

NYISO Business Issues Committee
Special Meeting
October 18, 2006
The Hampton Inn, Albany, NY

1. Welcome and Chairman's Report:

Mr. Ray Kinney, (NYSEG) Chair of the Business Issues Committee (BIC), called the meeting to order at 10:02 a.m. Meeting participants introduced themselves and their affiliations

2. Proposed Amendment to Rate Schedule 5 of the NYISO OATT

Tim Duffy of the NYISO presented the report of the operating reserves cost allocation and a proposed amendment to Rate Schedule 5 of the NYISO OATT. Mr. Duffy stated that NYISO staff has been engaged in a formal tariff review process for its settlement system replacement project and has identified a conflict between tariff language and the BAS software on September 21, 2006. The tariff conflict was introduced by the SMD 2 tariff change effective February 2005. The BAS software accurately implemented the tariff prior to February 2005.

Mollie Lampi (NYISO) noted that this issue was an SMD2 issue and that the code in place today is the code used from the beginning of the NYISO. Ms. Lampi stated that the NYISO would like to bring the current billing code in line with the tariff.

Kevin Jones (LIPA) expressed concerns that some MPs were given numbers from 1999 just to be told the numbers were no good. Mr. Jones also commented on the NYISO's process of providing the data and noted that the NYISO should not be asking the Market Participants to vote on this issue at this time. He also noted that LIPA is very strong against making a tariff change at this time.

Tim Bush (Navigant Consulting) supported Mr. Jones' position and stated that the NYISO should fix the software and recalculate the bills and, absent any detailed analysis, the NYISO should not make a tariff change.

Mr. Bruce Bleiweis (DC Energy) said the issue is from February 2005 forward. All Market Participants (MPs) have been given access to the relevant data. He said that prior to February 2005 it was not an inconsistency between the tariff and code.

Ms. Mollie Lampi (NYISO) said that MPs were told at the most recent MSWG meeting that they had to call their customer representatives for data regarding the issue.

Andy Antinori (NYISO) said that information regarding specific company impacts was confidential. Customer representatives can provide that information to their respective MPs.

Mr. Ray Kinney (NYSEG/RG&E) said the current tariff language is inconsistent as it is currently written. The current language attempts to mix the intent for an hourly charge with daily charges. The impact on NYSEG will be negligible, but from an economically

efficiency standpoint, it is paramount to our market that costs are assigned properly. This was an obvious mistaken tariff change made at the last minute.

Mr. Jones said LIPA is not prepared to make a change today because it was given information late yesterday, but he is willing to discuss the issue. A change was made to the tariff and it appears not to be compliant with the bills going back to February 2005. That is a serious issue that needs to be addressed and corrected.

Mr. Kinney said the tariff applies to exports, without regard to hourly or daily basis.

Mr. Stuart Nachmias (ConEd) said ConEd has concerns about the NYISO implementing the tariff as it is stated. He said the tariff change could have been an error, but he wasn't sure at this point.

Howard Fromer (PSEG) asked Ms. Lampi if the NYISO ever posed a change in allocations as part of the SMD2 provision. He asked if Market Participants ever knew the change was being made or whether it was something the NYISO never flagged individually.

Ms. Lampi said she wished to respond to allegations that there was a NYISO intention in the SMD filing to change the allocation policy. Changes to Rate Schedule 5 of the OATT were shared with Market Participants in red-lined tariff language at MSWG meetings on Oct. 7 and Oct. 14. They changed between Oct. 7 and Oct. 14, and they changed again in a presentation to the Management Committee (MC) prior to the SMD vote. Never was there a presentation on intent to change the allocation. It was an incomplete analysis on the NYISO's part at the time of the SMD filing. There was never any conversation with MPs about the pros and cons of moving from an hourly to a daily allocation, nor was there any intention to change the allocation. It has always been hourly and it continues to be hourly.

Mr. Younger argued that red-lined changes and changes to tariff allocations are changes to the tariff. He said it is the NYISO's responsibility to notify MPs of those changes.

Ms. Lampi agreed.

Mr. Bleiweis suggested the most efficient way for exports would be to have an hourly charge.

