
DRAFT**NYISO Management Committee Meeting Minutes****April 25, 2012****10:00 a.m. – 2:30 p.m.**

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

Mr. Howard Fromer (PSEG), the Chair of the Management Committee (MC), called the meeting to order at 10:00 a.m. and welcomed the members of the MC. Meeting participants introduced themselves and their affiliations. There was a quorum. Mr. Fromer noted a change in the agenda. The tariff language related to ancillary services mitigation rules will be postponed to the May MC meeting and the delay will not result in any implementation delays. Also, going forward on a monthly basis, the NYISO will provide in the meeting materials a list of future FERC compliance obligations.

2. Approval of MC Minutes – March 28, 2012***Motion #1:***

The MC hereby approves the meeting minutes from the March 28, 2012 meeting.

Motion passed unanimously with an abstention.

3. President and CEO Report

On behalf of Stephen Whitley, Mr. Rana Mukerji (NYISO) reported that from the April Board of Directors meeting, Robert Hiney was re-elected as Chair and Michael Bemis will serve as Vice Chair. Richard Shuler retired and Anastasia Song was elected as the new Board member. The Joint Board and MC meeting is scheduled on June 11 in Saratoga. The NYISO will provide more details on this event soon.

Ms. Emilie Nelson (NYISO) provided a summary of the monthly Operation's Report. She reported that on April 5, three out of four of the new Ontario-Michigan PARs were placed in service. Ms. Patti Caletka (NYSEG) asked if the NYISO is expecting any cost allocation re: the PARs. Mr. Rob Fernandez (NYISO) noted the NYISO is establishing a cost allocation method for the cost of the PARs. The NYISO has taken a position at FERC that the underlying charges are unlawful. FERC put the rate into effect subject to refund. Until the legal issue is resolved, New York will probably receive bills. The NYISO hasn't established a way to collect and remit those payments yet. Ultimately, the legal issue whether these charges are permissible or not will be determined by the D.C. Circuit Court of Appeals.

Ms. Caletka asked if the NYISO planned on not collecting those charges from the Market Participants. She noted that she heard that PJM will be receiving a bill and thought that PJM was not going to pay those costs either. Mr. Fernandez clarified that PJM made a request for declaratory ruling asking for the FERC to instruct PJM on how PJM should allocate and remit these charges to NYISO assuming that they were receiving invoices. The FERC denied PJM's request for declaratory ruling and FERC said that PJM needs to determine the appropriate method and make a 205 filing. The NYISO has a companion request for declaratory ruling pending at the FERC asking the same question. The FERC has not yet ruled on the NYISO's filing. The problem that the NYISO has is that, unlike PJM, the NYISO cannot make a 205 filing without the mutual agreement of the MC and the Board of Directors. And the NYISO has indicated to FERC in prior pleadings that the NYISO didn't believe that a 205 filing would get the requisite approval at the MC. The NYISO is also thinking through what it needs to do if the NYISO gets a bill and receives an

adverse ruling on the declaratory request, and failure to pay the bill would result in a compliance problem with FERC.

Mr. Bart Franey (National Grid) asked if the NYISO could provide a report of the upstate out-of-merit generation commitments being made for security. Mr. Brad Kranz (NRG) noted that the Monthly Operations report does include a slide that provides a list of generating units as well as the reasoning for the local reliability commitments.

Mr. Mukerji provided a summary of the market operations report. Mr. Mike Mager (Multiple Intervenors) lauded the NYISO for keeping uplift costs low and asked for clarification on how the uplift could have a negative number.

Ms. McGarvey reported that the mild winter weather affected the NYISO's budget in terms of under-collections of Rate Schedule 1 for Q1 2012. The NYISO is expecting a shortfall for 2012 of \$2.9 million. The NYISO is looking at opportunities to reduce spending to further offset the under-collection, but is also working to address spending challenges to support 2012 projects that are costing more than anticipated. Mr. Mager commented that the NYISO should explain why it should or should not change its fiscal year from July 1 to June 30 so that the critical summer period can be accounted for in determining if there would be a shortfall. Ms. McGarvey said the NYISO could analyze this, but will continue to provide budget updates to stakeholders. Ms. McGarvey provided an update on FERC Order 741a. The NYISO was awaiting an advisory opinion from New York State that the NYISO's tax exempt status would not be affected by forming a central counterparty. The NYISO did receive an opinion from NYS last week confirming that its tax exempt status would not be affected and as a result, and the NYISO will make a filing by April 30.

