

## **NYISO Business Issues Committee Meeting Minutes**

Nov. 8, 2006

The New York State Nurses Association

11 Cornell Road

Latham, NY 12110

### **1. Welcome and Chairman's Report:**

Mr. Ray Kinney (NYSEG/RG&E), Chair of the Business Issues Committee (BIC), called the meeting to order at 10:05 a.m. and welcomed the members of BIC. Meeting participants introduced themselves and their affiliations.

### **2. Approval of minutes for Oct. 11, 2006:**

Mr. Frank Francis (NYISO) presented the packet of minutes from Oct. 11, 2006 and noted that there were minor editorial changes provided by ConEd. No additional comments were provided by the BIC.

He also presented Mr. Kinney with a gift to thank him for the splendid job he did as BIC chairman. He wished Mr. Kinney luck in his new position as Management Committee Vice Chairman.

### **Motion #1**

Motion to approve the minutes of the Oct. 11, 2006 BIC meeting.

***Motion passed unanimously by show of hands.***

### **3. Market Operations Report**

Ms. Nicole Bouchez (NYISO) provided an overview of the Market Operations Report. She said the slides were based on preliminary data as of Oct. 31 and not on the final bill run. Final versions of the charts will be available in the monthly report.

### **4. Regional Market Enhancements**

Mr. Jonathan Mayo (NYISO) presented the Northeast Seams Report. He updated the following initiatives:

- Cross-Boarder Controllable Line Scheduling
- ISO-NE Phase II HVDC Evaluation
- Reserve Participation in Adjacent Regional Markets
- NY MS-7040 Transfer Study
- Modeling of Netted Transactions at the NYISO-HQ Interface

Regarding the Coordination of Interregional Planning initiative, Mr. Kinney stated that there was a desire to seek input from stakeholders from the Fall 2006 meeting and wanted to know if a meeting has been scheduled.

Mr. Mayo said he would check into the matter.

Mr. Mayo said Issue 8 – NY-PJM Proxy Bus Clearing Price Calculations – was added this month on the request of ConEd. A presentation is being prepared and will be presented at an upcoming Market Structures Working Group (MSWG) meeting or a Scheduling and Pricing Working Group meeting.

Mr. Howard Fromer (PSEG) asked if this is joint proposal of the two ISOs.

Mr. Mayo said he understood the method can be implemented by the NYISO without coordinating with PJM.

## **5. Working Group Updates**

### **A. Billing and Accounting (BAWG)**

Dave Hall (NYSEG/RGE) reported that the BAWG met on Oct. 11, Oct. 12, Oct. 17 and Oct. 23. The Oct. 12 and Oct. 17 meetings were special conference calls. He provided an overview of the highlights of the meetings. The BAWG meets again on Nov. 15.

Bart Franey (National Grid) asked what triggered the extraordinary circumstances notice for the March invoice.

Mr. Hall said it had to do with the operating reserves Tariff issue.

### **B. Electric System Planning (Joint OC/BIC WG)**

Tariq Niazi (NYS Consumer Protection Board) reported that the ESPWG has meetings set for Nov. 14 and Nov. 30. Other meetings are scheduled in December to deliver the Reliability Needs Assessment report to the Market Participants on schedule.

He said the ESPWG is reviewing assumptions of the load flows with the Transmission Owners and will present a base case at the Nov. 14 meeting.

### **C. ICAP Working Group (ICAPWG)**

Glenn Haake (IPPNY) reported. He said the ICAPWG met on Nov. 2 and that Roger Bacon of the NE-ISO gave a very informative presentation on the NE-ISO forward capacity market. The next ICAPWG meeting is set for Nov. 17.

### **D. Interconnection Issues Task Force (IITF)**

Mr. Haake said the IITF met on Oct. 30 and provided an overview of the meeting. The highlight of the meeting was a NYISO presentation on the implications of implementing a deliverability requirement in the markets.

Mr. Franey asked if the subgroup that was going to put together a term sheet was open, and requested to be added to the group.

Mr. Haake said the group is open to anyone wishing to provide input.

### **E. Resource Adequacy Issues Task Force (RAITF)**

Mr. Haake reported that the RAITF met on November 3<sup>rd</sup> to review the Tie-Benefit presentation provided by ISO-NE. The RAITF has been waiting for the conclusion of the Upstate-Downstate study. The study has been delayed. Another meeting will be scheduled once preliminary results of the Upstate-Downstate study are completed.

