
DRAFT**NYISO Management Committee Meeting Minutes****July 29, 2009****10:00 a.m. – 1:00 p.m.**

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

Mr. Bill Palazzo (NYPA), the Chair of the Management Committee (MC) called the meeting to order 10:00 a.m. and welcomed the members of the MC. Meeting participants introduced themselves and their affiliations.

2. Approval of Meeting Minutes – The April 24 and June 23, 2009 meeting minutes were presented for approval. The May 27 meeting minutes were deferred to the August meeting.**Motion #1:**

Motion to approve the April 24, 2009 and June 23, 2009 meeting minutes.

Motion by show of hands.

The meeting minutes were approved by show of hands.

3. President's Report

Mr. Steve Whitley, President and CEO of the NYISO, presented the market performance highlights, which included a report on the FERC Order pertaining to the Lake Erie Loop flow, and an update on the Eastern Interconnection Planning collaborative. (See presentation)

Mr. Whitley provided a detailed report on Lake Erie, which included the sequence of events, background history, information on the FERC Order, actions the NYISO has taken to address uplift and day-ahead market congestion costs, and long term solutions to Loop Flow. (See presentation). NYISO is committed to working with neighbors and appreciates the support of market participants.

In response to a question regarding MISO's November 1, 2009 implementation for the four Michigan/Ontario PARs, Mr. Alex Schnell (NYISO) indicated that there is an open docket related to the construction of the PARs **and the related operating agreement at the Department of Energy. See DOE PP-230-4 at the following link:**

http://www.oe.energy.gov/permits_pending.htm

Mr. Whitley asked that other recommendations from market participant regarding solutions to the Lake Erie loop flow be brought to the working group CARIS is being developed in (ESPEG).

Mr. Whitley reported on a number of projects related to reducing seams and broader regional markets. These were presented at the sector meetings and received strong support from market participants, and will be a key part of NYISO work going forward with market participants and neighboring systems. A high level overview was given of the three main projects: Buy-Thru Congestion, Congestion Management, Dynamic Scheduling, and Regulation and Reserves sharing.

All are important to NY and other control areas as seams improvements as we move forward to integrate renewable with intermittent characteristics. These projects were presented at the NEPOOL summer meeting, and there is an interest with all the neighbors to work together and come up with a mutual set of plans. There will be a prioritization process for these projects. A report to FERC will be due in mid-January and will lay out the list of projects and NYISO plans. NYISO will consider having joint stakeholder meetings with the other ISO's. As the NYISO moves forward on market design changes, unintended consequences will need to be looked at.

Mr. Whitely provided an update on the Eastern Interconnection Planning Collaborative and how the DOE stimulus ties into this. Progress is being made on the proposal, which is being worked on with the different regions that will government and administration policy makers with an overview of planning efforts across the eastern interconnection. This will involve NYSIO and all planning entities to be in the position to receive DOE money to help pay for tasks, contractors, etc. Other stimulus projects related to Smart Grid were mentioned. NYISO is preparing applications for the Smart Grid grants on behalf of NY and to submit them early next month, as this is very important for the power system and for the markets. Mr. Whitely stated there could be some impact to rate schedule 1. He asked for Market Participant support, as these projects would benefit the eclectic system. Updates will be provided at future meetings.

Ms. Mary McGarvey (NYISO) provided an update on the 2009 Budget and RS1 shortfalls; a follow up to a discussion held at last month's BPWG and for those in attendance at the last Board Liaison meeting. NYISO is evaluating potential options to address remaining 2009 budget, which include:

- Seek further spending reductions (likely to affect commitments to Market Participants, including projects),
- Increase Rate Schedule 1 for remainder of 2009,
- Temporarily borrow funds from Working Capital reserve with scheduled repayment in 2010,
- Assume additional debt borrowings to fund Rate Schedule 1 shortfall (not an ideal solution to
- fund operating costs with long-term debt)

By September 30, NYISO will discuss recommended course of action with Market Participants.