Mr. Kinney said that prices have changed on an hourly basis, which has historically been MPs' preference. MPs attempt to assign costs on cost-causation principals. It seems unrealistic not to assign these costs to those using them in the hour.

Mr. Kevin Kipers (NYPA) said there is a "dramatic" change in data from Period 1.

Mr. Duffy said Period 1 refers to February 2005.

Charles Garber (NYISO) explained that the NYISO has undertaken a "three-way, cross-check" process as it develops the new settlement replacement system that will be the NYISO's billing engine. He said cross-checks are being done between the coding being put into the new Settlement System Replacement (SSR), the SSR project and the existing code in the Billing and Accounting System (BAS), which is being cross-checked against

the tariff. The checks will assure that the BAS code and the SSR code are 100 percent compliant with the tariff.

Mr. Younger said he strongly supported the cross-checking plan. But he was concerned with whether the NYISO tends to “slip things into tariff changes” without having a full discussion with MPs. He said changes of this nature should first be highlighted at a working group so MPs can discuss the issue. He hoped the NYISO’s Legal Department would make certain to discuss tariff changes with MPs and never allow this type of situation to happen again.

Mr. Younger requested that the following quote be reflected in the minutes “Ms. Lampi has made the Legal Department’s stand on this issue plain and that’s exactly how the NYISO will deal with these types of situations going forward.”

Mr. Nachmias said he supported Mr. Younger. He was concerned about the NYISO’s overall process and how the NYISO won’t allow this to happen again. He suggested the NYISO do a presentation on its process. He said it would be troubling if the scenario as laid out is what is in fact happened that a change like this could get into the tariff without full discussion by MPs.

Ms. Lampi said that the Legal Department was very concerned about the situation. To consider the change as something that the NYISO tried to “slip past” MPs is to overstate the matter. She said that the words went into the tariff and there was no discussion of why before the filing was made, which she termed as “very, very, very poor practice.” But there was never intention on the NYISO’s part to make a substantive change. It was an inadvertent error.

Erik Abend (Epic Merchant Energy) said Mr. Younger’s concerns were valid. He said it would be more troubling if the NYISO was putting “major elements” into the tariff and MPs were finding out later than if the NYISO was “intentionally” put something in the tariff in an attempt to “slip it past” MPs.

Ms. Lampi said the NYISO has a process to evaluate its billing processes. When discrepancies are found, they are brought to MPs.

Mr. Fromer said MPs were given red-lined tariff pages and should have asked questions about the changes when they had the chance. He said the change was a mistake and not done purposely by the NYISO. It served no one to “beat up” on the NYISO for the error.

Mr. Duffy continued with his presentation. He said the issue involved operating reserve costs, either on an hourly basis as the code calculates or on a daily basis as the tariff dictates. He said:

- The code calculates these reserve costs on an hourly basis, taking an LSEs or a transmission customer’s share of the hourly load and exports and multiplies that by the hourly reserve costs.

- The tariff indicates that the reserve costs ought to be calculated again by taking an LSE's or an export transmission customer's megawatt hours and taking that share of the overall daily and loads and multiplying it by the daily reserve costs.

The NYISO is proposing to amend Rate Schedule 5 of the OATT by replacing references to "dispatch day" with "given hour." It will add two hourly references to make it clear that calculations are made on an hourly basis.

The proposal is justified for two reasons: equity and consistency.

- Calculations performed by the BAS code match the cost incurred by the ISO during an hour with the loads and exports being served in that hour. Whenever practical, the ISO costs associated with providing a service should be matched to the parties benefiting from the service. Loads and exports not being served during a particular hour would incur none of the reserve costs associated with that hour.
- The NYISO has identified two ancillary services, as well as residuals, which are calculated on an hourly basis and calculating the allocations on an hourly basis in matching those to the cost incurred in those hours.

Mr. Bush said the NYISO has not made its case that the change is justified on the basis of fairness. You just can't make the statement that the cost-causation is hourly. The NYISO must make a much stronger case that hourly is better to get his yes vote.

Mr. Duffy continued with his presentation.