Mr. Haake mentioned that oral arguments in connection with the In-City Mitigation proposal will be held at 8:30 a.m. on Nov. 20 in New York City. He asked if the NYISO could make a phone hook-up available for Market Participants who aren't able to travel to New York City that day.

Mr. Fromer said the meeting as scheduled was inconvenient for MPs. He said the board needs to be more sensitive to what is best for MPs, who they serve.

### **F. Market Structures Working Group (MSWG)**

Mr. Francis gave the report. The NYISO continues to schedule additional meetings with the MSWG in response to the FERC order regarding long-term firm transmission rights. The MSWG met on Nov. 6 at which Brad Kranz presented an updated straw proposal based on feedback provided by Market Participants. The next meeting is set for Nov. 20.

Ms. Mollie Lampi (NYISO) said the NYISO is interested in hearing from MPs between now and November 20<sup>th</sup> on the Long-Term Firm Transmission Requirements issue. At the November 20<sup>th</sup> meeting, the NYISO will begin to craft Tariff changes to implement the NYISO's proposal. It would be helpful for the NYISO to hear MPs' issues before then.

### **G. Price Responsive Load Working Group (PRLWG)**

Mr. Rick Mancini (Customized Energy Solutions) reported. The PRLWG met on Oct. 20. He summarized the meeting for MPs.

Mr. Fromer wanted to know if the NYISO addressed the fact that significant additional demand response was expected. One of the issues he raised and hoped Operations Department staffers were looking into, concerned summer Thunderstorm Alerts that require real-time shifting of generation from upstate flowing into the city on in-city resources. He asked if the issue was addressed.

Mr. Mancini said it was not addressed. He said Michael Calimano (NYISO, VP of Operations) will be at the Dec. 8 meeting to discuss planning issues. Mr. Fromer's issue could be added to the agenda.

### **H. Scheduling and Pricing Working Group (S&PWG)**

Mr. Franey (National Grid) reported. The S&PWG meet on Oct. 18 and a joint S&PWG/Credit Policy Task Force meeting on Oct. 21. He provided an overview of the meetings.

Mr. Fromer said he expressed a concern at a previous BIC meeting relating to bidding temperature-sensitive units along their approved temperature curves at levels greater than they had operated at. He requested that the NYISO inform MPs as to where the issue is at this point and how quickly it can be resolved.

Ms. Lampi said that Robert Thompson (NYISO) is circulating ideas with internal design staff. The NYISO will contact Mr. Fromer once it hones in on a solution.

## **6. Vice Chairman Election: 2006-07 Term**

The Business Issues Committee elected Glen McCartney of Constellation Energy Commodities Group to fill the Vice Chair position for December 2006 through November 2007. Bill Palazzo, the current Vice Chair will assume the position of Business Issues Committee Chairman beginning December 2006.

*(Mr. McCartney was elected BIC Vice Chairperson by ballot with 100% affirmative votes)*

## **7. Revisions to the Bad Debt Loss Policy**

Mary McGarvey (NYISO) explained the Bad Debt Loss Policy proposal, giving an overview of the Calculation Methodologies, the invoicing elements and a recommendation, which involves combining the two bad debt loss allocation methodologies and utilizing the same allocation basis for bad debt losses and annual working capital rebalancing.

The rationale for proposed changes is:

- Inconsistent approach between Virtual Market and all other markets
- Rationale for current methodology is unclear
- Virtual bidding market participants do not share in the majority of bad debt losses or in working capital participation
- Administrative issues in computing loss allocations to MPs participating in both virtual and other markets.

The recommendation:

- Bad debt losses should be calculated using consistent methodology for all markets
- Working capital allocations should follow the same methodology as bad debt losses
- The tariffs should be amended to have all invoicing elements included in calculations.

Mr. Norman Mah (ConEd) said ConEd supports the proposal, but is not in favor of moving ahead before a proposal for revising the collateral in the Virtual

Markets is resolved. He suggested that the proposal revising virtual bidding collateral requirements be linked with Ms. McGarvey's proposal.

Ms. McGarvey said that non-Virtual Market Participants would pick up a larger share of virtual losses under her proposal. Virtual bidding MPs would pick up a share of non-Virtual losses. She did not support bundling the two issues.

Ms. Kyla Douglas (NYISO) said that tying the two proposals together would delay Ms. McGarvey's proposal from moving forward.

