FINAL DRAFT (5/18/07)

PROPOSED NYISO "STRAWMAN PROPOSAL" IN RESPONSE TO ORDER 890

OVERVIEW AND PURPOSE

This strawman proposes enhancements to NYISO's existing reliability and economic planning processes to create a unified, coherent and viable process in response to FERC Order 890, in which the Commission directed that ISOs/RTOs' planning processes should address both reliability and economic needs. This proposal is structured in the context of the NYISO's preference for market-driven solutions, which is consistent with the Commission's approved Comprehensive Reliability Planning Process contained in Attachment Y of the NYISO's Open Access Transmission Tariff.

The strawman begins with a review of the nine planning principles contained in FERC Order 890. It outlines why the NYISO believes that its planning processes already comply with those principles or what steps the NYISO intends to take with its stakeholders to comply. The Commission has acknowledged that ISOs/RTOs already have approved planning processes that are more open than non-ISO regions and that its intent is "not to re-open prior approvals." The transmission owner members of the NYISO must participate in the planning processes ultimately adopted. The Commission expects all non-public transmission owners to participate in the planning process as well.

The economic planning portion of the strawman is contained in Attachment A hereto. A modified process flow chart of the proposed strawman is contained in Attachment B. The strawman proposal has been developed with extensive stakeholder input for posting on the NYISO's OASIS website by May 29, as required by FERC Order 890. See ¶ 443. FERC has scheduled a technical conference to address the Strawman proposals for the Northeastern U.S. ISOs and RTOs for June 28-29th.

The strawman proposal will form the basis for a compliance filing required by FERC Order 890, due on October 11, 2007. See ¶ 442. Compliance filings must be made by all of the transmission providers.

Attachment C provides a summary description of the NYISO's existing Comprehensive Reliability Planning Process.

OUTLINE OF NYISO PLANNING PROCESS AND COMPLIANCE WITH FERC ORDER 890 PLANNING PRINCIPLES

1. Coordination

Requirement: Transmission providers must meet with all of their transmission customers and interconnected neighbors to develop a transmission plan on a nondiscriminatory basis. ¶¶ 445, 451. FERC does not establish minimum number of meetings, the scope, notice requirements, format or other features, but leaves this to be developed in the stakeholder process. ¶ 451. The "purpose of coordination is to eliminate the potential for undue discrimination in planning by opening appropriate lines of communication between transmission providers, their transmission-providing neighbor, affected state authorities, customers, and other stakeholders." This requirement could be met through formation of a permanent planning committee made up of stakeholders. ¶ 452.

Compliance: The NYISO stakeholder governance process has permanent planning committees, including the Electric System Planning Working Group (ESPWG), which reports to the Operating Committee and the Business Issues Committee, and the Transmission Planning Advisory Subcommittee (TPAS), which reports to the Operating Committee. The Operating Committee in turn reports to the Management Committee which makes its recommendations to the independent Board. All of the TOs participate in the planning processes overseen by the TPAS and the ESPWG. These processes include: (i) the interconnection processes for large and small generators and transmission resources contained in OATT Attachments S, X and Z; (ii) the Comprehensive Reliability Planning Process contained in OATT Attachment Y; and (iii) the transmission expansion process contained in Sections 15.4, 19, 20, 21 and 32B of the OATT.

Requirement: Order 890 concludes that pro forma OATT should provide "coordinated, open, and transparent planning on both a local and regional level" (¶ 435). Accordingly, the TOs should provide opportunities for participation by NYISO's Market Participants in their local planning processes as well as in the NYISO and regional planning processes.

Compliance: The TOs actively participate in the NYISO's CRPP. As part of that participation, each TO provides its local transmission plan to the NYISO for inclusion in the CRP. In order to make that part of the CRPP more open and transparent, the TOs recommend that the NYISO provide a forum, either at the ESPWG or TPAS, at which the individual TOs would make presentations on their local transmission plan. The forum would provide an opportunity for the NYISO and market participants to learn more about the individual TO transmission plans and to ask questions and make suggestions. Each TO would consider comments and suggestions from the NYISO and market participants with respect to a TO's local transmission plan.

