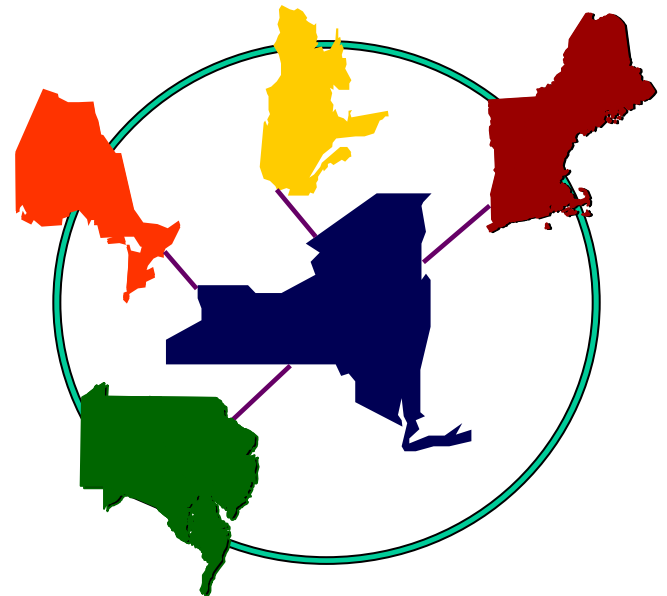


Northeast Seams Report

Update on Northeast Seams Issues

May 31, 2006

NYISO Management Committee





Status of Seams Projects

Current Deliverables

Issue	Activity Description
1. Intra-Hour Transaction Scheduling	<ul style="list-style-type: none">▪ NYISO and ISO-NE have documented a technical definition of a virtual regional dispatch process and have received potentially viable alternative methodologies from their stakeholders. The ISOs will proceed with further stakeholder meetings to finalize the technical definition and to work towards a joint stakeholder acceptance of the proposal.▪ The first set of pilot tests were conducted on April 20-21. Any additional tests will be scheduled based upon results evaluation of the April tests.▪ NYISO and ISO-NE issued a report on the first pilot test on October 24, 2005. A joint meeting of NY and NE stakeholders to review the pilot test report and further develop market participant based proposals for improving the efficiency of the NYISO/ISO-NE interface was held on Nov. 14. Based on discussions at that meeting, ITS will be considered along with other market issues as part of the rules assessment initiative currently underway. Also, an ITS progress report will be posted upon completion of NYISO internal review.

Note: The complete list and description of seams issues is posted on the NYISO website and updated each quarter for FERC. This presentation is only a summary of recent activities and near term deliverables.



Status of Seams Projects *Current Deliverables*

Issue	Activity Description
2. Regional Resource Adequacy - RAM	<ul style="list-style-type: none">▪ The NYISO has submitted a hybrid proposal to its stakeholders for consideration incorporating a voluntary forward capacity market for procurement of a portion of its future resource requirements.▪ On March 1, 2004, ISO-NE filed a locational capacity market with the Commission. Following completion of evidentiary hearings, the FERC ALJ decision was issued on June 15. On September 20, 2005, FERC heard oral arguments on ISO-NE's locational capacity market design. On October 21, 2005 the Commission issued an order establishing settlement procedures on alternatives to the LICAP demand curve proposed by ISO-New England, authorizing the ISO to make a compliance filing on its Shortage Hours proposal and requiring the ISO to file updated cost estimates of its LICAP proposal. On March 6, 2006, ISO-NE and other parties filed a comprehensive settlement that would establish an auction-based Forward Procurement Market to acquire capacity three years prior the obligation period. On April 11, 2006, the FERC Settlement Judge issued his report on the settlement, which is currently under consideration by FERC.