Mr. Mah requested an amendment to the motion and asked that the following sentence be added: "Revisions will not be filed with FERC until a proposal, which is in development in the Credit Policy Task Force; to revise credit requirements for virtual transactions is acted upon by the MC". The amendment to the original motion was voted on.

**Motion# 2a:**

The Business Issues Committee (BIC) hereby recommends that the Management Committee (MC) approve revisions to Attachment I of the Market Administration and Control Area Services Tariff and Attachments U and V of the Open Access Transmission Tariff, as discussed at the Scheduling & Pricing Working Group meeting on October 31, 2006, and presented to the BIC on November 8, 2006. The proposed tariff revisions would create a uniform methodology for calculating the allocation of bad debt losses incurred in any NYISO-administered market and for the annual rebalancing of customer contributions to the NYISO's working capital fund. These revisions will not be filed with FERC until a proposal, which is in development in the Credit Policy Task Force; to revise credit requirements for virtual transactions is acted upon by the Management Committee.

***(Motion failed with 5% affirmative votes)***

**Motion #2**

The Business Issues Committee (BIC) hereby recommends that the Management Committee (MC) approve revisions to Attachment I of the Market Administration and Control Area Services Tariff and Attachments U and V of the Open Access Transmission Tariff, as discussed at the Scheduling & Pricing Working Group meeting on October 31, 2006, and presented to the BIC on November 8, 2006. The proposed tariff revisions would create a uniform methodology for calculating the allocation of bad debt losses incurred in any NYISO-administered market and for the annual rebalancing of customer contributions to the NYISO's working capital fund.

***(Motion passed unanimously by show of hands with abstentions)***

**8. Retention of Collateral from Market Participants Withdrawing From the NYISO Administered Markets**

Ms. Douglas outlined the proposed criteria by which the NYISO would be able to retain collateral from MPs who voluntarily leaves the markets.

The NYISO proposes:

- Retaining a certain amount of collateral based on past Market activity.
- Using a six-month rolling average calculation of four and 12-month revisions to predict anticipated revisions to initial settlements.
- Multiplying the estimated average revision by the number of outstanding initial settlement months to be billed in which the exiting MP participated.
- The calculations described above would determine the amount of collateral retained upon a MP's exit from the markets.

The proposal would be filed with FERC in late January and take effect in spring 2007.

Mr. Hall asked if there were any provisions for final bill closeouts.

Ms. Douglas said no. That is not factored in.

Mr. Robert Ricketts (Brascan Energy Marketing) asked if a customer that doesn't normally have a credit requirement would now have a requirement for a 4 or 12-month period.

Ms. Douglas said anyone who normally wasn't required to post previously would not have to post.

### **Motion #3:**

The Business Issues Committee (BIC) hereby recommends that the Management Committee (MC) approve revisions to Attachment K of the Market Administration and Control Area Services Tariff and Attachment W of the Open Access Transmission Tariff, as discussed at the Scheduling & Pricing Working Group meeting on October 31, 2006, and presented to the BIC on November 8, 2006. The proposed tariff revisions would reduce the NYISO's risk of bad debt losses by allowing it to retain a portion of a Customer's collateral upon its exit from the NYISO-administered markets to secure any remaining true-up obligations that may later be payable by the Customer.

***(Motion passed unanimously by show of hands with abstentions)***

### **9. Revisions to the NYISO Services Tariff and OATT (Re: External Proxy Buses)**

Peter Lemme (NYISO) reported on *New External Proxy Activity, dealing with* three new external proxy buses under development: Neptune, Cedars and 1385. For the Neptune line, he:

- Described Supporting Tariff Changes for Neptune that included the application of the Special Pricing Rule for the bus.
- Discussed Market Monitoring data sharing with PJM's Market Monitoring Unit.

Mr. Fromer asked in regard to Cross-Sound Cable whether this was an issue; were there problems on a routine basis?

Mr. Lemme responded that he was not aware of market power or gaming problems or issues on the Cross-Sound Cable.

Mr. Lemme continued with information about the Cedars bus and addressed:

- Supporting Tariff changes for Cedars
- Specifics regarding the Cedars Special Pricing Rule

Mr. Lemme also addressed the 1385 proxy, discussing supporting Tariff Changes for 1385. The NYISO is not seeking approval for Tariff changes related to 1385 at this time. The changes will be discussed in greater detail at the working group level.

Mr. Mah asked in regard to the 1385 if the NYISO is working to coordinate with ISO-NE to develop a proxy bus on that side and if this would reduce the current NE-NY interface.

