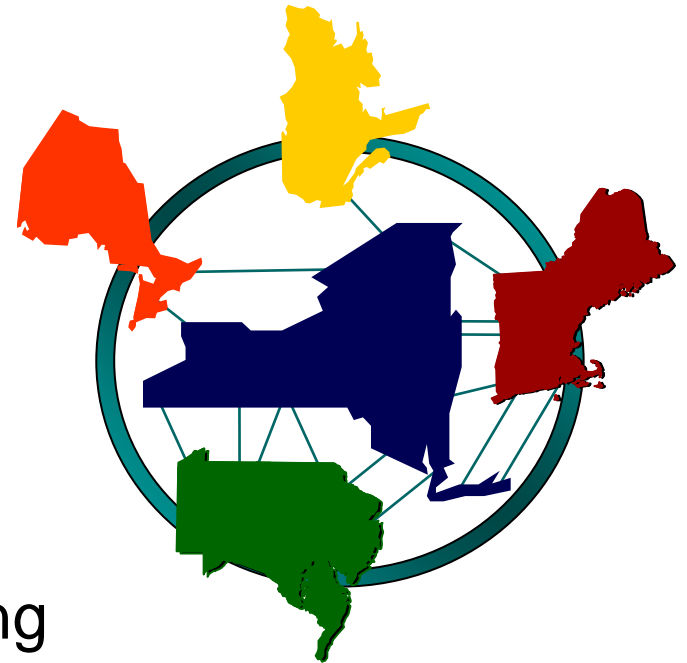


Northeast Seams Report

Update on Northeast Seams Issues

March 5, 2008

NYISO Management 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.

Note: The complete list of seams issues is updated each quarter for FERC. This is only a summary of recent activities.



Status of Seams Projects *Current Deliverables*

Project	Description
1. Intra-Hour Transaction Scheduling (continued)	<ul style="list-style-type: none"> <li data-bbox="510 496 1798 796"> ■ NYISO conducted a limited analysis of inter-market real-time transaction scheduling in 2007, in support of an assessment of real-time scheduling and compensation market rules. However, in 2008, that assessment of real-time market rules will focus on issues associated with generation scheduling, dispatch, and compensation. NYISO expects to re-evaluate the projected benefits of an ITS program in 2008, updating an earlier analysis to reflect current market conditions. If that analysis suggests the potential for substantial benefits for NYISO participants, NYISO will work with ISO-NE to determine the feasibility of moving forward with solution design and implementation. <li data-bbox="510 839 1798 1053"> ■ In 2008, NYISO and ISO-NE expect to jointly perform an analysis of the impact of uneconomic interchange between the NYISO and ISO-NE control areas. This analysis will attempt to identify the potential economic benefits of more efficient use of available interface transfer capacity. NYISO and ISO-NE will work together to identify market mechanisms that can lead to more efficient scheduling and dispatch across the interface between control areas.

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Status of Seams Projects *Current Deliverables*

Project	Description
<p>2. Regional Resource Adequacy - RAM</p>	<ul style="list-style-type: none"> ▪ On August 7, 2007 NYISO submitted a hybrid proposal for incorporating a voluntary forward market. The NYISO proposal is currently being discussed in the ICAP Working Group forum. ▪ 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*

Project	Description
<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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Status of Seams Projects *Current Deliverables*

Project	Description
2. Regional Resource Adequacy - RAM (continued)	<ul style="list-style-type: none"><li data-bbox="513 344 1794 672">▪ The NYISO has engaged NERA to develop a conceptual forward market design; discussions with the ICAPWG were held on 8/7/2007 and 9/12/2007. Con Edison presented their concept of a forward market to the ICAPWG on 9/12/2007, and IPPNY provided comments on the NYISO's and Con Edison's proposals at the 11/2/2007 ICAPWG meeting. At the Jan. 22, 2008 ICAPWG meeting, the NYISO presented an outline of one element of a forward market, the process to more closely tie together the demand curve reset process and the Reliability Needs Assessment. The NYISO will continue to work with stakeholders to develop the details of a forward market design.<li data-bbox="513 722 1794 865">▪ ISO-NE conducted its first Forward Capacity Market auction for 2010-2011 on February 4; the amount of capacity offered in the auction exceeded the amount needed to meet the Net Installed Capacity Requirement for the commitment period. PJM recently concluded its 2010-2011 RPM auction.

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Other Seams Related Activity

Recent Initiatives

Activity	Description
3. Cross-Border Controllable Line Scheduling	<ul style="list-style-type: none"><li data-bbox="484 401 1816 658">▪ 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.<li data-bbox="484 701 1816 815">▪ 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 have postponed activation.<li data-bbox="484 858 1816 1001">▪ 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 is 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)

Activity	Description
<p>4. COORDINATION OF INTERREGIONAL PLANNING</p>	<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. ▪ On December 14, 2007 another IPSAC meeting was held by teleconference and web-ex at which the ISOs made presentations on several topics, including: New England Loss of Source Feasibility Study; planned system improvements in each ISO/RTO region; environmental and renewable resource issues. In addition, the ISOs presented their proposed Scope of Work for an inter-regional transmission adequacy study for discussion and stakeholder input. Stakeholders raised additional issues that are currently under consideration. Interim study results will be discussed with stakeholders in the late spring of 2008 and final results will be discussed with stakeholders and final results will be discussed during the 3rd quarter 2008. The next IPSAC meeting is planned for the 3rd Quarter 2008. ▪ The Northeastern ISO/RTO Coordination of Planning Protocol currently provides that cost allocation will be addressed consistent with the provisions of each ISO/RTO's Tariff. Merchant and elective upgrades can already be accommodated within existing tariffs. Studies are ongoing to identify potential cross border physical improvements to the system. The Protocol allows for the development of additional cost sharing mechanisms as may be needed in the future.

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Other Seams Related Activity

Recent Initiatives

Activity	Description
5. INTERREGIONAL CONGESTION MANAGEMENT	<ul style="list-style-type: none"><li data-bbox="523 425 1785 646">▪ 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.<li data-bbox="523 689 1785 911">▪ NYISO and PJM are evaluating a coordinated bilateral Congestion Management Process concept. The 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. NYISO continues to work with PJM on the development of a feasible process. NYISO presented a Congestion Management process overview to market participants at the December 14, 2007 Market Issues Working Group.

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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)*

Issue	Description
2. 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.▪ 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
<p>3. 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. The IESO will begin discussions with its neighbors early in 2008 and will complete its market impact studies in 2009. The Ontario Energy Board must approve any changes to Hydro One's export transmission charges. <p>Note: The complete list of seams issues is updated each quarter for FERC. This is only a summary of recent activities.</p>



Issues Pending Further Discussion *(continued)*

Issue	Description
4. 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.■ Analysis of potential of short-term transmission changes (series reactors) that could relieve the severity of the loss of source contingencies were discussed at the December 14, 2007 IPSAC meeting. They have been shown to produce marginal benefits and to introduce potential operating problems. They were discussed at the December 14, 2007 stakeholder meeting and it was agreed that these changes should not be pursued.

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