
DRAFT**NYISO Management Committee Meeting Minutes****October 26, 2011****10:05 a.m. – 12:00 p.m.**

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

Mr. Stuart Nachmias (Consolidated Edison), the Chair of the Management Committee (MC), called the meeting to order at 10:05 a.m. and welcomed the members of the MC. Meeting participants introduced themselves and their affiliations. There was a quorum. Mr. Nachmias provided an update on the Board Selection Subcommittee activities. The Subcommittee has selected the Russell Reynolds search firm to provide candidates for the upcoming Board vacancy. They came in with a competitive bid, and based on the bid and their experience, they were selected. Market Participants that would like to submit candidates were notified to contact Larry Klock of Russell Reynolds by November 4. The Subcommittee is searching for a candidate with an economics background.

2. Approval of MC Minutes – September 27, 2011

Postponed for next month.

3. President and CEO Report

Mr. Stephen Whitley (NYISO) echoed the importance of the Board selection process as it demonstrates to the industry and regulators of the effectiveness of the shared governance process in New York. He reviewed the CEO and COO report included with the meeting material. Mr. Whitley reminded members of the upcoming joint ISO-New England and NYISO symposium on November 1. He asked for members to provide feedback about the idea of having a joint symposium with other ISOs in the future.

Infrastructure Master Plan (IMP):

Mr. Rich Dewey (NYISO) gave a verbal update on the status of the IMP. He said the Carman Road project is making progress and is largely on schedule. The work on the exterior of the addition is complete, and the work on the interior has begun; the main activities underway include installation of the mechanical and electric equipment in the basement and the wiring and raised floor system in the data center. The migration of computer hardware should commence in January.

For the Krey Blvd project, the site work has begun on the parking lot and exit reconfiguration and it is on schedule. Expansion activities will be performed in different areas of the parking lot through phases in order to make sure there is enough parking before construction begins in April. The second power feed will start to be installed next month along Krey Blvd. The NYISO envisions the project complete by mid-2013.

Mr. Rick Gonzales (NYISO) reviewed the market performance highlights and operations highlights from September. He noted the inclusion of local reliability costs and commitment hours charts into the operations report. He said this information is based on data already posted on OASIS and the NYISO is now presenting the local reliability commitments in a meaningful fashion so that the magnitude of these costs are better understood. Mr. Mark Younger (Slater Consulting) asked if NYISO would address the issue of reliability compensation topic at MIWG so that MPs are part of the process. Mr. Gonzales noted

this is a first step to provide transparency of these costs and any further efforts in this area would require future stakeholder discussion.

Mr. Bart Franey (National Grid) asked what document identifies the details of the reliability rules that are referenced in the new reports that units were committed for. Mr. Gonzales indicated that those detailed rules are now posted in the Application of Reliability Rules on the NYISO OASIS. This will get updated as the NYISO works with the Transmission Owners of the specific reliability rules.

Mr. Tom Rudebusch (New York Association of Public Power) indicated that his constituents continue to be interested in greater transparency of these costs and encourage the NYISO's work in this area.

4. Vice Chair Election for 2011-2012 Term

Mr. Bart Franey (National Grid) was elected Vice Chair for the 2011-2012 Term.

5. NYISO 2012-2014 Budget Overview

Mr. Scott Brown (New York Power Authority) reviewed the presentation included with the meeting material. Market Participants were asked to discuss and consider two motions: (i) a motion for the 2012 NYISO budget and (ii) a motion for the 2013-2014 NYISO budget commitment. The 2012 budget has a \$4.1 million increase from 2011. The primary reasons for this increase are: increased debt service to fund the Smart Grid Investment Grant and the Infrastructure Master Plan; additional headcount, primarily in Operations; and additional professional fees related to new scopes of work/studies requested by Market Participants and the NY Public Service Commission.

Mr. David Clarke (LIPA) said LIPA is supportive of a concept to take this long term budget process and turn it into a mechanism of how to address an overall budget directive to keep it with inflation. LIPA supports the 2012 budget, but not the commitment budgets. Mr. Rich Bolbrock (NYMPA) said the budget varies from year to year and non-discretionary components, such as FERC Fees, can vary. Annually, NYISO tries to minimize the cost of those. He said the 2013-2014 budgets provide insight for what NYISO is doing for this year and puts that into perspective.