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Status of Seams Projects *Current Deliverables*

Issue	Activity Description
<p>2. Regional Resource Adequacy - RAM (Continued)</p>	<ul style="list-style-type: none"> ▪ PJM introduced a proposal for a Reliability Pricing Model (“RPM”) in June 2004 and has subsequently presented and revised the proposal at numerous stakeholder meetings and has discussed the proposal with various PJM states PUCs. The PJM Board of Managers received comments from Members at the May 5, 2005 PJM Annual Meeting. PJM has discussed the proposal with the NY PSC, with the NYISO and with MISO to ensure that the RPM proposal would not impact seams or create adverse impacts on regional markets. PJM filed its RPM proposal with FERC on August 31, 2005 and FERC held a technical conference on RPM on February 3, 2006. On April 20, 2006, FERC issued a ruling that parts of the RPM were acceptable and directed PJM to file a brief on remaining issues for a upcoming technical conference on these relating issues. On May 1, FERC established a technical conference to be held on June 7&8 to address Variable Resource Requirement issues. On May 17, FERC appointed an Administrative Law Judge to oversee settlement proceedings in parallel with the technical conference and paper hearing procedures. ▪ A joint meeting of ISO-NE/NYISO/PJM and stakeholders is being deferred until such time as clear direction is established with pending market changes in the PJM and ISO-NE markets.

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Other Seams Related Activity

Recent Initiatives

Issue	Activity Description
3. Cross-Border Controllable Line Scheduling	<ul style="list-style-type: none"> ▪ Full market deployment of the Cross-Sound Scheduled Line occurred on June 7, 2005 ▪ Implementation Date for 1385 Line: NYISO and ISO-NE have discussed the implementation of scheduling of transactions on the 1385 (Northport to Norwalk Harbor) cable with LIPA and NUSCO and the addition of appropriate pricing nodes. ISO-NE has provided its Participants with a memo describing the operational issues of scheduling across the 1385 line and proposed solutions. The Participants had a meeting on Oct. 31 and held further discussions in November. A meeting was held on December 19, 2005 involving LIPA, ISO-NE, and NYISO to discuss the timeframe and steps required to initiate scheduling over the 1385 line. On December 23, 2005, LIPA proposed a timetable for NY discussion of operational issues and possible tariff changes. The NYISO has established biweekly internal meetings to identify any implementation issues and draft tariff language for stakeholder review as necessary. The NYISO plans to test and deploy the necessary modeling changes to implement a separate proxy bus in a software release planned for October 2006, with the functionality disabled as to Market Participants until ISO-NE is ready. The multiple critical projects that ISO-NE and its stakeholders will be coordinating over the next two years require that the work to support contract scheduling on the 1385 not begin until 2007.

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Other Seams Related Activity

Recent Initiatives

Issue	Activity Description
3. Cross-Border Controllable Line Scheduling (continued)	<ul style="list-style-type: none">▪ Cedars-Dennison controllable tie between NYISO and Hydro-Quebec: Meetings have been held with Alcoa and HQ to discuss scheduling protocol modifications required for the conversion of the Cedars import modeling to a controllable tie line proxy bus. The required modeling changes for this new proxy will be deployed with the 1385 modifications in October 2006. Additional meetings will be scheduled during the summer to develop a joint communications plan to inform the MP's of the proposed changes and to schedule a cut over date. NYISO tariff revisions are necessary to initiate this new proxy scheduling point.

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Other Seams Related Activity

Recent Initiatives (continued)

Issue	Activity Description
6. ISO-NE Phase II HVDC Evaluation	<ul style="list-style-type: none">▪ ISO-NE, NYISO, PJM and HQ – This is a joint project lead by ISO-NE and HQ TransÉnergie to update the methodology and procedures for scheduling of the Phase II HVDC interconnection between New England and Quebec.▪ Initial efforts were focused on use of the IDC as a possible tool to forecast availability of Phase II above the 1200 MW limit, however the parties have concluded that the IDC in its current form would not be suitable.▪ The Report, "Review of the PJM-NY-NE Procedures and Methodology for the TE-NE HVDC Line" was finalized May 2005 . This document is posted on the ISO-NE website at http://www.iso-ne.com/trans/ops/limits/▪ NYISO, PJM and ISO-NE are preparing a data sharing agreement for future data sharing.

