

FINAL DRAFT FOR OC APPROVAL

“STRAWMAN PROPOSAL” FOR A NYISO ECONOMIC PLANNING PROCESS

OVERVIEW AND PURPOSE

It is intended that this strawman will provide a viable process in response to FERC’s policies which have indicated that ISOs/RTOs’ planning processes should address both reliability and economic needs. It is structured in the context of the NYISO’s preference for market-driven solutions, which is consistent with the recently approved Comprehensive Reliability Planning Process. This strawman recognizes the views of most of the NYISO’s market participants and stakeholders that NYISO intervention in economic matters is to be minimized so as not to interfere with the operation of the market. In this context, the role of the NYISO with regard to economic needs is primarily one of providing information in a transparent manner to the marketplace so that appropriately informed decisions can be made, and actions taken, by market participants and other stakeholders. The proposed process will provide an opportunity—but not an obligation—for NYISO market participants to better assess and voluntarily respond to such economic issues.

OUTLINE OF NYISO ECONOMIC PLANNING PROCESS

NYISO ROLE

Historical Analysis

- **With stakeholder participation/transparent process**
- **Use approved “congestion matrix” format for reporting**
- **Identify additional reporting formats**
- **Post on NYISO website on a monthly basis**
 - **Include both daily and monthly data**
 - **Include appropriate definitions, assumptions & caveats**
 - **Post in a usable format**
- **Adjust for “unusual day” events**
- **Perform “What if” analyses**
 - **Estimate potential savings and/or cost increases when specific constraints are reduced or eliminated**
 - **Identify zonal impacts**
 - **Identify next binding constraint**
- **Track congestion by key constraints**

- **Post other economic parameters**
 - **ICAP prices by location**
 - **Ancillary services costs**
 - **Losses**
 - **Post in a usable format**

Market-Based Initiatives

- **Analyze market performance**
 - **Include all NYISO markets**
 - **Transmission**
 - **Generation**
 - **Demand Response**
 - **Identify key drivers which have a major impact on the markets**
 - **Identify potential market design problems**
- **Identify areas for improvement in market design**
 - **To produce correct price signals**
 - **To encourage market-based solutions**
- **Consider qualitative (and, where possible, quantitative) impact of intangibles, e.g.:**
 - **Widened markets**
 - **Barriers to market entry**
 - **Fuel diversity**
 - **Environmental implication**
- **Pursue market enhancements through NYISO committee process**

Future Estimates of Congestion & Other Costs

- **With stakeholder participation/transparent process**
- **Selection of model or models**
- **Utilize CRPP planning horizon (10 years)**
- **Develop base case assumptions based on CRPP**
- **Develop future scenarios**
- **Perform what if analyses**
 - **With and without a proposed improvement**
- **NYISO will provide a range of information to the marketplace**
 - **Unconstrained energy prices**
 - **Forecast congestion costs**
 - **ICAP costs by location**
 - **Ancillary services costs**
 - **Losses**

- **Include appropriate definitions, assumptions and caveats**

Reliability Analysis of Economic Upgrades

- **Perform reliability analysis of proposed economic upgrades through its existing Interconnection Process (Attachment X) to ensure that reliability will be maintained**
- **Perform cost allocation analysis for Attachment Facilities and System Upgrade Facilities associated with proposed economic upgrades through its existing Attachment S process**
- **Perform TCC allocation analyses for economic upgrades**
- **Determine eligibility for UDRs for economic upgrades**

NYISO will NOT:

- **Determine congestion thresholds**
- **Draw any conclusions pertaining to the potential economics of a proposed upgrade**
- **Perform cost/benefit analyses**
- **Perform cost allocation analyses**
- **Mandate solutions**

MARKET PARTICIPANT VOLUNTARY ROLE

- **Participate in development of input assumptions**
- **Recommend scenarios for analysis**
- **Review of NYISO analysis**
- **Perform independent business assessment based upon consideration of NYISO data**
- **Development of economic responses**

Jpb

R/2/7/05