

Virtual Regional Dispatch Pilot Project Discussion

Management Committee

Agenda 8

September 1, 2004

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Presentation Overview

- Alternatives
- Objectives of VRD Pilot
- Overview of Pilot
- Proposed Timeline of Pilot

Alternatives to Proposed VRD

- The ISO will support conceptual design of the proposed alternative to VRD that relies on intra-hour MP transactions.
- The objective of VRD or the alternative is to produce an efficient use of the transmission system between NY and NE as called for by the BOD and the Market Advisor to both markets.

Alternatives to Proposed VRD

- Over the next several months the ISO will pursue a satisfactory alternate solution in cooperation with MPs.
- The intent is to complete conceptual design of the proposed alternate approach and return to the BIC and MC with a recommendation (VRD or alternate) in March 2005

Alternatives and VRD Pilot

- The VRD Pilot will evaluate processes that are common to **any method** (VRD or alternates) of utilizing short notice intra-hour transactions to improve price equilibration between markets.
- The information gained will apply no matter which method is chosen.

VRD Pilot Objectives

- Identify operations issues associated with intra-hour short term exchanges of energy
- Evaluate tools and data needed to facilitate intra-hour exchanges
- Observe the effect of intra-hour energy exchanges on all Proxy Bus prices
- Collect information and issue reports on Pilot tests
- Evaluate information in the context of any future activities related to intra-hour energy exchanges
- No impact on resources required for priority projects.

Overview of Pilot

- Pilot Test 1
 - Test 1 (Section 3 of the Whitepaper) will verify the ability to evaluate and schedule intra-hour transactions and will be used to identify any operational issues with scheduling
 - Test 1 will not attempt to converge prices between the Control Areas
- At the conclusion of Test 1, ISOs will resolve any operational issues and issue a Report to the Markets
- Further tests will build on results of Test 1

Overview of Test 1

- Test 1 will be composed of 2 test sessions; the first to be conducted in December, the second in January
- Each test session will be noticed to MPs two weeks in advance
- Each test session will be conducted on two successive days for four hours on each day

Overview of Test 1

- Each daily test will schedule transactions of specific MWs at defined intra-hour time intervals from one Control Area to the other
- Tests are designed to verify operational processes and minimize impact on operations and markets
- Transactions will be settled in a manner similar to Emergency Energy Transactions

Analysis Prior to Test 2

- At completion of Test 1, ISOs will identify any issues and propose resolutions resulting from Test 1.
- ISOs will issue a Report and discuss Test 1 results with MPs.
- Further test plans including any approach to Test 2 will be developed with MP input and concurrence.

Overview of Test 2

- Test 2 may be structured to move prices toward convergence at the NY/NE Proxy Busses using real time intra-hour transactions.
- Specific details of Test 2 will be developed based on information gained from Test 1.
- At completion of Test 2, additional Reports will be generated and shared with MPs

Tariff and Schedule

- The Pilot Project will require Tariff changes for the VRD transaction settlements
- BIC has reviewed the attached tariff language and recommends passage of the motion to proceed
- MC approval is sought today
- BOD approval will be sought in September