

REVISED DRAFT FOR DISCUSSION PURPOSES

PROPOSED MODIFICATIONS IN RESPONSE TO ORDER 890

APPROVED BY NYISO OPERATING COMMITTEE 2/17/05

“STRAWMAN PROPOSAL” FOR A NYISO ECONOMIC PLANNING PROCESS

OVERVIEW AND PURPOSE

It is intended that this strawman will provide enhancements to NYISO’s existing reliability and economic planning processes resulting in a viable process in response to FERC’s policies, including Order 890, which have indicated that ISOs/RTOs’ planning processes should address both reliability and economic needs. It is structured in the context of the NYISO’s preference for market-driven solutions, which is consistent with the Commission approved Comprehensive Reliability Planning Process. This strawman recognizes the views of most of the NYISO’s market participants and stakeholders that NYISO intervention in economic matters is to be minimized so as not to interfere with the operation of the market. In this context, the role of the NYISO with regard to economic needs is primarily one of providing information in a transparent manner to the marketplace so that appropriately informed decisions can be made, and actions taken, by market participants and other stakeholders. The proposed process will provide an opportunity—but not an obligation—for NYISO market participants to better assess and voluntarily respond to such economic issues. NYISO resource constraints are an important consideration in the design and implementation of this enhanced planning process.

OUTLINE OF ENHANCED NYISO ECONOMIC PLANNING PROCESS

NYISO ROLE

Historical Analysis

- With stakeholder participation/transparent process
- Use approved “congestion matrix” format for reporting
- Identify additional reporting formats
- Post on NYISO website on a monthly basis
 - Include both daily and monthly data
 - Include appropriate definitions, assumptions & caveats
 - Post in a usable format

- **Adjust for “unusual day” events**
- **Perform “What if” analyses**
 - **Estimate potential savings and/or cost increases when specific constraints are reduced or eliminated**
 - **Identify zonal impacts**
 - **Identify next binding constraint**
- **Track congestion by key constraints**

- **Post other economic parameters**
 - **ICAP prices by location**
 - **Ancillary services costs**
 - **Losses**
 - **Post in a usable format**

Market-Based Initiatives

- **Analyze market performance**
 - **Include all NYISO markets**
 - **Transmission**
 - **Generation**
 - **Demand Response**
 - **Identify key drivers which have a major impact on the markets**
 - **Identify potential market design problems**
- **Identify areas for improvement in market design**
 - **To produce correct price signals**
 - **To encourage market-based solutions**
- **Consider qualitative (and, where possible, quantitative) impact of intangibles, e.g.:**
 - **Widened markets**
 - **Barriers to market entry**
 - **Fuel diversity**
 - **Environmental implication**
- **Pursue market enhancements through NYISO committee process**

Future Estimates of Congestion & Other Costs

- **With stakeholder participation/transparent process**
- **Studies to be based upon customer requests**
 - **Develop process to identify and prioritize congestion studies in conjunction with stakeholders**
 - **To include identification of studies to integrate new generation resources on a regional basis**
 - **Develop a process for requesting “additional studies”**
 - **To be funded by individual customers**

- Develop criteria to distinguish eligibility for this study process from other NYISO procedures (e.g. – Attachment X or individual requests for transmission service)
- Study requests and results to be posted on NYISO website
- Consider NYISO resource constraints/cost of studies
- Selection of model or models
- Align with the CRPP planning horizon (10 years)
 - Employ a sequential process for reliability & economic analysis
 - Propose a 24-month overall planning cycle
- Develop base case assumptions based on CRPP
 - Base case to reflect resources from CRP that will meet reliability requirements
 - Preference for market-based solutions
 - Alternative based on regulated backstop solutions
- Develop future scenarios
 - To include consideration of:
 - Load forecast uncertainty
 - Fuel cost uncertainty
 - Environmental regulations
 - Potential retirements
- Perform “what if” analyses
 - With and without a proposed improvement
 - All resources will be considered: transmission , generation & demand response
- NYISO will provide a range of information to the marketplace based upon existing NYISO market rules
 - Unconstrained energy prices
 - Forecast congestion costs in accordance with agreed-upon metrics
 - ICAP costs by location
 - Ancillary services costs
 - Losses
 - Emissions data
- Include appropriate definitions, assumptions and caveats

Reliability Analysis of Economic Upgrades

- Perform reliability analysis of proposed economic upgrades through its existing Interconnection Process (Attachment X) to ensure that reliability will be maintained
- Perform cost allocation analysis for Attachment Facilities and System Upgrade Facilities associated with proposed economic upgrades through its existing Attachment S process
- Perform TCC allocation analyses for economic upgrades
- Determine eligibility for UDRs for economic upgrades

NYISO will NOT:

- Determine congestion thresholds
 - The customer request process will determine what studies are performed
- Draw any conclusions pertaining to the potential economics of a proposed upgrade
- Develop cost estimates for proposed upgrades
- Perform cost/benefit analyses

- Impose an obligation to build economic projects
- Impose an obligation to fund economic projects
-

COST ALLOCATION PRINCIPLES

(Source: “Proposed NYISO Strawman” Response to Principle #9”; Revised 4/18/07)

- The NYISO will develop cost allocation principles for economic projects in conjunction with its market participants, state agencies and other stakeholders
- The primary principle shall be based upon a “beneficiaries pay” approach, similar to that employed for reliability projects (Ref: Attachment Y, Section 10.2)
- **Cost allocation under the NYISO Tariff shall be applicable only when beneficiaries agree to support an economic project**
- The specific cost allocation methodology, to be developed by the NYISO and its stakeholders, shall contain the following elements:
 - The methodology shall be fair and equitable (Section 10.2.i)
 - Primary beneficiaries shall be those **entities** identified as benefiting from the proposed upgrade (Section 10.2.c)
 - Consideration shall be given to the “free rider” issue as appropriate (Section 10.2.i)
 - The methodology shall provide cost recovery certainty to investors to the extent possible (Section 10.2.j)
 - **The methodology shall address the possibility of cost overruns**
 - Consideration shall be given to the use of a materiality threshold for cost allocation purposes (Section 10.2.g)
 - The methodology shall provide for ease of implementation and administration to minimize debate and delays to the extent possible (Section 10.2.g)
 - Benefits determination shall consider various perspectives (e.g. – bid production cost and the other agreed-up metrics for analyzing congestion)
 - Benefits determination shall account for future uncertainties (e.g. – load forecast, fuel prices, environmental regulations)
 - Benefits determination shall consider non-quantifiable benefits (e.g. – system operations, environmental effects)

MARKET PARTICIPANT VOLUNTARY ROLE

- **Participate in the development of the process for the identification and prioritization of congestion studies**
- **Propose specific congestion studies**
- **Participate in development of input assumptions**
- **Recommend scenarios for analysis**
- **Review of NYISO analysis**
- **Perform independent business assessment based upon consideration of NYISO data**
- **Development of economic responses**

NYS PUBLIC SERVICE COMMISSION ROLE

- **PENDING DETERMINATION IN PSC CASE 06-M-1017**

R/2/17/05

4/2/07

R4/3/07

R4/29/07