2. Openness

Requirements: Transmission planning meetings must be open to all affected parties, including all transmission and interconnection customers and state authorities. ¶ 460.

Compliance: Pursuant to the tariff provisions that govern them, all NYISO planning processes, including the interconnection, transmission planning and reliability planning processes administered by the TPAS and ESPWG, are open to all NYISO stakeholders, including transmission and interconnection customers and state authorities.

3. Transparency

Requirement: Transmission providers must disclose to all customers and other stakeholders the basic criteria, assumptions and data that underlie their transmission system plans. Transmission providers must reduce to writing and make available the basic methodology, criteria and processes they use to develop their transmission plans, including how they treat retail native loads. ¶ 471.

Compliance: The NYISO conducts its annual planning and interconnection processes in a transparent process that discloses the basic criteria, assumptions and data underlying its studies. In the interconnection study process, the NYISO develops the Annual Transmission Baseline Assessment (ATBA) and Annual Transmission Reliability Assessment (ATRA) based upon criteria, assumptions and data that are developed with its stakeholders at TPAS. In developing the Reliability Needs Assessment (RNA) in the CRPP, the NYISO uses the ATRA as the baseline for the first five year period. Attachment Y, § 4.3(b). The NYISO develops the system representation to be used in its evaluation of the second five years of the study period pursuant to all of the public data inputs listed in Section 4.3(e) of Attachment Y. The NYISO obtains additional data for the RNA from market participant inputs pursuant to Section 4.4(a) and individual TO plans pursuant to Section 4.4(b). The RNA is developed in consultation with the NYISO Market Participants, including the input data and assumptions to be used in the development of reliability assessment scenarios. Attachment Y § 4.2. Alternate reliability scenarios are developed with the Market Participants. Attachment Y § 4.6. To assist any party in developing a market-based solution to a reliability need, the TOs shall provide the data necessary for the party to develop its response. The Load and Capacity Data Report ("Gold Book") and the load forecasting data used in the NYISO's interconnection and reliability planning processes are developed with review and input from the Market Participants.

Requirement: Safeguards must be implemented to guard against inappropriate disclosure of confidential information or critical energy infrastructure information (CEII). ¶ 471. An independent entity may help parties manage Standards of Conduct concerns.
¶ 475.

Compliance: The NYISO in an independent entity that protects all Confidential Information provided to it pursuant to Attachment F Code of Conduct, including information in planning studies. The NYISO also has policies and procedures in place to guard against the release of CEII.

Requirement: Transmission providers must make available information regarding the status of upgrades identified in their transmission plans as well as underlying plans and studies. ¶ 472. Transmission providers should make as much transmission planning information publicly available as possible, consistent with confidentiality protections.
¶ 476.

Compliance: In the interconnection process, the TOs provide updates on the status of upgrades to their systems as part of the annual process of developing the ATBA. **Cite.** In the CRPP, the TOs provide updates on their transmission system plans as part of developing the RNA. Attachment Y, § 4.4(b).

Requirement: Where demand resources are capable of providing the functions assessed in a transmission planning process, and can be relied upon on a long-term basis, they should be permitted to participate in that process on a comparable basis. ¶ 479.

Compliance: Demand side resources are treated on an equal basis with transmission and generation resources in the NYISO's CRPP. Attachment Y §§ 6.1a, 6.2 and 6.4.

4. Information Exchange

Requirement: Transmission providers, in consultation with their customers and other stakeholders, must develop guidelines and a schedule for the submittal of information. . The information collected by transmission providers to their native load customers must be transparent and, to that end, equivalent information must be provided by transmission customers to ensure effective planning and comparability. Information must be made available continuously, and at regular intervals identified in advance. The frequency and planning horizon must be consistent with ERO requirements. ¶ 486.