4. Smart Grid Investment Grant Update

Mr. Brian Zink (NYISO) provide a status update of the SGIG project. The NYISO initially expected 39 PMUs, but has increased the total number to 43 PMUs. Currently, the NYISO has 25% of the PMUs installed. Also, 11% of the total capacitors are installed. The NYISO is estimating that all PMUs, except for 5, will be installed by end of 2012. Currently, there are 8 PMUs in New York submitting data to the NYISO control room. The NYISO is also receiving data from 40 MISO PMUs. The NYISO is testing the data. Mr. Stu Nachmias (Con Ed) asked if there is a plan to receive data from other ISOs and why is MISO so far ahead of the others. Mr. Zink said MISO was simply the first ISO ready to send the NYISO data, but the neighboring ISOs will also be submitting data to give the NYISO broader awareness.

From an equipment standpoint, the communications lines to TOs to receive this data will be complete by August. The architecture of the hardware is being finalized and procurement of the equipment should also be complete by August. The NYISO is performing two studies (Dynamic Calibration Study and Control System Separation) and both will be completed by the end of year. Mr. Zink reported that the Department of Energy (DOE) visits the NYISO to monitor the progress of the project and DOE will visit this year on July 27. The DOE is heavily focused on the cyber security aspects of the project and the NYISO is working with the TOs on the cyber security plan. Mr. Zink said there is no need for extension of the project and it is expected to be completed by June 2013.

Budget update: The project is currently on an uptrend on spending because of equipment purchases and is running at \$20 million spent of the \$75 million. For the NYISO's portion: the NYISO has spent 46 percent of allocated budget, but this will increase when more equipment is purchased. Mr. Nachmias asked how much of the money has been reimbursed. Mr. Zink said \$20 million has been spent and \$10

million has been reimbursed. Mr. Zink said the federal grant is 50% cost share so the \$75 million is the total to be spent of which \$37.5 is reimbursed by DOE funds.

5. TCC Markets Tariff Revisions – Attachment L

Ms. Lisa Travaly (NYISO) reviewed the presentation included with the meeting material. LIPA requested a change to an underlying Existing Transmission Agreement (ETA) of Contract No. 74. LIPA and the NYISO followed the accepted revision process before stakeholder review.

Mr. Nachmias questioned the motion language because the underlying parties approved the changes in the agreement and the MC is not approving it, but simply recommending to the Board to file under Section 205. Ms. Travaly said the NYISO is strictly informed to process the changes, pursuant to the submitted ETA amendment(s). It is not in the NYISO's purview to question those contract changes, but to reflect them if the paperwork is pursuant to the contract and is agreed to by the holder of the ETA and the providing TO.

Motion #2:

The Management Committee (MC) hereby approves and recommends that the NYISO Board of Directors authorize the NYISO staff to file under Section 205 of the Federal Power Act, amendments to the NYISO's OATT Section 18 as described in the presentation entitled "TCC Markets OATT ATT L Revision", made to the MC on this date, April 25, 2012.

Motion passed with abstentions.

6. ICAP Spot Auctions Bidding Requirements

Ms. Sheri Prevratil (NYISO) reviewed the presentation included with the meeting material. The NYISO periodically reviews its credit policy to ensure credit requirements match the risk associated with the markets. The NYISO is recommending using the most recent monthly auction price, plus a margin, by location, to determine the bidding requirement for the ICAP Spot Market Auction.

Mr. Nachmias asked if the different capability periods were studied in the credit exposure breakdown for the different zones. Mr. Prevratil said the entire year was analyzed in the formula, but the two different capability periods were not fully analyzed. Mr. Fromer asked if the NYISO could study this further. Ms. McGarvey said the NYISO could do the analysis, but any changes to the variables or the formula could lead to a longer implementation timeframe. Mr. Fromer said it would be good to know if the numbers change for different seasons. Ms. Caletka said NYSEG agreed with Con Ed and supported postponing this proposal.

Mr. Clarke said LIPA shares this concern, but prefers adopting this proposal because it reflects current conditions and then at a later date return to this structure when the market approaches the reference levels to analyze the credit exposure compared to the surplus.

Mr. Franey asked for a commitment be made that states this proposal is an improvement over the existing formula, but it is an interim improvement, and it needs to be more robust. Ms. Prevratil said she couldn't commit to implementing a 2013 project on this because of resource constraints, but could commit to the analysis. Mr. Fromer suggested postponing this proposal until next month and allow it to be improved upon at the working group level. Mr. Glen McCartney (Exelon) noted he would like this proposal to proceed forward, but has no objection of taking this proposal to the CPWG as long as implementation does not change.

Mr. Nachmias asked if a delay would impact the schedule. Ms. Prevratil said coming back to the May MC would not impact the schedule. She pointed out that the NYISO is hoping to implement it by October, but with resources tied up with Order 755, it could get delayed to January 2013.

The MC agreed that the proposal should be postponed to the May MC meeting.

7. State of the Market Report

Mr. Pallas LeeVanSchaick (Potomac Economics) reviewed the presentation included with the meeting material. Mr. LeeVanSchaick noted that he will also be presenting the report at the May 15 MIWG session.