Mr. Nachmias asked a question regarding the 2014 decrease in debt proceeds and what impact that has on a \$6.5M increase in Rate Schedule 1. Ms. Mary McGarvey (NYISO) said NYISO has to make an assessment of expected capital and project costs three-years into the future. Additionally, NYISO does not have a financing instrument in place for 2014, and had to make assumptions regarding the expected level of financing for 2014 compared to the capital and project costs. Mr. Nachmias said so one of the drivers of 2014 budget is that we are assuming that there is an amount of capital that will be recovered fully in that year as opposed of being financed. Ms. McGarvey said that is fair to say, but at this point the NYISO is not sure three years out from now. Mr. Nachmias noted that this assumption is driving that budget higher, and his concern is that this detail gets lost when members come back in the future to look at future budgets, and so we lock into a budget cycle that includes that amount of capital and we forget that piece. The assumption is better to assume we are going to finance that amount, which would mitigate the costs. Mr. Whitley said the capital projects are IT-related costs, which are financed by borrowing in one year and repaying in three subsequent years. Mr. Whitley noted the uncertainty in the last year and asked Ms. McGarvey how would this proposal address this uncertainty if the NYISO wasn't able to get the financing. Ms. McGarvey said parties would have to come back to discuss the level of projects, capital and financing for 2014.

Mr. Nachmias asked if the annual increases FERC Fees of 4% are based on historic levels. Ms. McGarvey said the budgeted increases of 4% are less than the previous forecasts /averages of 6-7%. She further noted that it is fair to expect that the fees will continue to increase.

Mr. Kevin Lang (Multiple Intervenors) applauded the NYISO in managing its budget. Unfortunately, the economy hasn't picked up in NY as we all would like, while he supports the 2012 budget, and thinks the NYISO has reasonably approached this budget and although there is an increase, he recognizes the reasons for that. Whereas the NYISO's budget has been relatively low in terms of percent increases, we are seeing levels at 6% increases in the future budgets. He certainly hopes the number is lower and it doesn't hit the not to exceed value. But by putting the higher numbers out there, it says that stakeholders are okay, but MI is very concerned of creating a perverse incentive to use a surplus to increase or offset budgets in future years. Because of this, MI is opposed to the 2013-2014 budget motion. He agreed with LIPA that the idea of a budget outlook should serve as a guidance for us all. He noted a concern with the NYISO's growth and that projects are presented to the NYISO and the NYISO says yes and takes them on. NYISO should let others take on these projects so that our costs could lower. He said he wasn't being critical of the quality of NYISO's projects, but there needs to be a limit with cost controls.

Mr. Whitley thanked Market Participants for discussing and vetting the budget through the committee process. Mr. Whitley stressed the importance of passing the 2012 budget and sending a strong message to the Board. Mr. Nachmias agreed with the Mr. Whitley, but also wanted to thank the NYISO for being proactive by preparing an outlook so that members have a better understanding of the NYISO's priorities in the future. Mr. Lang agreed that the budget forecast should be just that and not be voted upon.

Mr. Saul Rigberg (Utility Intervention Unit, NY Department of State) asked about salary increases of NYISO management. He expressed a concern of wage increases while people in this economy are being laid off or haven't received a raise in years. He suggested that senior management not have a salary increase. He indicated that this has been a position of the Consumer Protection Board through rate cases. Mr. Whitley noted that the NYISO uses a pay for performance system, but would send Mr. Rigberg's comments to the Board. Mr. Rigberg indicated that he would oppose the 2012 budget if salary increases for NYISO management were included in the budget.

Mr. Younger asked about SCR performance during the heat wave on July 21. He noted that the pricing setting on this day didn't reflect proper SCR prices. He recalled that NYISO said that it would address the SCR pricing issue as a high priority. Mr. Whitley said that is correct. Mr. Younger said the NYISO has drafted a proposal, but the NYISO proposal would not be implemented before the summer of 2012, but in a year and a half. He asked if this timeline reflects such a high priority. Mr. Whitley said considering the NYISO's other priorities, he believes it reflects a high priority. He said the proposal is the fastest way the NYISO can complete this accurately and reliably without compliance problems. He reminded members that it is difficult to take up new projects. Mr. Younger asked if the problem was vice versa and prices were too high, would the NYISO be comfortable with the resolution of a year and a half. Mr. Whitley said he was putting as much pressure on staff to get this project done. Mr. Mukerji said this is a project that has to be done comprehensively because it is a co-optimized product. It can't be a crude solution. The proposal is being discussed at MIWG tomorrow, it needs FERC approval in the March timeframe. He said it is not possible to have it done before summer 2012. It is the best the NYISO can do. Mr. Younger agreed that the solution should not be crude. He expressed a concern of NYISO's actions on those days that suppressed prices. He said members need a complete review of those

actions. Mr. Gonzales said the NYISO would describe the day in detail so that stakeholders are comfortable. He noted the reliability rules and judgements made (such as the load forecasting error) on that day.