Compliance: In developing the Reliability Needs Assessment (RNA) in the CRPP, the NYISO uses the ATRA as the baseline for the first five year period. Attachment Y, § 4.3(b). The ATBA and ATRA are developed in an annual cycle of information gathering and sharing in the TPAS. The NYISO develops the system representation to be used in its evaluation of the second five years of the study period pursuant to all of the public data inputs listed in Section 4.3(e) of Attachment Y. The NYISO obtains additional data for the RNA from market participant inputs pursuant to Section 4.4(a) and individual TO plans pursuant to Section 4.4(b). The RNA is developed in consultation with the NYISO Market Participants, including the input data and assumptions to be used in the development of reliability assessment scenarios. Attachment Y § 4.2. The data required for conducting the RNA are solicited during an RNA input phase established in an annual cycle set forth in a Gant Chart. This process will be incorporated into the CRPP Manual that is under development. Alternate reliability scenarios are developed with the Market Participants. Attachment Y § 4.6. To assist any party in developing a market-based solution to a reliability need, the TOs shall provide the data necessary for the party to develop its response. The Load and Capacity Data Report ("Gold Book") and the load forecasting data used in the NYISO's reliability planning processes are developed with review and input from the

Market Participants. Appropriate protections are maintained for confidential information and CEII.

Requirement: Transmission customers also should provide information on existing and planned demand resources and their impacts on demand and peak demand. Stakeholders should provide proposed demand resources if they wish to have them considered in the development of the transmission plan. ¶ 487.

Compliance: The NYISO obtains data on demand side resources for the RNA from market participants pursuant to Section 4.4(a) and from the TOs' plans pursuant to Section 4.4(b). During the solutions phase, market-based and regulated backstop solutions may include demand side resources on an equal footing with transmission and generation solutions. Attachment Y §§ 6.1a, 6.2 and 6.4. The NYISO also gathers and reports to the Commission and its Market Participants biannually data concerning participation in its Special Case Resources (SCR), Day-Ahead Demand Response Program (DADRP) and Emergency Demand Response Program resources (EDRP).

Requirement: The transmission planning required by Order 890 is intended to provide transmission customers and other stakeholders a meaningful opportunity to engage in planning along with their transmission providers. This information exchange relates to planning, not other studies performed in response to interconnection or transmission service requests. ¶ 488.

Compliance: See Nos. 1, 2 and 3 above.

5. Comparability

Requirement: Each transmission provider must develop a transmission system plan that meets the specific requests of its transmission customers and otherwise treats similarly situated customers (e.g., network and retail native load) comparably in transmission system planning.

Compliance: The NYISO is an independent entity that treats all requestors of transmission service on a comparable basis in responding to transmission expansion requests under Sections 15.4, 19, 20, 21 and 32B of the OATT and in the CRPP under Attachment Y. The NYISO does not discriminate among resource types (transmission, generation or demand side) or among the type of provider (regulated utility or merchant) in conducting its planning functions. Attachment Y §§ 6.1a, 6.2 and 6.4.

6. Dispute Resolution

Requirement: Transmission providers must develop a dispute resolution process to manage disputes that arise from the Order 890 planning process. The process should be specific as to how it will be used to address planning disputes, both procedural and substantive issues. ¶ 501.

The intent of the process is not to address issues over which the Commission does not have jurisdiction. ¶ 502.

Compliance: As a threshold matter, the RNA and CRP are developed in a stakeholder process that is designed to maximize consensus and minimize irreconcilable disputes. Operating Committee action on both the RNA and the CRP allows stakeholders to express minority opinions. Management Committee actions on the RNA and the CRP are appealable to the NYISO's independent Board. The RNA and CRP development processes each provide a dispute resolution process. Attachment Y §§ 5.3, 8.3. Disputes over matters solely within the PSC's jurisdiction are to be resolved by the PSC, and disputes concerning matters within FERC's jurisdiction are referred to the Commission for resolution. With respect to the interconnection process, the Large Facility Interconnection Procedures (Attachment X § 13.5) and the Small Facility Interconnection Procedures (Attachment Z § 4.2) each provide a dispute resolution process in which the NYISO first attempts to resolve disputes informally and thereafter arbitration (Attachment X) or mediation (Attachment Z) are invoked.

