

Northeast Seams Report

Update on Northeast Seams Issues

August 8, 2007

NYISO Business Issues Committee Meeting





Status of Seams Projects

Current Deliverables

| Project | 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.■ In 2007, ISO-NE and NYISO will evaluate a participant-initiated proposal for intra-hour transaction scheduling. The proposal would allow transactions to be scheduled on shorter notice and, potentially, for shorter duration. The shorter timeframes would allow participants to more quickly respond to price differences between the two areas. |

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Status of Seams Projects *Current Deliverables*

| Project | Description |
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| <p>2. Regional Resource Adequacy - RAM</p> | <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. 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. On June 16, 2006, the Commission issued an order approving the proposed capacity market settlement agreement for the New England region. ISO-NE has implemented a transitional capacity payment mechanism as of December 1, 2006 pursuant to FERC's approval of the capacity market settlement agreement. In addition, ISO-NE is in the process of implementing the post-transition Forward Capacity Market established by the settlement agreement. ISO-NE has developed a proposal for capacity exports under its Forward Capacity Market. Stakeholder discussion is scheduled for completion on or about August 1, 2007 with the compliance filing with FERC to follow shortly thereafter. |

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Status of Seams Projects *Current Deliverables*

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| <p>2. Regional Resource Adequacy - RAM (Continued)</p> | <ul style="list-style-type: none"> ▪ PJM introduced their original Reliability Pricing Model (“RPM”) proposal in June 2004. After several revision, PJM filed its RPM proposal with FERC on August 31, 2005. On April 20, 2006 the FERC endorsed the major principles of RPM. On May 17, 2006, FERC appointed an Administrative Law Judge (ALJ) to oversee settlement proceedings in parallel with the technical conference and paper hearing procedures. Parties filed proposed settlement on Sept 29, 2006. On December 22, 2006, FERC approved the settlement agreement with conditions that separate Locational Delivery Areas exist and prices are set in each area through an auction with a demand curve for three years in advance. Also, specific mitigation rules are included. In April ‘07, PJM’s first RPM capacity auction for delivery during the planning year June ‘07 through May ‘08 period was conducted. ▪ ISO-NE and PJM presentations on their FCM and RPM approved market designs were made at NYISO 11/2/06 and 11/17/06 ICAP Working Group meetings. ▪ The NYISO BOD directed NYISO to actively pursue with MPs: (i) revisions to the ICAP demand curves; (ii) whether longer term or forward ICAP markets would benefit NY; and (iii) whether monopsony market power exists in the ICAP markets. ▪ On 2/12/07, the NYISO presented a timetable to the ICAP Working Group for the development of a straw proposal for forward ICAP market design by July 1, 2007; stakeholder discussion of proposal in Q3-2007; and governance discussions/approval during Q3-2007 & Q4-2007 time period. |

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Other Seams Related Activity

Recent Initiatives

| Activity | Description |
|--|---|
| <p>3. Cross-Border Controllable Line Scheduling</p> | <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. NYISO and ISO-NE have made their respective FERC filings required to support the implementation schedule. Scheduling on the 1385 was activated on June 27, 2007. |

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| <p>3. Cross-Border Controllable Line Scheduling (continued)</p> | <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 has implemented the software to permit scheduling at the Dennison proxy bus with HQ in October 2006. This interface was scheduled to be activated for bidding on August 1, 2007; however, issues with DOE export permits may postpone activation. ▪ NYISO scheduling software for the Neptune, Dennison and 1385 controllable lines was deployed on 10/11/06 and this software will remain in an "inactive" state until all parties are prepared to start scheduling. NYISO's tariff filing for scheduling across Neptune and Dennison occurred on February 23, 2007 and PJM's tariff filing for their scheduling of Neptune occurred mid-March. ▪ The Neptune 660 MW HVDC tie between New Jersey and Long Island began testing on May 15, 2007, and began commercial operation on July 1, 2007. This tie will be scheduled in a similar manner to the Cross Sound Cable and initially will only support import transactions into the NY Control Area. |

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Other Seams Related Activity

