
NYISO Management Committee Meeting Minutes

December 16, 2009

NYISO KCC Conference Center

10:15 a.m. to 2:30 p.m.

1. Introductions, Meeting Objectives, and Chairman's Report

Mr. Glen McCartney, Constellation, welcomed the committee members and reviewed the objectives of the meeting. He then thanked the following members for chairing the Management Committee subcommittees:

By Laws Subcommittee Neil Butterklee (Con Ed)
Budget Priorities Working Group, Scott Brown (NYPA)
State Review Committee Chair – Paul Gioia for Transmission Owners.

Mr. McCartney added the November 2009 Management Committee minutes are removed from today's agenda. An issue required clarification before they could be approved.

2. President's Report (see presentation)

Mr. Steve Whitley thanked Mr. Glen McCartney for chairing the MC and providing his leadership. Mr. Whitley acknowledged the NYISO's ten year anniversary by thanking the NYISO staff and stakeholders for their hard work developing the market rules that operate our competitive markets, and creating an open and transparent planning process while maintaining the focus of keeping the lights on.

Mr. Whitley reported the Sue Tierney report is in process with a completion date expected in February. The report is a look at the competitive markets over 10 years as well as a way to look forward to improve competitive markets and how the NYISO can improve its operations to better serve the customers of New York.

Mr. Whitley reported on the DOE stimulus package by stating NYISO and the New York Transmission Owners were awarded smart grid funding from the DOE relating to the PMU's and capacitors. Mr. Whitley recently met with Mr. Matt Rodgers, Senior Advisor to Energy Secretary Chu, to learn more about the grant award and to begin the negotiation process with DOE. He added Phil Overholt is the technical negotiator with the DOE. Mr. Whitley added the process has begun to secure a contractor to provide the NYISO with project management, management of the federal money, grant administration and various other technical services for putting that project in place over the next three years.

Mr. Whitley reported the EIPC award has not been made. It is unclear when the decision will be made.

Ms. Mary McGarvey reported on the Control Center Project by stating a petition was filed with the PSC seeking approval of the financing with the request for the PSC to consider the filing at their March meeting. She added that the municipal approval process with the 3 towns, East Greenbush, North Greenbush, and Guilderland had begun and the initial discussions concerning the control center design had also been initiated. Mr. Whitley reported on the Broader Regional Markets by stating that the New England, IESO, PJM were participating in the development of the NYISO's January 12, 2010 filing in response to the FERC order regarding the Lake Erie loop flow. The filing is a high level filing, describing

three projects: buy-through of congestion, congestion management and interregional transaction coordination that are aimed at eliminating seams. Included in the filing is the description of the stakeholder process that has occurred to this point but also identification of the other stakeholder processes that will take place with all of the regions as the plan moves forward. Included in the filing will be the existing seams initiatives that are on going between the ISOs on a smaller scale. The filing is due January 12th.

In responding to a question from Mr. Howard Fromer (PSEG), Mr. Whitley stated that a cost analysis was planned for the buy-through congestion project. Mr. Fromer (PSEG) requested that FERC be advised several issues regarding buy-thru congestion such as credit issues and its impact on reducing congestion remained pending .

Mr. Kevin Jones (LIPA) asked if a more detailed schedule would be filed in January to demonstrate a commitment for implementation in both New England and PJM regarding interregional transaction coordination. Mr. Rana Mukerji (NYISO) responded by saying white papers were being developed indicating a 2012 implementation date for interregional transaction coordination and that the congestion management initiative may extend beyond 2012 with a commitment for implementation by New England expected in 2012. Mr. Kevin Jones (LIPA) encouraged a speedy resolution.

Mr. Neil Butterklee (Con Ed) requested that the filing made to the PSC for the approval to finance the Control Center be posted on the the NYISO Website. Mr. Bill Heinrich (PSC) indicated the filing is posted on the NYPSC's website. Mr. Whitley agreed to have it posted and sent to the MC members.

In response to a request from Ms. Doreen Saia (Greenburg and Traurig, the NYISO agreed to include a short discussion at the next MIWG to address the addition of PJM into the Interregional Transaction coordination initiative. Mr. Mukerji (NYISO) stated that the January 5th MIWG meeting will be devoted to the broader regional markets.

In response to a request from Mr. Matt Picard (Shell Energy), the NYISO agreed to post the response to the House Agriculture Committee request for information.

Ms. Doreen Saia (Greenberg and Traurig) requested information on how the NYISO intends to handle the request made by FERC under Order 719 where FERC provided two options for the NYISO to report a list of items that would be exempt or report each item exempted as it happens. Mr. Rob Fernandez (NYISO) indicated that he would get back to the committee.