7. Cost Allocation

Requirement: Planning processes must address the allocation of costs of new facilities. ¶ 557. FERC's intent is not to upset existing cost allocation methods applicable to specific requests for interconnection or transmission service.

Compliance: Cost allocation principles for regulated solutions to reliability needs in New York are provided in Section 10.2 of Attachment Y. The principles contained in Attachment Y § 10.2 address the fair allocation of costs and state that consideration should be given to the "free rider" issue as appropriate. Cost recovery for regulated solutions is provided in Section 11.0 of Attachment Y. Further criteria and methodologies for cost allocation and cost recovery are pending further discussions among the TOs, which will present a proposal for cost allocation to the ESPWG. Cost allocation for interconnection facility costs is provided by NYISO OATT Attachment S.

Requirement: The cost allocation principle "is intended to apply to projects that do not fit under the existing structure, such as regional projects involving several transmission owners or economic projects that are identified through the [economic] study process described above, rather than through individual requests for service." FERC does not impose a particular cost allocation methodology but will permit transmission providers and stakeholders "to determine their own specific criteria which best fit their own experience and regional needs." The proposal should identify the types of new projects that are not covered under existing cost allocation rules and, therefore, would be affected by this cost allocation principle. ¶ 558.

Compliance:

Discuss: *Existing criteria in Attachment Y do not address cost allocation for economic projects within New York. See Economic Planning Strawman Proposal.*

Requirement: Three principles articulated. 1. "First, we consider whether a cost allocation proposal fairly assigns costs among participants, including those who cause them to be incurred and those who otherwise benefit from them." 2. "Second, we consider whether a cost allocation proposal provides adequate incentives to construct new transmission." 3. "Third, we consider whether the proposal is generally supported by state authorities and participants across the region."

Compliance: For the NYISO as a planning region or sub-region with respect to reliability needs, the principles for allocation of costs of regulated solutions contained in Attachment Y § 10.2 meet principles. They are designed to serve as the basis for a fair allocation of costs based upon the principle that beneficiaries should bear the cost responsibility. The NYISO is in the process of developing criteria with the TOs and the other stakeholders at the ESPWG to determine the beneficiaries of regulated solutions. The principles meet the second principle for regulated solutions because full cost recovery provides an adequate incentive to construct solutions. However, not all solutions are or need be transmission as the CRPP treats transmission, generation and demand side resources comparably in determining whether the resource adequacy criterion is satisfied. Third, the DPS staff supported the development of these principles and is working with the NYISO, the TOs and other stakeholders to develop more specific criteria for the cost allocation methodology.

Requirement: "These principles are particularly important as applied to economic upgrades discussed above – e.g., upgrades to reduce congestion or enable groups of customers to access new generation. As a general matter, we believe that the beneficiaries of any such projects should agree to support the costs of such projects." However, there are "free rider problems" that should be addressed. ¶561.

Compliance: See Attachment A

8. Economic Planning – See Attachment A

9. Regional Participation

Requirement: Each transmission provider must coordinate with interconnected systems to: (1) share system plans to ensure that they are simultaneously feasible and otherwise use consistent assumptions and data; and (2) identify system enhancements that could relieve significant and recurring transmission congestion. ¶ 523. Regional planning should encompass as broad a region as possible and may be organized on both a sub-regional and regional level. ¶ 527.

Compliance: The New York ISO, ISO New England and PJM each have transmission planning processes for their regions, and these processes examine reliability needs and solutions considering the impacts of and upon neighboring systems. The NYISO's CRPP states that New York's process will "coordinate the NYISO's reliability assessments with Neighboring Control Areas." Attachment Y § 1.1. Moreover, the CRPP states that the NYISO will coordinate its planning activities with those of NERC, NPCC and other regional reliability organizations and

develop consistency of the models, databases, and assumptions utilized in making reliability determinations. Attachment Y, § 3.0(c).