Recent Initiatives (continued)

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|--|--|
| 7. COORDINATION OF INTERREGIONAL PLANNING | <ul style="list-style-type: none"> ▪ To continue to develop ways to improve the coordination of planning for the Northeast region, this project is established to identify future deliverables towards achieving progress in this endeavor. ▪ ISO-NE, NYISO, and PJM are considering input received from stakeholders on future deliverables at the IPSAC meeting held on March 23, 2007. ▪ PJM, NYISO, and ISO-NE are currently exchanging modeling information and load flow analysis such that work completed in 2006 can be expanded in the 2007 work-plan. |
| 8. INTERREGIONAL CONGESTION MANAGEMENT | <ul style="list-style-type: none"> ▪ NYISO and PJM are evaluating a coordinated bilateral Congestion Management Process concept. PJM and NYISO met on April 12-13, 2007 and discussed possible opportunities for coordination. This intent of this activity is to develop a concept that enables optimal dispatch between control areas such that one control area may alleviate congestion in the other. A straw-man proposal is planned to be developed by late 2007 with market participant review planned for early 2008. |

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Issues Pending Further Discussion

| Issue | 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. Since late 2005, the NYISO's Market Evolution Plan is part of its strategic planning process. The NYISO suggested this item to its Market Issues WG for stakeholder discussion and prioritization. Following implementation (October 2006) and assessment of their reserve market, ISO-NE will consider inter-control area provision of reserves. |

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Issues Pending Further Discussion *(continued)*

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|--|--|
| <p>3. Congestion Rent Shortfalls Resulting From External Transmission Outages</p> | <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. ▪ NYISO will evaluate this issue as part of NYISO's market rules assessment initiative. |

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Issues Pending Further Discussion *(continued)*

| Issue | Description |
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| <p>4. Modeling of Netted Transactions at the NYISO-HQ Interface</p> | <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. HQUS made a presentation on this topic at the July 31, 2006 S&PWG meeting. ▪ The NYISO has proposed to implement a second proxy bus with HQ to account for wheel-through transactions. Each HQ proxy buses will have a separate ramp limit and will split the available ramp for that interface. FERC approval was received on May 16, 2007 and an implementation date is set for July 1, 2007. |

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Issues Pending Further Discussion *(continued)*

| Issue | Description |
|--|---|
| <p>6. Elimination of Rate Pancaking</p> | <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 18, 2005 to initiate discussions on this issue. With the Transmissions Owners as the primary drivers of this issue, NYISO and PJM are awaiting indications of intent from PJM's TOs as to the level of priority this issue has with the TOs. PJM has supply transaction data regarding volume and rates for PJM exports into NY. ■ The NYISO has also initiated discussions with IESO to eliminate export fees. The revenue application review process for the transmitter that owns the inter-tie transmission lines in Ontario, and is responsible to the provincial regulator for this fee, is currently ongoing. The possibility of eliminating the transmission export fee, along with other options, is being discussed at this rate hearing. The decision on the transmitter's revenue application is expected to be given in May of 2007. ■ The Ontario Energy Board recently upheld the \$1/MWh export charge from IESO. However, the IESO will be (1) conducting a study on appropriate export transmission service rates for Hydro One Networks' 2010 rate process; and (2) will start negotiations with the NYISO to pursue a reciprocal arrangement to eliminate export charges. In the Fall of 2007, the Ontario Energy Board will provide the date that a proposal may be presented. |

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Issues Pending Further Discussion *(continued)*

| Issue | Description |
|---|---|
| 7. Limitations Due to Loss of Large Source | <ul style="list-style-type: none">ISO-NE has historically limited resources above certain MW levels when tripping at higher outputs could result in reliability problems for one of the other northeastern markets.The three ISOs have filed a joint protocol with FERC on the coordination of loss of source procedures. Operating studies of the loss of source, including the Phase II HVDC line connecting Quebec and New England, have been updated and approved. Planning studies are underway by the Joint ISO/RTO Planning Committee (JIPC) and were discussed at the March 23rd IPSAC meeting. |

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