

VRD Going forward

Joint MSWG/S&P Meeting

3/16/04

Draft - For Discussion Only

VRD Going forward

Alternative Proposals

This email is being forwarded at the request of Jim Scheiderich:

I have attached Mark Younger's VRD alternative.

A while back Mark met with staff regarding VRD and his proposal. As I understand it, staff has rejected the proposal as it runs the risk of bids for transactions being accepted that could reverse the price spreads that the ISO desires to see closed. A fair argument.

However, there is a way to rehab this proposal by doing something the ISO's already have to do for VRD.

As part of VRD, the ISOs will need to create and update supply curves for both NY and NE. What I am proposing is that these same supply curves be used to limit either BME's (or RTC's under RTS/SMD2) ability to schedule transactions to no more than would equalize prices at the two proxy busses. This avoids the single fatal concern (as I understand it) for the proposal.

With this in mind, I would request that staff review the proposal again utilizing the supply curves to prevent overcorrection of the price spreads.

Jim

Draft - For Discussion Only

VRD Going forward

Alternative proposals

–We believe that Jim’s suggestion improves Mark’s proposal by reintroducing the concept that flow should be efficient, not excessive or insufficient to equilibrate prices.

–ISO proposal will be resubmitted pending results from FERC on ISO-NE RTO filing.

–Revised proposal will include:

- elements of Mark and Jim’s framework
- scheduling mechanisms described in the earlier proposal
- treatment of requested RT congestion hedging mechanism

Draft - For Discussion Only

VRD Going forward

- NYISO Intended VRD Activity
 - Joint meeting with ISONE in April
 - Target joint agreement on COO technical definition in early summer
 - Target joint governance approval in early autumn
 - Target deployment TBD pending ISONE RTO decision.