3. Congestion Analysis & Resource Integration Study–Discussion and Vote (see presentation)

Ms. Branka Brilosec-Nierenberg provided a background on the development of the Congestion Assessment & Resource Integration Study (CARIS) report. The CARIS analysis is comprised of two phases: a congestion analysis and specific projects. The report completes the phase one process.

Ms. Brilosec-Nierenberg reviewed the next steps by stating upon approval of the MC and the Board, the NYISO will begin to conduct phase two of the CARIS process .

Phase two, the Specific Transmission Project Phase, deals with a specific project as a response to the congestion that was identified in phase one. Developers who seek regulated cost recovery under the NYISO tariff may submit economic transmission project proposals. The process for submitting those project proposals is explained in the regulated projects specific submittals procedures.

Mr. Bruce Bleiweis (DC Energy) inquired about the mechanism for cost recovery of economic transmission projects. Mr. Carl Patka (NYISO) responded by stating there will be a rate schedule to obtain recovery through the NYISO tariffs for all of the costs of the transmission project. Costs will be allocated to the beneficiary zones and the load serving entities in those zones. Ms. Doreen Saia (Greenberg Traurig) stated that this was a huge process that the NYISO staff performed an outstanding job.

Howard Fromer (PSEG) encouraged NYISO staff and stakeholders to arrange at the working group level to address lessons learned and to start to address areas that may need improvement highlighted through this process. He also complimented NYISO staff on being responsive to Market Participants desires during this laborious process.

Mr. Kevin Jones of LIPA requested the following statement be inserted into the minutes of this meeting: the NY TOs recognize the considerable effort of NYISO staff in completing this first CARIS analysis and report. As we conclude Phase one of this first CARIS process, it is important that the NYISO conduct a “lessons learned review” with stakeholder input to ensure that we benefit from what we learned in this process and use that knowledge to improve both the quality of the input assumptions and results of future CARIS analyses and reports.

As an example, increased transparency of the study assumptions is central to improving the CARIS process. Future CARIS cycles need to quickly and efficiently disseminate model input assumptions for stakeholder review and reflect the suggested changes in system models. Periodic summaries of the modeling data and assumptions should be presented for stakeholder review before analyses are conducted.

This is just one example of how conducting a “lessons learned review” can improve the CARIS process going forward and continue to improve the value of the CARIS process for all stakeholders.

Mr. Rich Miller (Con Ed) requested the following statement be inserted into the minutes of this meeting: Con Edison and O&R generally support the CARIS Phase I report, in accordance with its purpose, which is “to provide information concerning the potential to reduce congestion and obtain production cost savings in New York.” We note that the results of the first CARIS do not show material net benefits from pursuing transmission expansion, new generation or DSM projects at this time.

We also note that CARIS shows a step change in Leeds-PV congestion under the base case due to the assumed retirement of the Athens Special Protection System (SPS) protocol in 2011. While the continuation of the SPS is not modeled, it is a viable no-cost alternative that would provide significant congestion reduction benefits. While this SPS has been characterized as “temporary,” its use was unanimously approved by the NYISO Operating Committee, and the NYISO, New York State Reliability Council, and Northeast Power Coordinating Council and there are others in New York that have existed over many years.

Moreover, we note that the CARIS properly bases system production costs on actual marginal costs rather than seeking to simulate future market efficiency or bidding behavior, transmission outages, virtual bids, or other factors. Accordingly, the methodology employed is appropriate because it identifies actual change in production cost resulting from a potential project.

Finally, with respect to Phase 2, we believe that the NYISO should seek improvements in the process that would allow it to use the most up-to-date assumptions in that Phase. The NYISO should promptly commence discussions with its stakeholders on the most appropriate way to update

Mr. Terron Hill National Grid requested the following statement be inserted into the minutes of this meeting: National Grid supports NYISO's undertaking of the CARIS and appreciates NYISO's staff work in pulling the CARIS together. We hold two concerns that we also expressed at the BIC. The model consistently under-represents congestion relative to historic levels. National Grid will actively participate in the lessons learned process and will focus on aligning assumptions such that reasonable forecasted congestion levels are shown and in line with potential market outcomes. National Grid also believes that the language in the report regarding the Athens SPS is inappropriate. We further object to Con Edison's position that the Athens SPS be made more or less a permanent feature of the NY Control Area. The Athens SPS is intended to be only in operation temporarily. Allowing this device to become permanent creates an unacceptable long-term risk to National Grid's equipment thereby threatening system reliability.

Bruce Bliewiess (DC Energy) stated that this process puts the risk back on the rate payer.

Mike Mager (Multiple Interveners) indicated that this was not the rate payers but LSE's who vote.