The Northeastern ISO/RTO Planning Coordination Protocol provides for coordinated planning across the entire Northeast region. This region encompasses New York, New England, PJM, Ontario, Quebec and the Maritimes. The ISOs and RTOs in the Northeast have formed the Joint Interregional Planning Committee (JIPC) to coordinate their planning processes and proposed system upgrades. An Inter-area Planning Stakeholder Advisory Committee (IPSAC) has also been formed to provide broad stakeholder participation from all sectors for the entire Northeast Region. These committees meet regularly and are actively discussing how to improve regional planning and further study congestion on a regional basis in response to Order 890.

R5/14/07
R5/18/07

ATTACHMENT A

DRAFT
ECONOMIC PLANNING STRAWMAN

REVISED DRAFT BASED ON MAY 3 ESPWG MEETING COMMENTS

PROPOSED MODIFICATIONS IN RESPONSE TO ORDER 890

APPROVED BY NYISO OPERATING COMMITTEE 2/17/05

"STRAWMAN PROPOSAL" FOR AN ENHANCED 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.

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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**
    - **Process to include criteria for selection, establishment of time line and possible grouping of studies**

- 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
    - Include regulated backstop solutions if needed

- Perform "what if" analyses
  - With and without a proposed improvement
  - All resources will be considered: transmission , generation & demand response

- Develop future scenarios as appropriate
  - Which may include consideration of:
    - Load forecast uncertainty
    - Fuel cost uncertainty
    - Environmental regulations
    - Potential changes in the generation portfolio of the region reflecting retirements or additions

- Results of Analysis
  - NYISO will provide a range of information to the marketplace based upon existing NYISO confidentiality requirements
  - 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

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Applicability of Other NYISO Tariff Requirements

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- **All projects that interconnect to the NYISO system must comply with all other requirements of the NYISO tariff**

NYISO will NOT:

- **Determine congestion thresholds to trigger project construction**
  - **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

- **Economic projects that were previously analyzed can proceed on a market basis with willing buyers and sellers at any time**
- **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. Cost allocation under the NYISO Tariff shall be applicable only when beneficiaries agree to support an economic project—which may be through a vote of the beneficiaries.**
- **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 Primary beneficiaries shall be those entities identified as benefiting from the proposed upgrade**
  - **Consideration shall be given to the "free rider" issue as appropriate**
  - **The methodology shall provide cost recovery certainty to investors to the extent possible**
  - **Methodology will include consideration of the project's short-term payback**
  - **The methodology shall address the possibility of cost overruns**
  - **Consideration shall be given to the use of a materiality threshold for cost allocation purposes**
  - **The methodology shall provide for ease of implementation and administration to minimize debate and delays to the extent possible**
  - **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 as appropriate (e.g. – load forecast, fuel prices, environmental regulations)**
  - **Benefits determination shall consider non-quantifiable benefits as appropriate (e.g. – system operations, environmental effects)**

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¶
<#>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¶

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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**