Mr. Mager asked if the MMU looked at the driving forces of the declining prices. Mr. LeeVanSchaick said the MMU doesn't do a quantitative assessment, but a qualitative assessment that attributed the declining prices to lower natural gas prices.

Mr. LeeVanSchaick said one of the MMU's concern is that the NYISO's capacity zone proposal pending before FERC may not result in the creation of a new capacity zone at the location where it would be beneficial to the market. Recommendation 1 is for NYISO to modify its proposal to improve consistency between the deliverability test criteria and the capacity zone determination because otherwise in the future generators will not be able to enter the market without paying for transmission upgrades on highway facilities where it would be better to reflect constraints in different capacity prices in different areas. The point is that even if a new capacity zone is created, there will be a need in the future to create such a zone in a timeframe that's early enough to direct efficient investment in the right areas and not create barriers to constrained areas. The MMU believes this to be a high priority.

Mr. Clarke asked if the report suggests a combined cycle unit is less expensive than a gas turbine unit in Long Island. Mr. LeeVanSchaick said since combined cycle units have lower heat rates and higher energy revenues, unless the cost of new entry (CONE) is much higher for the combined cycle unit, the net CONE of the combined cycle unit is lower than the net CONE for combustion unit.

Mr. Kevin Lang (City of NY) asked if any analysis had been done of how many capacity zones are needed in New York and when they are needed. Mr. LeeVanSchaick said the MMU has recommended in 5 reports to create a new zone. Mr. David Patton (Potomac Economics) said ultimately the MMU thinks the best thing to do is to look predefine the major constraints in New York and stop thinking that new zones are created one at a time. And those constraints would then not generate SDU costs and may or may not bind the capacity auction. There's no reason to wait until you think they are going to bind when you create them, because when they don't bind, they don't impact the auction. Under the NYISO's current proposal, it only creates new zone when CRIS rights and capacity sellers would overload a constraint which would amass deliverability constraints because new entities are entering or imports want to enter.

Ms. Doreen Saia (GenOn) expressed a concern that the report does not explain in more detail the recommendations being made and that she would appreciate a description of the outcome of implementing those recommendations. She asked if the MMU could speak more about these recommendations at the May 15 MIWG. Mr. Younger suggested it would be good if the MMU attended the working group meetings so that the MMU's opinion could be expressed.

Mr. Mager asked if the MMU looked at whether supply side or buyer side mitigation measures would be needed for new zones. He said that one concern of MI is the lower Hudson Valley where 3 owners control 95% of the capacity. Mr. LeeVanSchaick said the NYISO's proposal for ancillary services mitigation are comparable to the NYC model.

Recommendation 2 is that the capacity demand curve reset process should use the most economic technology that is generally available for setting the demand curve so that it results in investment at levels that are sufficient to maintaining the planning reserve requirement efficiently but without excessive levels of capacity needed for the planning reserve requirement. Mr. Younger asked for clarification because of the different tax treatments in NYC.

Mr. Lang asked whether when the MMU states the demand curve should take into account the tax treatment of a unit, is the MMU suggesting a tariff change in how the demand curve is calculated? Mr. LeeVanSchiack said the MMU is trying to pick the most economical unit depending on a number of factors. It makes sense to reflect the taxes and costs that projects face, so it makes sense to change the tariff to reflect it accurately. Mr. Fromer asked if it is fair to say that the reference price should include all costs associated with the most economical technology. Mr. LeeVanSchiack said that is correct.

Recommendation 3 is to clarify and improve the ICAP qualification requirements and supply-side mitigation measures. Mr. Younger thought that this is already accounted for in the capacity market and didn't understand this recommendation. He asked the MMU to provide a hypothetical example. Mr. LeeVanSchiack said he could provide an example at the May 15 MIWG. Ms. Saia said it would be helpful to have an explanation of how the three parts of this recommendation matches with the PSC six month retirement process that a generator deals with in addition to the NERC requirements. Ms. Saia said it is incumbent on stakeholders to come up with the appropriate set of rules.

Mr. Lang asked if the MMU will come forward with specific recommended changes to address these issues and if so, when. Mr. LeeVanSchiack said the MMU would participate in a committee process where it could provide comments, but will not provide any proposed tariff revisions. Mr. Lang said the MMU has more information on the nature of the problems than others, and it's difficult for others to draft tariff language when others don't fully understand the issues.

Mr. Lee VanSchaick reviewed the remaining MMU recommendations. Mr. Mukerji reminded stakeholders that the NYISO reviews the MMU report, prioritizes the recommendations, discusses them with the Board, and puts recommendations in the project plan.

8. New Business

Mr. Mark Seibert (NYISO) noted that the PBS series "America Revealed" visited the NYISO for an interview and it will be televised on April 25. The parking at the NYISO's Krey Blvd. site was discussed.

The next meeting is on May 30, 2012. Meeting adjourned at 2:30 p.m.