

Other Suppliers

Other Suppliers Sector Presentation to the NYISO Board October 17, 2000

The Other Suppliers Sector presentation to the Board consists of two parts. The first consists of a "Report Card", in which we review the progress made by the NYISO in responding to the serious market liquidity problems that our sector raised at our last meeting with you in April. The second part of our presentation contains an abbreviated list of the most important projects that our sector believes the ISO should focus on over the remaining months prior to next summer. We firmly believe that satisfactory resolution of these issues is both achievable in this time period and will enhance the market for all participants.

1. Communications

At our April session we noted that communication between the ISO and market participants' operating personnel was in need of substantial improvement, both in terms of access to ISO personnel and to market data in the exclusive control of the ISO. While improvement has been made in this area, much more needs to be done to enhance the level of service provided to the ISO's customers. For example, it was not until the beginning of October that marketers finally were given access to a dedicated ISO phone number to call to discuss transactions that were being cut hour-ahead. Access to ISO personnel with decision making authority is essential if transactions that might otherwise be cut due to failed checkout procedures are to have any possibility of being restored for the scheduled hour -- a goal that is clearly in the interests of both the ISO and market participants. Whether the level of staffing, decision making authority and checkout procedure timeline will allow this goal to be realized remains to be determined.

We also noted the critical need to improve the flow of information in the market. On this issue, we note that the BIC has recently approved a list of historical and real time information that it wants released to the marketplace. Prompt implementation of this BIC action is essential to improve the transparency of market operations.

The benefits of increased transparency and data release include:

- Increasing data release allows all market participants, not just the NYISO, to play a role in policing the market and identifying rules problems, operational issues, etc.
- Better information regarding the current and expected state of the transmission system and loads will enable market participants to anticipate conditions and marshal supplies (or demand response) that would not otherwise be available in real time if the information were not known until after the fact or not at all. The result of greater resource availability is lower and less volatile prices.

- Transmission owners, who are market participants, currently enjoy much greater access to non-confidential information than do other market participants. Comparability cannot be achieved unless other market participants have access to this information.

2. Emergency Purchases

We urged that emergency purchases should be standardized across the New York, New England and PJM ISOs. We noted that standardization of criteria, products, and terms and conditions would improve both reliability and efficiency of the markets.

In our view, the NYISO has made significant progress in achieving the requested standardization.

3. External Transactions

In April, our sector highlighted the many problems being experienced in trying to schedule transactions into, out of, and through New York. We emphasized that external transactions must be afforded the same opportunities as internal generation. To accommodate the scheduling of such transactions in the day ahead market, we recommended that the New York ISO permit the election of must-run status for such transactions.

The scheduling of transactions continues to be a very significant problem for the NYISO. Transactions at the borders of the NYISO continue to be cut when the pricing signals would indicate they should flow. This is one of the most critical items facing the NYISO. Market participants outside of New York simply cannot afford to take on any obligations to serve New York customers from generation located outside of New York because there is absolutely no assurance that any transaction will flow at a given time. The NYISO must offer market participants the ability to buy firm transmission in order to assure the physical delivery of their transactions. TCCs have not proven to provide the financial equivalent of firm transmission rights due to the well documented problems with BME, which routinely causes economic transactions to get cut hour ahead and requires market participants to cover their positions at real time costs and congestion, often at a loss.

4. Sharing of Operating Reserves

The fourth point we made in April was that the ISO should develop an alternate agreement for sharing of operating reserves. We noted the importance of this issue to be resolved for the summer of 2000 at least with respect to allowing increased energy flows from Hydro Quebec. In the longer term, shared reserves between New York and our neighboring control areas should be pursued, since it has the potential to result in lower energy prices without compromising reliability.

This goal was achieved by the summer of 2000 with respect to additional energy flows from Hydro Quebec.

5. Coordination Between Adjacent Control Areas

In our fifth point, we emphasized that communications and coordination between adjacent control areas (e.g., New York – PJM and New York – New England) needed to be improved. We noted that the coordination of daily transactions and the associated tie-out procedures needed to be consistent to eliminate any potential for participant confusion about which transactions are flowing as well as to minimize inadvertent energy flow.

While some improvement in communications between the ISOs has occurred and been beneficial, coordination of scheduling has not been achieved, largely due to the fact that two separate systems are used on each side of New York's border to schedule a single transaction. This is true for the interfaces between New York and New England, PJM, Ontario and Hydro Quebec. In our view, having two traffic officers each directing traffic at a common intersection, with each ignoring the other and giving contradictory instructions, is a recipe for disaster. At a minimum, New York needs to rethink its BME process with an eye towards achieving consistency with the way all of our neighbors do business.

6. Lack of Operating Restrictions Information

The sixth issue we raised last April concerned the need for improvement in communicating operating restrictions to the market place. We noted at that time that whenever the NYISO determines that congestion will occur in either the Day Ahead or Real Time Markets and posts in its Dispatcher Notices the generators that are asked to run out-of-merit order to relieve congestion, the NYISO should post the critical contingency causing the out-of-merit order dispatch. In doing so, the NYISO should identify the critical condition (e.g., facility overload, voltage drop constraint, or stability condition). We pointed out that PJM currently posts the reason for redispatch and the corresponding critical contingency, which the NYISO could use as a template.

We believe that this issue ties in with the issue addressed in item 1 above. Again, the more information the market participants have, the better able they can make judgments that enhance not just their own interests, but reliability as well. Participants may alter their bidding patterns in response to where the energy is needed most.