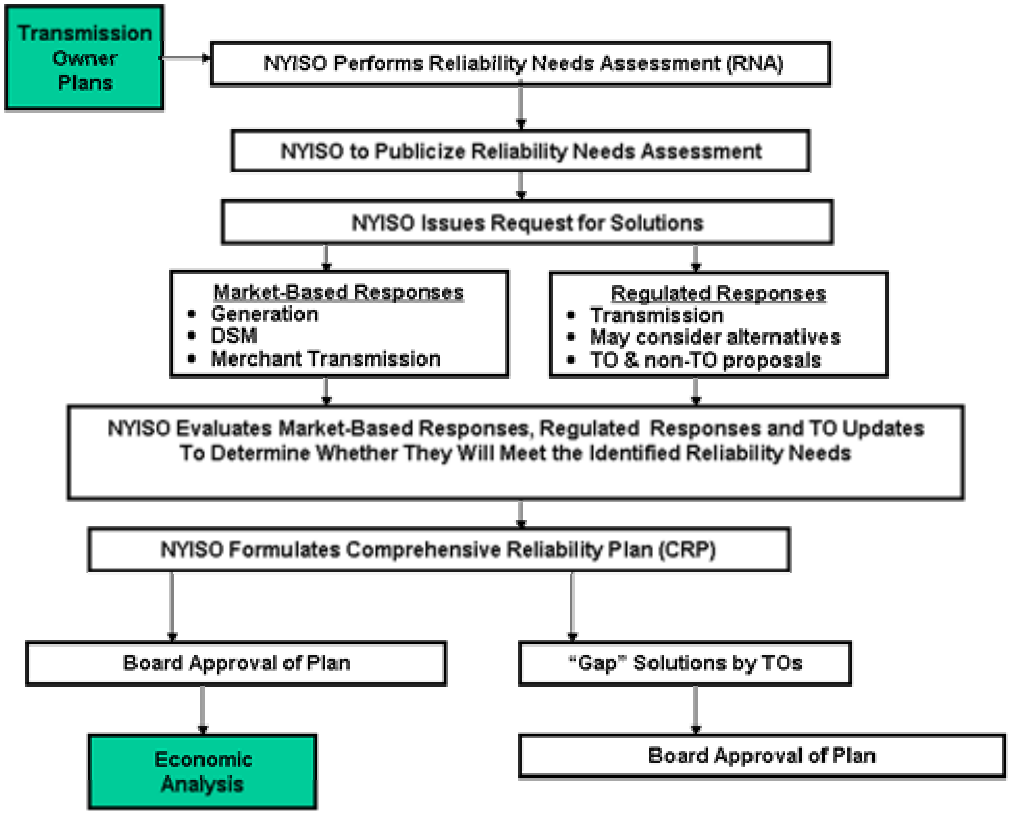
R/2/17/05
4/2/07
R4/3/07
R4/29/07
R5/10/07
R5/14/07

ATTACHMENT B

NYISO "STRAWMAN" PLANNING PROCESS

FLOW CHART

NYISO Proposed "Strawman" Planning Process



ATTACHMENT C

SUMMARY OF NYISO'S

COMPREHENSIVE RELIABILITY PLANNING PROCESS (CRPP)

FERC Order 890 Straw Proposal

New York Independent System Operator

Comprehensive Reliability Planning Process (CRPP)

The following presents an overview and summary of the CRPP, the CRPP stakeholder process, and the reliability policies and criteria that are the foundation of the CRPP. The CRPP is contained in Attachment Y of the NYISO OATT.

1.1 **Summary of the CRPP**

The CRPP is a long-range assessment of both resource adequacy and transmission reliability of the New York bulk power system conducted over a 10-year planning horizon. It is conducted in accordance with the existing reliability criteria of the North American Electric Reliability Council (NERC), the Northeast Power Coordinating Council (NPCC), and the New York State Reliability Council (NYSRC) as they may change from time to time. This process is anchored in the NYISO's philosophy in which market-based solutions are the first choice to meet identified reliability needs. However, in the event that market-based solutions do not appear to meet a reliability need in a timely manner, the NYISO will designate the Responsible Transmission Owner to proceed with a regulated backstop solution in order to maintain reliability. Under the CRPP, the NYISO also investigates whether market failure is the reason for the lack of a market-based solution, and explores changes in its market rules if that is found to be the case.

As the first step in the CRPP, the NYISO conducts a Reliability Needs Assessment (RNA) to determine whether there are any violations of existing reliability rules governing resource adequacy and transmission security. Following the review of the RNA by the NYISO committees and final approval by the NYISO Board of Directors, the NYISO will request solutions to the identified reliability needs from the marketplace. At the same time, the responsible Transmission Owners are obligated to prepare regulated backstop solutions for each identified need over the planning horizon, which will serve as the benchmark to establish the time by which a market-based solution must appear. Both market-based and regulated solutions are open to all types of resources: transmission, generation, and demand response. Non-transmission owner developers also have the ability to submit proposals for regulated solutions in the event that no valid market based solution is proposed. The NYISO evaluates all proposed solutions to

determine whether they are viable and will meet the identified reliability needs in a timely manner. The NYISO does not conduct an economic evaluation of the proposed solutions.