Mr. Rick Gonzales provided an update on the recent uplift trends and the Waldwick PAR restitution issue.

Uplift trends: For June 2009, there was an increase in the months balancing market congestion residual. As part of the daily investigation and monthly roll up, the NYISO attempts to identify where these costs will end up; allocated statewide or in some other form. In June 2009 – costs are identified as storm watch costs. On a day by day breakdown most of these costs are associated with the storm watch contingency cases. The storm watch costs are allocated only to the Zone J, the NYC locality since the reliability rule is focused on providing additional reliability to the NYC metropolitan area.

Mr. Mager asked that the monthly reports that have total uplift be broken out from statewide and those allocated to NYC region. Mr. Gonzales stated he would look in this.

Mr. Gonzales reported that another reason for uplift was due to DA market local reliability. The vast majority of it will be allocated locally and not statewide. July uplift will also be significantly higher. The NYISO has identified a reliability need that is requiring the supplemental commitment of the Saranac Energy unit to meet North Country reliability. The days and hours of this SRE are being posted on the OASIS. This will result in additional uplift cost for July. In response to this new reliability need, the NYISO has met with Con Edison, NYSEG, National Grid, NYPA, PSC, and NYSEG and ISO-NE with objective to try to minimize the reliability need for this unit. We have discussed both short term operational structure and long term infrastructure improvements. Rick will report the short term actions at the August MC Meeting. NYISO is actively pursuing trying to managing these costs while meeting reliability in the most efficient manner.

Rick Gonzales provided specifics on the reliability need, a generation and load balancing issue, and the localities affected. There was discussion on how the uplift would be allocated. Because this involved multiple service territories, it is being allocated statewide. If multiple TO service districts are being affected by the supplemental Resource evaluation it is allocated statewide pursuant to rules. Mr. Gonzales added that the NYISO is pursuing with ISO-NE an emergency assistance agreement that would partially mitigate the reliability need for the operation of the unit. It may be a short term issue. He agreed to send out a written description of the issue and actions taken, and noted it would discussed further at a working group meeting.

Waldwick PAR Restitution: Mr. Gonzales discussed the stakeholder restitution proposal that was introduced at MIWG and BIC, and added the goal was to inform the FERC commission of stakeholder action on this single proposal. Subsequent to that, several market participants requested that it be withdrawn. NYISO is prepared to characterize the stakeholder discussion to FERC that there was no support. This item was pulled from the agenda as a voting item; FERC had asked NYISO to look into whether restitution was feasible – in this instance, Market Participants felt there is was not.

Mr. Kevin Jones (LIPA) expressed concern on the proposal stating that there is no feasible way to re-spin market and provide restitution. Mr. Fromer asked that the NYISO state in the filing that the overwhelming sentiment by market participants was the restitution was not a feasible approach, and that some Market Participants offered a rough justice form of approach. Mr. Rich Bolbrock (NYMPA) recommended that the NYISO develop criteria on going forward, how to come up with criteria that would allow restitution.

Mr. Bolbrock (MEUA and NYMPA) stated that he would vote an abstention on the motion even though MEUA and NYMPA was a sponsor of the conceptual proposal for providing restitution. MEUA and NYMPA are, and continue to be, strong supporters of restitution whenever an error is made if restitution can be reasonably determined or approximated (the so-called “rough justice” approach). However, MEUA and NYMPA have not been provided the information needed to determine whether or not the conceptual proposal would accomplish the desired goal, nor has the NYISO performed an analysis that would enable Market Participants to make such a determination, and therefore MEUA and NYMPA cannot vote in favor of the motion. It is recommended and requested that the NYISO, working through the stakeholder process, develop criteria regarding when, and if, a tariff waiver request is appropriate.

Mr. Bart Franey (National Grid) asked for a more thorough examination of the need of based on the frequency of requests to go back and open re-finalize bills due to tariff violations. Market

Participants should discuss the need for developing policies for when restitution should be considered. He is concerned on the current practice – when we ask for tariff waivers and say bills should be final and go to plan b alternatives to re-settle markets. There is starting to be a significant frequency on issues and we should be developing some policy and keeping an eye towards legal rights. Concerned with statute of limitation and legal ramifications –wants policies worked on.

