24, 2007, and file the proposed modifications with the Federal Energy Regulatory Commission ("FERC") in time for the revised provisions to become effective prior to Spring 2008 Initial TCC Auction.
Part 2:
Modify the TCC Component of the Operating Requirement (commonly referred to as the "TCC Holding Requirement") to be calculated per the mathematical model developed by NYISO's outside consultant as presented to BIC on October 10, 2007. The BIC agrees the NYISO should present this proposal for MC consideration on October 24, 2007. The BIC further agrees that implementation of this Part 2 will be in conjunction with implementation of the first phase of the automated Credit Management System ("CMS") in 2008 and that the FERC filing of this Part 2 should be coordinated with this implementation schedule. All TCCs to which credit requirements are applicable existing at the effective date of the new holding requirement shall be subject to that new holding requirement.
Motion passed unanimously with abstentions.

9. NYISO 2008 Project Plan

Mr. Dewey made the presentation, which was included in the BIC meeting materials.

<u>Discussion</u>

Mr. Nachmias asked questions regarding the Energy Market Products projects on the list. He said he thought the other proposed projects discussed in the BPWG would be left on the list as "projects for development" in 2008. Those projects weren't listed in Mr. Dewey's presentation.

Mr. Dewey said if the NYISO isn't going to do the projects, there is no budget impact, which is why it was not listed in the 2008 Project Plan.

Mr. Nachmias said he was concerned that there isn't a full projects list that would include "projects for development." There isn't a place that documents the projects that are going to be developed or worked on. A complete list is needed to track projects.

Mr. Dewey said a full set of deliverables – including internal deliverables and external budget deliverables - will be posted. There are no target dates for these yet.

Mr. Nachmias said he wanted to make sure that projects aren't completely off the list. The list of overall deliverables should be available by the Management Committee meeting. This is important to MPs in terms of their support for the budget.

Mr. Dewey said he hoped to have something for discussion at the BPWG meeting next week.

10. Administrative Matters
Mr. Stalter reviewed the action items that were still open.

11. New Business
There was no new business.

The meeting was adjourned at 1:25 p.m.

Respectfully Submitted,
Michael A. Lisi
Recording BIC Secretary