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Issues Pending Further Discussion

Issue	Activity Description
1. Reserves Participation in Adjacent Regional Markets	<ul style="list-style-type: none">There is Market Participant interest in selling operating reserves from generation sources in one region to provide reserves in another region. This issue will be considered along with other longer-term market issues as part of the NYISO Market Evolution Plan, which was presented to NY stakeholders in June 2005 and is currently under discussion with NY stakeholders. ISO-NE will consider inter-control area provision of reserves following implementation and assessment of their reserve market, scheduled to be implemented in October 2006.
2. NY MS-7040 Transfer Study	<ul style="list-style-type: none">NY study on the impact of MS-7040 transfers above the current 1500 MW limit is complete and recommended no change in the current limit but did recommend developing a process to assess available margins to support HAM scheduling above current MW limits. A proposed solution was presented at the Feb. 9, 2006 Operating Committee meeting. Implementation of proposed real-time operation expected for Summer 2006 Capability period, subject to completion of Operating Studies and automated monitoring capabilities. A presentation was made to the Market Structure WG on April 13, 2006 detailing a proposed scheme for operating MS7040 transfers above 1500 MWs in real-time. A June 1st start date was cited, subject to completion of operator training, programming of software to monitor defined operating conditions, updating dispatchers' procedures, and verifications of operating sensitivity factors.

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Issues Pending Further Discussion *(continued)*

Issue	Activity Description
3. Congestion Rent Shortfalls Resulting From External Transmission Outages	<ul style="list-style-type: none"> Transmission outages or deratings occurring outside of the NYCA that are not anticipated at the time of a TCC auction can force the NYISO to reduce the assumed transfer capability between the NYCA and the adjacent control area. If the resulting set of TCCs are rendered infeasible, the NYISO will incur congestion rent shortfalls in the day-ahead market. There is currently no way to assign the cost impact (due to the congestion rent shortfall) of that outage to the responsible external transmission owner. In addition, transmission outages or deratings that cause reductions in transfer capability between regions may have an impact on ICAP sales between regions. NYISO Senior Management will evaluate project, scheduling and budget impacts in conjunction with all other identified initiatives and determine what further action will be taken.
4. Modeling of Netted Transactions at the NYISO-HQ Interface	<ul style="list-style-type: none"> Currently, real-time imports from HQ are limited to 1200 MW based upon NY first contingency criteria. Day-ahead and real-time scheduling software recognizes a 1500 MW limit at the NY-HQ proxy bus comprised of imports, exports and wheel-throughs. One solution that has been suggested would create a second proxy bus model at the interface, which would be used to schedule only wheel-through transactions; the first proxy bus would be used to schedule imports/exports up to a net level of 1200 MW. A high-level presentation on functional requirements and preliminary resource requirements was presented at the Jan. 20, 2006 S&PWG meeting. NYISO Senior Management will evaluate this project, scheduling and budget impacts in conjunction with all other identified initiatives and determine what further action will be taken.

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Issues Pending Further Discussion *(continued)*

Issue	Activity Description
5. Multiple Proxy Buses for Free-Flowing Interfaces	<ul style="list-style-type: none"> ▪ Further analysis of the feasibility of implementing multiple proxy buses will be included with future assessment of market coordination efforts of the ISOs after implementation and testing of several current initiatives (i.e., PJM's market to market coordination with MISO, NY's SMD2) and will be brought back to a future seams coordination meeting. After discussion, PJM and NYISO agree that this topic will require further discussion and innovation to achieve the objectives without allowing market gaming opportunities. ▪ This issue will be closed; specific proxy bus initiatives associated with controllable lines will be reported under Activity #3, Cross-Border Controllable Line Scheduling.
6. Elimination of Rate Pancaking	<ul style="list-style-type: none"> ▪ The NYISO, with the support of the New York TOs, will initiate discussions among the affected parties in the Northeast to explore the potential for rate pancaking relief between New York and PJM. A meeting between the NY and PJM TOs was held on August 18th to initiate discussions on this issue. ▪ The NYISO has also initiated discussions with IESO to eliminate export fees.

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