Mr. Lemme responded that there will be an external proxy in both NY and NE. ISO-NE and NYISO are researching the impact that implementing 1385 as a Scheduled Line will have on the scheduling limits at Sandy Pond.

Dr. Jones said the line could handle something less than 250 MW. ISO-NE has done a memo describing in detail what the operating protocols will be and how they will work. ISO-NE doesn't need a tariff change. It is moving forward on software implementation and is expected to complete the implementation by June 2007. On the NY side, the only open issue is discussions between the NYISO and LIPA on current tax exempt provisions.

Mr. Fromer said there are a number of ICAP issues related to the line that must be worked through.

Dr. Jones said there have been discussions about use of the facility for ICAP but that issue isn't before the BIC now. The proposal does not involve ICAP.

Mr. Fromer requested that the minutes reflect that there are other business issues out there that need to be resolved.

**Motion #4:**

The Business Issues Committee (BIC) hereby approves Revisions to the NYISO's Market Services Tariff and OATT that are necessary to implement the Cedars/Dennison and Neptune transmission facilities as scheduled lines, in a manner consistent with the information/descriptions provided to the S&P Working Group on October 18, 2006 and presented to the BIC on November 8, 2006.

***(Motion passed unanimously by show of hands with abstentions)***

**[MOLLIE, PLEASE REVIEW AND REVISE ITEM 10.]**

## **10. Proposed Amendment to Rate Schedule 5 of the NYISO OATT**

Mr. Tim Duffy (NYISO) reported. He presented a report titled Operating Reserves Cost Allocation: Review of Differences Between Tariff and Implementation.

On Sept. 21, the NYISO identified a conflict between the Tariff language and BAS software. The issue involves:

- The OATT Tariff (Rate Schedule 5) describes the allocation of Operating Reserves costs as an allocation of the daily cost of Operating Reserves to Loads and exports based on the ratio share of their hourly withdrawals to the NYISO's daily total of Load and Export withdrawals.

The NYISO's proposal is to amend Schedule 5 of the OATT to align the Tariff with the Current BAS code. Draft tariff language was supplied.

Mr. Duffy advised that the NYISO had filed a tariff waiver request at FERC for the period March 2005 to the completion of the NYISO Governance Process or until the BAS code is changed if the governance process does not approve a tariff change. The motion only addressed a prospective change and that any retroactive change would be the subject of the proceedings at FERC with respect to the NYISO's requested Tariff waiver

Mr. Robert Pike (NYISO) discussed the Optimization Process, the Resource Costs and Settlement Mechanisms for the proposal.

Mr. Harvey Happ (NYSDPS) asked from an hourly standpoint how the optimization is carried out.

The selection of resources over the day is what's minimized. There is an hourly component to the market. He said all of the constraints - reliability and market – embedded into the commitment engine of the program. He said it is the same fundamental algorithm that has been used throughout the NYISO operation.

Tim Bush (Navigant Consulting) said he disagreed with the premise that Operating Reserve is an hourly product. He said it didn't make sense to allocate this hourly, particularly when exports are being charged for the product. He said he found it difficult to believe the tariff language was added in the SMD filing haphazard. He disagreed with the request for waiver and the proposal. He added that the software should be fixed to conform to the tariff.

Mr. Pike said in regard to scheduling of reserve, it is a continuous requirement for reserve. He didn't recall the NYISO making a conscious decision, in the SMD filing, to move from an hourly to a daily basis in allocating the costs of reserves.

Mr. Kinney said the last set of tariff documents presented to MSWG regarding this issue contain hourly pricing language.

Mr. Franey asked if when doing commitment and dispatch, transactions that come in to the RTC are treated as curtailable for the most part.

Mr. Pike said they are treated as curtailable but not recallable.



Mr. Duffy said regarding the intent of SMD tariff changes introduced in February 2005, it is clear in the filing letter that the extent of the change was to bring the tariff language with the current billing practice and code as it was at the time. NYISO Market Advisor David Patton was consulted and agreed with the NYISO's position of allocating on an hourly basis.