Following its analysis of all proposed solutions, the NYISO prepares a Comprehensive Reliability Plan (CRP or Plan). The CRP identifies all proposed solutions that the NYISO determines are capable of meeting the identified reliability needs. If a viable market-based project or projects can satisfy the identified needs in a timely manner, the CRP will so state. If developers do not present viable market-based proposals and the NYISO determines that a regulated backstop solution must be implemented, the CRP will so state, and the NYISO will request the appropriate Responsible Transmission Owner(s) to proceed with regulatory approval and development of the backstop solution. The NYISO also monitors the continued viability of proposed projects to meet identified needs and reports its findings in subsequent Plans.

The CRPP also allows the NYISO Board to address the appearance of a reliability need on an emergency basis, whether during or in-between the normal CRPP cycle. In the event that there is an immediate threat to reliability, the NYISO will request the appropriate Transmission Owner(s) to develop a "gap solution" and to pursue its regulatory approval and completion in conjunction with the New York State Public Service Commission (NYSPSC). Gap solutions are intended to be temporary and not to interfere with pending market-based projects.

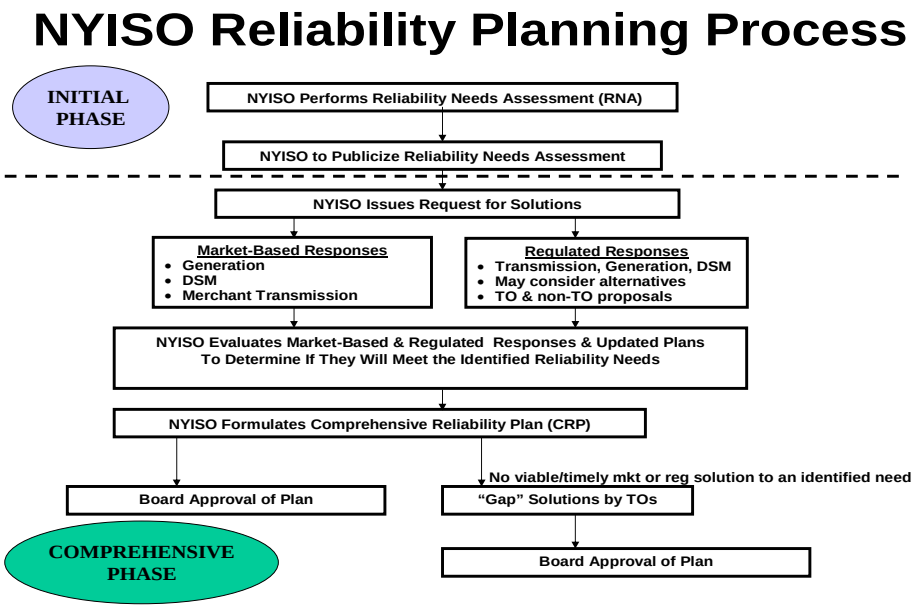
The CRPP also addresses the issues of cost allocation and cost recovery for regulatory backstop solutions to reliability needs. The Tariff contains a set of principles for cost allocation based upon the principle that beneficiaries should pay. The NYISO continues to be engaged in a stakeholder process to develop procedures for cost allocation. Cost recovery for regulated transmission solutions will be addressed through a separate rate schedule in the NYISO's Services Tariff, while cost recovery for non-transmission solutions will be subject to the NYSPSC's procedures.