Rich Miller - Sentiment of some market participants that these are disputes to be resolved at FERC and can send their comments to FERC. Some Market Participants agreed that there was the need for a consorted effort for NYISO and MP to come up with guideline and methodology on when restitution would be feasible.

External Transactions Credit Requirements

Ms. Kim Sebben (NYISO) reported on the External Transactions Credit Requirements. The objectives are to eliminate manual credit processes through automation of the Credit Management System (CMS), to leverage automation to further stratify credit requirements based on transaction characteristics, and to define credit requirements to appropriately match market and transaction risks. The proposal was discussed and is posted

Mr. Kinney stated that as noted at the BIC, there are positive elements on this proposal as it relates to exports and wheel throughs, but do have concerns that thee elements need to be looked at in the context of the larger credit issues in particular with regard to energy markets. The current reliance on historic data and volumes as evidence from last summer are clearly driving up collateral costs for market participants and this kind of effort needs to be extended to those areas as well.

Sheri stated that this will be discussed at the Credit policy working group on Friday.

Motion #2

The Management Committee (MC) hereby recommends that the NYISO Board of Directors authorize the NYISO to file with the Federal Energy Regulatory Commission (FERC), pursuant to Section 205 of the Federal Power Act, revisions to the NYISO's tariffs to implement the credit requirements for external transactions, as approved by the MC and more fully described in the presentation made to the MC at the July 29, 2009 meeting; provided, however, that prior to the NYISO filing the revised tariff sheets with FERC, the NYISO shall submit the revised tariff sheets to the BIC, MC and OC Chairs and Vice Chairs for review and approval.

The motion passed with abstentions.

Enhancements to NYISO Creditworthiness Policies

Mary McGarvey provided background information and details on the enhanced credit scoring policy (See presentation under 7/29 MC meeting material).

Heightened concern regarding potential Market Participant defaults exists because of:

- Diminished liquidity in capital markets
- Increased borrowing costs
- Challenges meeting pension funding requirements

- Decreased overall profitability/liquidity
- Potential increase in end-user defaults
- Delayed issuance of earnings

While other ISOs have revamped their credit policies following defaults, NYISO has developed a series of policy enhancement recommendations on a proactive, strategic basis. The enhancements were presented to the group.

Central Hudson asked that the following statement be included in the meeting minutes:

“Central Hudson will not oppose the proposed revisions to the credit scoring methodology. We continue to be of the opinion that the leading indicators of credit risk utilized in the methodology, essentially relating to the price of stock, are fundamentally not indicative of Central Hudson’s ability to pay. Central Hudson has a flow-through rate mechanism that provides us the right to recover 100% of our NYISO related charges.

Logic would seem to dictate that this type of mechanism should be the predominant, if not indeed, the sole indicator of credit worthiness. Notwithstanding this reservation it appears that within the confines of the proposed credit scoring mechanism, there is opportunity for Central Hudson to be afforded an acceptable credit rating, as currently is the case.

It is our expectation that going forward, the NYISO will continue to appropriately recognize the significance of our flow-through mechanism and avoid any non-rational rating downgrade outcome.”

Motion #3

The Management Committee (MC) hereby recommends that the NYISO Board of Directors authorize the NYISO to file with the Federal Energy Regulatory Commission (FERC), pursuant to Section 205 of the Federal Power Act, revisions to the NYISO’s tariffs to implement the credit scoring enhancements, as approved by the MC and more fully described in the presentation made to the MC at the July 29, 2009 meeting; provided, however, that prior to the NYISO filing the revised tariff sheets with FERC, the NYISO shall submit the revised tariff sheets to the BIC, MC and OC Chairs and Vice Chairs for review and approval.

The motion passed with 95.70% affirmative votes.

New Business: There was no new business.

Meeting adjourned: The meeting was adjourned at 12:30.