Motion 1a:

Motion to amend motion 1 as follows:

The Management Committee hereby recommends that the Board of Directors approve the proposed Rate Schedule #1 Revenue Requirement for the 2012 budget year as described in the presentation materials for the October 26, 2011 Management Committee meeting, subject to the following provisions:

Revenue Requirement -The Revenue Requirement is \$150.6 million.

Rate Schedule #1 – The budgeted Rate Schedule #1 is \$0.887/MWh.

Spending Under-runs – If a spending under-run occurs, the related funds should be utilized to pay down the principal amount of outstanding debt or reduce anticipated debt borrowings.

Volume Variances – Rate Schedule #1 over-collections resulting from volume variances should be utilized to pay down the principal amount of outstanding debt or reduce anticipated debt borrowings.

Motion passed with 62.51% affirmative votes.

Market participants expressed concerns with the volume variances language and variance language from last year's 2011 budget motion was used in the motion.

Motion 1b:

Motion to amend motion 1a as follows:

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Exclude Officers from receiving an across the board salary increase pursuant to the 2012 budget and to reduce the budget accordingly.

Motion failed.

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Motion passed by majority with abstentions.**Motion 2:**

The Management Committee hereby recommends that the Board of Directors adopt the proposed Rate Schedule #1 Revenue Requirement limits (expressed in dollars) for the 2013 and 2014 budget years as described in the presentation materials for the October 26, 2011 Management Committee meeting, subject to the following provisions:

Revenue Requirement -The Revenue Requirement for each respective year would be limited to \$158.8 million for 2013 and \$165.3 million for 2014 or \$160.3 million assuming new financing is put in place for 2014 at a level of \$25 million. NYISO reserves the right to adjust these revenue requirements if NYISO receives any order/mandate that significantly alters NYISO's current mission or scope of work.

Governance Process – During each year, 2012 and 2013, NYISO will produce detailed annual budgets, with Revenue Requirements not to exceed the levels detailed above for Market Participant review. NYISO will update the forecasted MWhs and components of each of these annual budgets for Market Participant review. The Management Committee will conduct a vote in 2012 and 2013, respectively, on whether to recommend the 2013 and 2014 budgets, as appropriate, to the NYISO Board of Directors.

Spending Under-runs – If a spending under-run occurs, the related funds should be utilized to pay down the principal amount of outstanding debt or reduce anticipated debt borrowings.

Volume Variances- Variances in Rate Schedule #1 recoveries due to differences between forecasted and actual MWhs should be aggregated over the 2012-2014 budget years and managed as a collective sum. If the grand total for this three-year period is a surplus, then this amount would be eligible to be used for the following purposes: pay down the principal amount of outstanding debt / reduce anticipated debt borrowings, incorporated into the 2015 budget, or refunded to Market Participants. If the grand total for this three-year period is trending toward a significant deficit, then NYISO will revisit options/treatment with Market Participants by 2014. NYISO will provide monthly updates on volume variances to the Budget & Priorities Working Group throughout 2012-2014.

Motion failed with 25.61% affirmative votes.

Mr. Paul Gioia (TOs) noted that the Management Committee 2013-2014 responsibility would be the same as provided in the ISO Agreement.

Mr. Clarke made a statement on the motion that the 2013 budget should be within inflation. It should not be 5% increase over 2012, but keeping with inflation. Instead of amending the motion, LIPA would vote against this motion.

Mr. Nachmias requested to amend the motion on the assumption with the financing revolver in place. Ms. McGarvey said NYISO would likely seek PSC approval in the mid 2013. She also wanted to note in the minutes that these concept numbers are being introduced for the first time today as opposed to the BPWG meeting.

6. Market Monitoring Plan Tariff Language Revisions: MMA Department

7. Mr. James Sweeney (NYISO) reviewed the presentation included with the meeting material. Mr. Sweeney described the recent history and changes of the NYISO's Market Monitoring and Analysis department ("MMA"). The proposed tariff language would revise the reporting structure of the MMA to also include the NYISO CEO's designee, the Chief Operating Officer.

Mr. Fromer thanked the NYISO for coming back with its revised approach which properly reflects the significance of the function and assures that there is accountability at the highest level of the organization.

Motion #3:

The Management Committee (MC) 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 Market Services Tariff Section 30 consistent with the presentation entitled, "Market Monitoring Plan, Tariff Language Revisions, MMA Department," made to the MC on this date, October 26, 2011.

Motion passed unanimously with an abstention.

8. New Business

No new business.

Meeting ended at 12:00 p.m.