

Reserve Self Supply

MSWG

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Draft - For Discussion Only

Reserve Self Supply Status

- Compliance filing due in response to FERC order to continue working with MPs to arrive at an acceptable self supply option.
- Physical self supply is an impractical option under the NYISO financial market design.
- Previous NYISO filing indicated the possibility of taking no further action if East and West reserve price differential was essentially nil under SMD2.
- One objecting intervention was filed. FERC agreed that their argument has merit and ordered continuing work.
- We have met with the objecting party to discuss their concern. We believe that we can address their concern and be responsive to FERC's order.

Reserve Self Supply

Filing Plan (Staff recommendation)

- Make the tariff consistent with the current process
 - Amend the current tariff to identify the two financial options currently noted in the tariff as the only self supply options available in NY. – This makes our current process unambiguously compliant with the tariff.
- Include an action plan that is responsive to the issue raised in a complaint FERC cited to justify the order to continue pursuit of a satisfactory reserve self supply option.
 - The complaint focused on the need for transmission optimization if locational pricing of reserves was to be pursued for the NY reserve markets.
- File a schedule for further action on self supply to be commensurate with a real need.
 - Defer work on reserve self supply until either resources are freed from higher priority tasks (at least 2007) or reserve prices between East and West diverge substantively or both.
 - This approach is consistent with our previous request and the performance of the reserve markets under SMD2.
- Gain 100% approval of a self-supply plan by MPs.
 - No non-supportive interventions.
 - Supportive filing from previous complainants

Reserve Self Supply Filing Content

- Make our case that *physical* self supply is an impractical option under the NYISO financial market design and that any improvement in the reserve cost hedging mechanism would likely contain a move to locational settlements.
- Confirm that we would also have to address the potential need for transmission optimization at that time.
- Follow up our previous filing with supporting documentation to confirm that East/West reserve differentials continue to be small and currently present no substantive inherent benefit associated with locational settlements.
- Note that MPs are satisfied that implementing a perfect financial hedge for reserve costs could be a complex task and they do not feel any threat exists at present that NYISO reserve markets will fail.

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SMD2 Attached Data Summary

- 10 Minute spin E/W differential is \$3 or less 96% of the time.
- 10 Minute non-spin is \$3 or less nearly 98% of the time.
- We have requested a follow-up on last year's self supply cost savings analysis from LECG to supplement the attached data.

Reserve Self Supply Filing Options

1. Continue to perfect our case for deferring any action on additional reserve cost hedges.
 - Continue monitoring market performance
 - Re-evaluate in 2007
2. File a plan for a 2007 reserve hedging enhancement.
3. Raise the priority of a reserve hedge to supplant currently planned 2006 work.