- For February 2005, the impact was \$13,000 for that month, in dollars moving around. The figures showed that 111 LSEs were better off under the code and 62 under the tariff. For LSEs, their change in position was less than \$5,000.
- For the Open Period (March 2005 through September 2006) the total impact was approximately \$1 million moving around. 50 percent of LSEs did better under the code than the tariff. Of 236 LSEs, about 200 had impacts less than \$10,000 during that time.

Mr. Duffy proposed that the BIC entertain a motion to amend the tariff language. The NYISO will put together a tariff waiver from FERC from February 2005 through the end of the governance process. The NYISO would continue the close-out process from March 2005 forward. The NYISO wants to work through the governance process to get a Section 205 filing. The special BIC meeting was held to get language for the Oct. 25 Management Committee meeting. The language will be filed in December 06 following the NYISO's Board of Directors meeting in November.

Mr. Jones said he hoped the NYISO would understand that some MPs need more time to consider the change it was proposing. He said it is inappropriate for the NYISO to ask MPs to make a tariff change without more time to consider the issue further.

Mr. Younger requested the NYISO pull the motion to give MPs more time to consider it. Ms. Lampi said that she would leave it to MPs to decide whether the measure should go forward today.

Mr. Fromer asked if waiting on the NYISO's motion will stop the NYISO from moving forward with closing out months.

Mr. Garber said yes. Waiting on the measure will leave the NYISO without enough time to resolve challenges and post the April 2005 bill. In that case, the NYISO will declare extraordinary circumstances or get a FERC waiver for not closing out the April 2005 bill.

Mr. Bleiweis made a motion to table. He said a motion on such a serious issue should go through the entire committee process. His motion was seconded.

Mr. Kinney called for a roll call vote. Mr. Frank Francis (NYISO) conducted the roll call vote.

Motion #1

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 a specially scheduled meeting of the Market Structures and Billing and Accounting Working Groups on October 11, 2006, and

Whereas, the Business Issues Committee has reviewed the description of the issue provided by the NYISO for this October 18, 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 October 18, 2006 meeting.

Motion #2

Motion to table motion #1.

Motion passed with 72.44 % affirmative votes.

Mr. Duffy said there was an issue regarding the Black Start allocation that has been identified by the NYISO. This was for MPs’ information only.

Statewide Black Start costs submitted by NYPA are done on an annual basis for the upcoming year, from May to April. Costs are recovered on an hourly basis from the load in the market in that hour. There is a discrepancy between how the code and the tariff translate those annual Black Start costs into an hourly cost. The calculation of each

hour's cost is identical between the tariff and the code; that is not the issue in this case. It is distinct from the operating reserve cost allocation issue.

- Under the code, the hourly costs recovered are calculated by taking the annual costs and dividing by number of days in a year and number of hours in a day.
- Under the tariff, hourly costs are recovered are annual costs divided by the number of months in a year and divided by number of days in a month and a number of hours in a day. The differences are small. The intent of this effort is to bring the code in compliance with the tariff.

This issue goes back to Nov. 1999; it has been verified. The net financial impact of dollars moving around is less than \$5,000 for the historic period. For the going forward period – March 2005 and forward – the net financial impact dollars moving around is less than \$2,000.

From the NYISO's prospective, either methodology works. From an efficiency standpoint, it would be less expensive to modify the tariff so it mirrors the BAS code. The plan is to bring to the MP list of clarifications, to make it very clear what the tariff from the NYISO's prospective was intended to mean and how it is being implemented in the current system.

Mr. Franey commended the NYISO for bringing these issues forward and for validating the code against the tariff. He said the NYISO should continue its effort.

3. **New Business**

Mr. Fromer pointed out that the NYISO made an Oct. 6 FERC filing and noticed MPs about it on Oct. 11. The NYISO decided to implement a series of software changes, with the knowledge that the software contained a glitch that, if it malfunctioned, would result in improperly low market clearing prices. He wanted to know why the NYISO didn't wait to get the bugs out of the software before deploying it and why MPs weren't told about the situation and given a chance to debate it.

Mr. Liam Baker (U.S. PowerGen.) said the filing was noticed to MPs the day of the software rollout, giving MPs 12 hours to voice their opinions.

The meeting was adjourned at 11:15.