Motion #1:

The Management Committee (MC) approves and recommends that the NYISO Board of Directors approve the NYISO 2009 Congestion Assessment and Resource Integration Study - Phase 1 as presented by the NYISO at its December 16, 2009 meeting. The 2009 Congestion Assessment and Resource Integration Study - Phase 1 was the subject of prior action by the Business Issues Committee, and review by the Electric System Planning Working Group and the Transmission Planning Advisory Subcommittee.

Motion passed by majority with abstentions.

4. ICAP Capability Period Adjustment - UDRS – Discussion and MC Action

Mr. Kevin Jones (LIPA) began the presentation (see presentation) by identifying the issue as a mismatch between the capability years with the neighboring control areas, which impacts LIPA's UDRs rights for Neptune controllable line and offering capacity in the neighboring markets. He did acknowledge that NYISO has agreed to make this a priority in 2010 to discuss at ICAPWG.

Brad Kranz (NRG) indicated that there was discussion at the working group level on whether this would apply to rights holders with the facility or with the UDR rights holders, which was not fully defined.

Further discussion continued regarding the language of the motion to reflect a two fold purpose to apply to the lines the first time they sell capacity over the line and the rights holder that makes the election is a one time election that binds the line.

Motion #2:

The Management Committee (MC) hereby recommends that the NYISO Board of Directors authorize the NYISO to file with the Federal Energy Regulatory Commission (FERC), pursuant to Section 205 of the Federal Power Act, revisions to the NYISO's Market Administration and Control Area Services Tariff proposed Capability Year adjustment election for holders of rights to UDRs, as described in the presentation made to the MC on December 16, 2009, subject to the revision that such election shall only be available on the controllable line one time, that the rights holder of the line making the election would bind the entity to which the UDRs were issued for the quantity of megawatts of the rights it holds, and the Tariff amendment will also provide that it only applies when UDRs are utilized for the first time to deliver the associated quantity of megawatts over the line.

Motion passed with abstentions

5. Strategic Tariff Review –TCC's Attachment M & N – discussion and vote

Mr Greg Williams presented the Strategic Tariff Review –TCC Attachment M and N revisions (see presentation). Mr Williams highlighted the changes made to the sections

Motion #3:

The Business Issues Committee (BIC) recommends that the Management Committee approve amendments to the OATT and Services Tariff with regard to the Strategic Tariff Review of Transmission Congestion Contract as presented to the Management Committee on December 16, 2009.

Motion passed unanimously

6. Self Supply of Reserves

Mr. Shaun Johnson presented the Self -Supply of reserves (see presentation). Mr Johnson provided a background on the NYISO reserve markets. He explained that further optimization for the allocation of reserve between East and West locations if put into effect could potentially yield an estimated range of benefits of between \$120, 000 - \$350,000. However when the east to west capacity is available to support such a transfer the west – east price differentials are minimal, obviating the benefit of the transfer. NYISO stated that putting this concept into effect would be a major initiative to providing few advantages as a hedging mechanism. In summary, Mr. Johnson stated that this analysis demonstrated that the benefits from this market solution would prove to be deminimus.

Motion #4

WHEREAS: The NYISO has completed the analysis called for in the October 2005 Management Committee resolution

WHEREAS: It appears technically feasible to pursue ten minute reserve optimization by adjusting the current reserve allocation from East to West based upon unused west to

east transfer capacity in the DAM, it appears to yield minimal actual economic benefit and the probability of high implementation cost

WHEREAS: It also appears that the process required to complete design and implementation of the transmission optimization enhancement concept tested would be prohibitively costly given the limited estimated benefit

WHEREAS: The lack of substantive benefit demonstrated by testing the most likely optimization method against recent actual DAM historical results leads to the reasonable conclusion that no actual need exists for additional hedging mechanisms beyond the two currently provided by the NYISO tariff

NOW, THEREFORE, IT IS MOVED THAT the Management Committee:

1. Concurs with the conclusions of the NYISO analysis with respect to current market conditions
2. Approves a filing with the FERC to close this docket (ER03-836-000)
3. Further recommends that the NYISO continue to monitor the reserves market and if there are any significant changes in market conditions, perform an updated cost/benefit analysis and provide it to the Business Issues Committee for consideration.

Motion passed unanimously with abstentions.

7. Uplift – discussion

Mr. Rick Gonzales (NYISO) provided a response to the ongoing discussion regarding the uplift goal. He stated that the NYISO believes developing metrics in market efficiency is important and that the goal for reducing uplift is one that the NYISO has endeavored for the last 10 years. Significant previous efforts included SMD2 quarter hour scheduling and interregional scheduling. Mr. Gonzales (NYISO) reviewed the presentation by stating that the initial proposal of the goal was to monitor and to maintain monthly statewide uplift costs to below 7% of statewide average LBMP. The NYISO has drafted the goal to express this value as an average percentage of monthly LBMP in an attempt to fuel-adjust this cost, as uplift costs are driven by marginal energy costs of resources. Rick Gonzales (NYISO) added that the original base line value was calculated by reviewing the last 12-months (October 08 – September 09) of the actual state wide uplift cost divided by the statewide LBMP.

