

NYISO Annual Meeting

Transmission Owners Sector Comments

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How are we doing?

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Summary

- The TOs continue to believe in the fundamental principles that were the building blocks of the NYISO and we are committed to making it work
- We have serious concerns related to start-up problems that have had significant adverse impacts on our customers and shareholders
- We want to work with the NYISO management and Board to resolve these problems in an expeditious manner

Principles For The NYISO Design

- Insure reliability by using market mechanisms to achieve reliability objectives
- Create an efficient spot market by using a market design that sends appropriate price signals to Market Participants to make investment and consumption decisions while retaining hedging mechanisms to satisfy the needs of all customers
- Provide a mechanism for retail choice
- Provide a transition plan to minimize cost shifting caused by the new market design
- Meet the needs of Market Participants by providing a governance that allows them meaningful participation in NYISO activities

Experience to Date

- Design objectives have generally been achieved -- but serious implementation problems exist
- Market Participants are committed to working constructively to resolve problems

How can we improve?

- We have many talented people who developed the current market structure and fully understand the intentions and thought process behind the design. We should not lose that knowledge in the name of confidentiality.
- Market Participants and their customers have significant financial stakes in the success of the market. There is a perception that there is not a sense of urgency to resolving major issues.

How can we improve?

- We would like to be sure that a principal goal of NYISO management and the Board is to reduce energy and ancillary services costs in the state of New York while minimizing the administrative cost of operating the system.
- There are a number of critical computer and billing issues that affect both near-term reliability and cost that need to be addressed. We need to follow the original practices that were agreed upon. We are concerned that resources are being directed to long-term market design issues that, although important, need not be addressed at this time.

How can we improve?

- Communication can always be improved, and in this transitional period, open communication is even more important.
- There is a perception that the NYISO is not responding to questions and concerns that significantly affect Market Participants.

NYISO Governance Review

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I. Importance of a Common Understanding of ISO Governance

- Governance is pervasive -- it affects every activity of the ISO
- Need common understanding to avoid constant disputes, which will result in a decline in ISO efficiency and effectiveness

II. Basic Features of ISO Governance

- A Market Participant organization
- Open to all Market Participants on a non-discriminatory basis
- No sector of Market Participants can control committee actions
- Market Participant committees an integral part of ISO structure
- Professional, disinterested Board of Directors to administer the ISO and resolve appeals from actions of ISO committees

III. Legal Framework

- ISO formed its response to FERC mandate to open NYPP governance to all Market Participants
- ISO formed by agreements among TOs and other Market Participants, and approved by FERC
- No independent statutory or legal basis for ISO

IV. Responsibilities Under ISO Governance

- The ISO Agreement clearly allocates responsibilities under ISO governance
- Market Participants, through ISO committees, establish all ISO procedures related to both reliability and markets
- ISO staff provides support and provides input and recommendations to committees; implements procedures adopted by committees
- ISO board administers ISO in professional, objective manner; hears appeals from committee actions and has authority to overrule committees when appropriate

V. Advantages of Governance Structure

- The result of extensive negotiations and consensus among Market participants
- Satisfies FERC requirements
- Allows Market Participants, with a real stake in both reliability and market transactions and with substantial expertise, to have primary role in development of ISO policies and procedures
- Independent Board provides confidence that ISO and its staff will administer ISO objectively, and not favor any commercial interest
- Review of committee decisions by ISO Board ensures that reliability will not be sacrificed for commercial expediency and that rights of minority Market Participants will be protected
- Governance balances meaningful involvement by Market Participants and objective administration; and balances commercial efficiency and reliability

VI. Conclusion

- The ISO governance model was carefully crafted and has significant advantages.
- For the ISO to be successful, it is essential that Market Participants, ISO staff and ISO Board have a common understanding of governance and are committed to making governance work.
- To the extent the ISO staff or the ISO Board have needs that have not been addressed, they should be raised with the ISO committees. Market Participants have a strong interest in ensuring that ISO staff and the ISO Board have tools necessary to operate effectively and efficiently.
- Concerns of ISO staff and ISO Board must be addressed in ways consistent with the role of Market Participants as defined in the ISO Agreement.

Transmission Owners' Recommendations

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Immediate Recommendations

- Resolve outstanding issues ASAP to restore confidence in NYISO -- address critical operational and market/billing issues before embarking on new initiatives to modify the markets.
- Publish an assessment of requirements to meet operating challenges this summer
- Implement all actions required to operate reliably and efficiently this summer
- Improve communications and collaboration with Market Participants, including a common understanding of governance

Longer Term Recommendations

- Continue to recognize ISO design principles:
 - Balance of responsibilities and authorities
 - Cost shifting and TO cost recovery
 - Market efficiency principles
- Allow Market Participants the flexibility to guide the evolution of the ISO
- Work jointly with the TOs to develop a response to Order 2000

Closing Remarks

- The TOs created the NYISO because they believed this model was the best to comply with FERC Order 888 and support competitive wholesale and retail electricity markets
- The TOs remain committed to the NYISO model, however, resolution of current problems is critical