The CRPP also addresses the respective roles of the NYISO, the FERC and the NYSPSC with regard to the NYISO planning process. In the event of a dispute regarding the NYISO's findings in the RNA or the CRP that cannot be resolved through the normal NYISO governance procedures, the Tariff provides for disputes to be brought to either the FERC or the NYSPSC—depending upon the nature of the dispute. In the event that a Transmission Owner is unable to license or complete a regulated backstop solution that has been found necessary during the course of the CRPP, the NYISO is required to report this to the FERC. Upon request, the NYSPSC will review proposed regulated solutions from either a Transmission Owner or another developer prior to their submission to the NYISO.

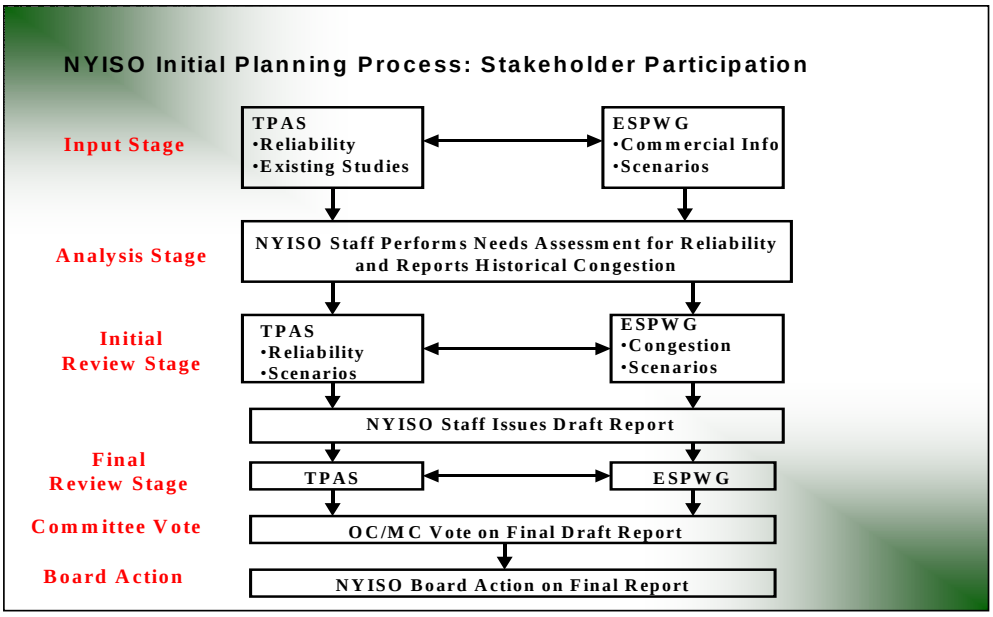
A separate, FERC-approved agreement between the NYISO and the New York Transmission Owners addresses the Transmission Owner's rights and obligations for performance under the CRPP. This agreement also envisions the establishment of a separate rate recovery mechanism, to be approved by FERC, for the recovery of costs

associated with the development and construction of a regulated transmission backstop solution required by the CRP.

The process flow diagram below summarizes the CRPP Stakeholder Process.



Given that the CRPP addresses both reliability and business issues, it has been agreed that both the TPAS and the ESPWG participate in the implementation process. This participation consisted of parallel input and review stages as shown in the diagram below.



TPAS has primary responsibility for the reliability analyses, while the ESPWG has primary responsibility for providing commercial input and assumptions utilized in the development of reliability assessment scenarios and the reporting and analysis of historic congestion costs. Coordination between these two groups and NYISO Staff was established during each stage of the initial planning process.

The intent of this process is to achieve consensus at both TPAS and the ESPWG. While no formal voting process is established at this level, which is typical for NYISO working groups, an opportunity for reporting majority and minority views is provided in the absence of a consensus.

Following TPAS and ESPWG review, the draft RNA and CRP reports are forwarded to the Operating Committee for discussion and action, and subsequently to the Management Committee for discussion and action. Finally, the NYISO's Board of Directors reviews and approves the RNA and the CRP.

(Source: Comprehensive Reliability Planning Process Supporting Document for the 2007 Reliability Needs Assessment, March 16, 2007)