He continued by stating that the revised goal is to focus on the most significant sources of statewide uplift costs as identified in the 2008 State of the Market Report with revised metrics. The goal will analyze the effects on the balance market congestion residuals and bid production cost guarantee. With respect to concerns with the potential conflict between this goal and setting accurate reference prices, this incentive goal will not apply to the ISO market monitoring staff. The metric has been modified to analyze the absolute value of the differences so that any deviations of the Day-Ahead transmission capability will affect the goal. Therefore, the goal is to accurately predict the Day-Ahead Schedule. Since forced outages are unpredicted events, they will not be considered as part of the evaluation.

In response to a question from Howard Fromer (PSEG), Rick Gonzales (NYISO) indicated the metric is designed to be a fuel adjusted dollar amount stated as a percentage of the energy clearing price. He

added that NYISO cannot decouple the frequency or value of missed Day-Ahead forecasts from the price consequences in uplift and, as a result, this is the best design for an uplift goal.

Paul Gioia () stated that the transmission owners are in support of the market efficiency goal as it brings it back to the reason why the NYISO was put into place.

Steve Whitley (NYISO) stated that uplift has been an issue since he came to the NYISO. These costs have been reported separately to utilize the analysis of the costs of uplift. NYISO's goal is to seek out ways to operate the grid more efficiently and to reduce cost.

Rick Gonzales (NYISO) added that each day's balancing market residuals cost will be summed over the month and be divided by the statewide LBMP for that month. This component for uplift will count against the threshold value.

In response to a question from Mark Younger (Slater Consulting) about the inclusion of two components of uplift and the use of seven percent, Rick Gonzales (NYISO) indicated that the suggestion provided by the independent advisor was to look at the net absolute value of the daily balancing market congestion residuals which is a change from what the baseline value was. He indicated that the seven percent may also be revised.

Doreen Saia (Greenburg Traurig) stated that the absolute value is a new concept that needs to be confirmed as to the appropriateness of the other multiplier. The goal needs to go into place January 1st. The stakeholders need to understand how many additional changes may be made before the goal becomes effective on January 1st.

Doreen Saia (Greenburg Traurig) continued by stating it is very important that the uplift costs are reported appropriately. There is a need to ensure that this goal is structured to protect the NYISO against from impropriety or the appearance of impropriety.

Rick Gonzales (NYISO) indicated that these goals are reviewed and discussed with the independent advisor.

Mike Mager (Multiple Interveners) stated the NYISO up lift is an important issue from the market efficiency perspective. By the same token, Multiple Interveners does not want an appropriate goal eradicated by circumstances that may not occur.

Tom Rudesbusch (MEUA) reported that his clients are concerned with the uplift costs and appreciate everything the NYISO can do to make the system more efficient.

Brad Kranz (NRG) stated that the stakeholders agree improving market efficiency is the right objective and improving the uplift is objective. Should NYISO create a goal that treats the symptom or should it create a goal that creates the right incentive to pursue the solution. A suggestion is to track this as a

tentative goal to identify how it operates and use that information to create an incentive goal for the following year.

In response to a question from Mark Younger (Slater Consulting) whether this goal would be reoccurring, Rick Gonzales (NYISO) indicated this goal could be analogous to the price corrections as a goal and reflects continued vigilance to market efficiency.

In response to a question from Howard Fromer (PSEG). Rick Gonzales indicated that the proposals provided by IPPNY were still being examined.

Doreen Saia (Greenburg Traurig) requested more information on the reassigning of the baseline number for the metric and asked how forced outages will be excluded from the calculation. Rick Gonzales (NYISO) agreed to post them.

Ray Stalter (Edison mission) inquired if the customer satisfaction survey pending 2009 results will require the thresholds to be revised for 2010. Mike Swider (NYISO) responded that the customer satisfaction goals were revised.

8. New Business

Kevin Jones (LIPA) requested a discussion regarding an item discussed at the last IPSAC meeting to understand what the NYISO communicated about the development of cost allocation for IPSAC council.

John Buechler (NYISO) reported the ISO's had agreed to research and summarize the existing cost allocations and plan to present that to the IPSAC at its next meeting. It is NYISO's intent to bring that summary to a forum before the next IPSAC meeting.

Bill Heinrich (PSC) mentioned that cost allocation needs to be addressed and should be addressed from the bottom up rather than have FERC order it

9. Adjournment