**Motion #5:**

*Whereas*, the NYISO has discovered an inconsistency between (i) the description of the recovery of the costs of Operating Reserves from LSEs and Transmission Customers scheduling Exports in the NYISO Open Access Transmission Tariff ("OATT"), Rate Schedule 5, and (ii) the manner in which it actually recovers the costs of Operating Reserves from LSEs and Transmission Customers scheduling Exports, and *Whereas*, the NYISO explained this inconsistency to the Market Participants at scheduled meetings of the Market Structures Working Group on October 11, 2006 and November 6, 2006, and at a scheduled meeting of the Business Issues Committee on October 18, 2006; and *Whereas*, the Business Issues Committee has reviewed the description of the issue provided by the NYISO for this November 8, 2006 meeting of the Business Issues Committee, and concurs with the NYISO's recommendation that the manner in which it has been recovering the costs of Operating Reserves from LSEs and Transmission Customers scheduling Exports is an appropriate method for recovering the costs of Operating Reserves in the NYISO market and should be continued.

*Now, therefore*, the Business Issues Committee recommends that the Management Committee approve an amendment to Rate Schedule 5 of the OATT for the purpose of a filing pursuant to Section 205 of the Federal Power Act, such amendment to conform the description of the recovery of the costs of Operating Reserves from LSEs and Transmission Customers scheduling Exports in the NYISO OATT, Rate Schedule 5, to the manner in which such Operating Reserves costs are currently being recovered by the NYISO, as is more fully described in the presentation materials provided to the Business Issues Committee at this November 8, 2006 meeting.

***(Motion passed by majority show of hands with abstentions)***

**11. Proposed Revisions to the Ancillary Services Manual**

Mr. Robert DeMello (NYISO) presented the proposed revisions to the Ancillary Services Manual. The proposal includes incorporating technical bulletin 091,103 and 126 into the manual as well as clarifying section 3.6 of the manual to reflect that VSS suppliers may submit data recorded during actual operation to demonstrate its reactive power capability.

Mr. Baker said the proposed revisions don't permit generators to use actual production data in lieu of a formal VSS test. He said he understood that the NYISO isn't opposed to letting generators use production data.

Mr. DeMello said the NYISO will allow the submittal of properly documented data in lieu of a reactive capability test. The current version of the Manual does not describe that option. The next version will; it is due out in the next 6 months. In the meantime the NYISO will accept production data.

Mr. Baker asked that Mr. DeMello's statements be reflected in these minutes.

Mr. Mah expressed concerns about procedures on how the NYISO prepared the system for a voltage test, citing Section 3.6.2.; he said he didn't know how to interpret "extreme measures" in the section. His concern was the system may need to be arranged so the generator can generate sufficient VARs.

Mr. DeMello said that Mr. Mah's concern will be clarified in a future revision to the manual.

Mr. Mah suggested that the NYISO bring the issue back to the working group or BIC for future discussion.

Mr. Kinney recommended that as manuals are posted, the master BIC mailing list should get an announcement that a manual has been updated, is being discussed at a working group and will be voted on at a BIC meeting. He said the measure will be held until the December BIC meeting.

Mr. Mark Younger (Slater Consulting) asked if wording requested by Mr. Baker, that actual operating results can be used for voltage support testing, could be added to the manual before the BIC considers the measure in December.

Ms. Lampi said the NYISO will attempt to change it for next month's BIC meeting.

Mr. Kinney took the opportunity to thank MPs for their help and support during his year as BIC Chairman. He congratulated Mr. Palazzo as incoming Chairman and Mr. McCartney for his election as Vice Chairman. He encouraged MPs to consider taking on leadership roles on NYISO committees or working groups.

## **12. New Business**

Mr. Kinney noted a recent FERC order that required the ISOs to look into the relationship between gas and electric markets, from a reliability and price convergence and compensation perspective. A NYISO filing is due in January 2007. He wanted to know how the NYISO is planning to handle the issue and if it plans to bring it through the Governance process.

Mr. Haake asked the NYISO to consider the minimum oil burn rule to address gas availability. He also asked that an action item on Buy-Side Market Power Protections be added to a future BIC agenda. He wanted to make sure the item is on the agenda that would permit action to be taken.

Mr. Francis agreed to Mr. Haake's request. Mr. Francis also informed the Market Participants that an updated version of the Market Participants Users Guide has been posted. There were some editorial changes made and updated screen shots were added. The Customer Relations section was updated; text discussing products such as ICAP and TCC were removed.

**Administrative Matters**

Mr. Francis noted that the action items list was circulated and Market Participants should forward all comments to him.

**The meeting was adjourned at 2:03 p.m.**

Respectfully Submitted,  
Michael A. Lisi  
Recording BIC Secretary