7. April Recommendations

To address the liquidity problems identified above, the Other Suppliers sector made a number of specific recommendations in April. Regrettably, none of them have been implemented by the NYISO. We are very troubled by the failure to address these concerns, and will again be

proposing some near term fixes in the second part of this presentation. Specifically, last April our sector urged the following:

- A. **Establish Virtual Bidding and Hubs**: The applicable systems should be modified to permit virtual buy/sell bids and multi-party transactions at any location and eventually to facilitate the creation of trading hubs within the New York market. Presently the rules restrict bidding of supply resources to physical generation and demand bids to load serving entities. This bidding restriction results in the New York market being "totally physical" markets. This physicality requirement is another factor restricting market liquidity.

- B. **Overhaul BME**: A major overhaul to the Balancing Market Evaluation program (BME) is required so that the Hour Ahead Market (HAM) schedule/prices and real-time market functions properly. The HAM is utilized by the ISO to commit resources based on a forecasted hour-ahead price for the real time market. Specifically, the ISO utilizes a projected HAM price 90 minutes prior to the real time in making its decisions to dispatch both internal and external units. Significant problems have arisen whereby the forecasted HAM price has been significantly different from the real time price. This has led to market distortions and is causing external units not to receive their bids for the real time market.

- C. **Establish Consistent Ramping Procedures for Transactions, Posting and Closing Times for the Day-Ahead-Market, and the Proxy Bus Representation of Neighboring Control Areas**: The NY model needs to be modified to be consistent with neighboring control areas. These issues emanate from the meetings concerning the Memorandum of Understanding executed by the CEO's of the NYISO, PJM, and NEPOOL in the fall of 1999. FERC Order 2000 also places significant emphasis on these types of issues related to making pool boundaries "seamless" for power markets and transmission service. To make the New York markets more transparent, efficient, and liquid it is important to be as consistent as practicable with the operation of markets in neighboring regions.

- D. **Establish Firm Transmission Rights**: Reservation procedures for firm transmission service and other transmission services need to be modified to be consistent with the NYISO Open Access Transmission Tariff (OATT). One of the primary roles of the ISO is that of a transmission provider with an obligation to implement transmission services in accordance with its OATT. There are no current rules or procedures in place that enable a transmission customer of the ISO to procure firm transmission service longer than hourly in accordance with the NYISO OATT.

- E. **Improve Documentation and Posting of Billing Related Data**: The NYISO needs to improve its documentation and posting of billing data so that the billed entities

can accurately verify and reconcile bills on a regular, daily and monthly basis. The current information available to customers of the ISO does not afford them the ability to accurately reconcile their bills on a regular basis.

8. Conclusion

To summarize, the Report Card our sector would give the NYISO would be barely above passing. While we've all worked hard to keep the lights on, we do not yet have a truly functioning and vibrant wholesale market. We must address the liquidity problems that continue to plague this market, if we are to enjoy the kind of competitive market place envisioned by FERC, the NY Public Service Commission and all market participants. Specific recommendations for priority projects that should be undertaken by next summer will be addressed in the second part of this presentation. Finally, given the upcoming RTO filing, we also want to ask the Board to consider establishing an independent market monitoring function that would be accountable to a separate Board that would be comprised of representatives of the existing northeast ISO Boards. We believe that combining these functions will provide economies and efficiencies in ferreting out market problems and abuses and in identifying changes and improvements to the markets. An independent unit accountable directly to the joint Board members also will enhance market participant confidence in this very critical function.

Again, we thank the NYISO Board of Directors for their consideration of these important issues. We look forward to discussing these and other issues with the Board and ISO staff and to an ongoing dialogue.

NYISO
Short Term Market Fixes
Other Supplier (OS) Perspective
NYISO Board of Directors Meeting
October 17, 2000

OS Sector: Short Term Fixes Perspective

- You've seen the report card
 - Mixed results - many major issues wanting
 - Begs question: Where to from here?
- Based on a BIC Leadership initiative
 - Fundamentally approach priorities by narrowing the focus of ISO Staff to fewer issues
 - Rest of presentation goes to this approach
 - needs Participant, ISO management and Staff buy-in
 - **Target: May 2001**

OS Sector: Short Term Fixes Perspective

- Narrowed focus issues
 - Liquidity
 - adding some
 - Balance Market Evaluation/Real Time
 - minimize economic harm
 - Generation Issues
 - improve ability for off-dispatch and unschedulable resources to participate
 - Dispatchable/Scheduled/Interruptible Load
 - key component to markets; a must have
 - keen political interest in success here

OS Sector: Short Term Fixes Perspective

- Narrowed focus issues (cont..)
 - Data/Information Access
 - additional operational data requested by BIC
 - basically monitoring ISO to ensure provision ASAP
 - Reserve Issues Project Scopes (9/1 Filing)
 - need to consider delaying these tasks
 - Other tasks not considered to have impact:
 - Stage 2 ICAP
 - TCC Allocation
 - SRIS Studies

OS Sector: Short Term Fixes - Details

- Liquidity
 - Minimum run time on transactions (block trading)
 - Establish trading Hubs
 - use of 3rd party analysis with ISO/Participant approval
 - Price capped virtual load bidding
 - Creation of virtual trading layer
- ⇒ *Virtual generation bidding*
- ⇒ *Longer term transmission reservation scheme*

OS Sector: Short Term Fixes - Details

- BME/RT
 - Some form of settlement between HA and RT
- ⇒ HA/RT needs a major redesign*

OS Sector: Short Term Fixes - Details

- Generation Issues
 - Off Dispatch Units following price without penalty
 - Increased participation by intermittent renewables
 - Increased limit

OS Sector: Short Term Fixes - Details

- Dispatchable/Scheduled/Interruptible Load
 - Load entry in Day Ahead Markets (“Hard solution”)
 - Mirror of a generator:
 - Participate as an Energy supplier
 - load does not get served in real time
 - Participate as a supplier of Reserves
 - interrupted on an as needed basis