

DRAFT**NYISO Business Issues Committee Meeting Minutes****December 10, 2014****10:00 a.m. – 12:30 p.m.**

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

The vice chair of the Business Issues Committee (BIC), Mr. Chris LaRoe (US PowerGen) called the meeting to order at 10:10 a.m. by welcoming the members of the BIC. The members of the BIC identified themselves and attendance was recorded. A quorum was determined.

2. Approval of Meeting Minutes – November 12, 2014Motion #1:

Motion to approve the Minutes of the November 12, 2014 BIC meeting.

Motion passed unanimously.

3. Market Operations Report/Seams Report

Mr. Rana Mukerji (NYISO) reviewed the Market Operations report included with the meeting material. There were no questions. Mr. Mukerji also reviewed the Seams Report included with the meeting material.

4. Planning Update

Mr. Henry Chao (NYISO) reported on recent planning activities and noted that the CARIS and RNA processes would be discussed at the ESPWG.

5. Billing & Accounting Manual Update

Ms. Michelle McLaughlin (NYISO) reviewed the proposed updates to the manual. There were no questions.

Motion #2:

The Business Issues Committee (BIC) hereby approves the Billing and Accounting Manual revisions associated with the CTS filing, removal of Non-Firm Point-to-Point transactions, and other ministerial changes as more fully described in the presentation made to the BIC on December 10, 2014.

Motion passed unanimously with abstentions.

6. Comprehensive Shortage Pricing Discussion

Mr. Mike DeSocio (NYISO) began by thanking Stakeholders for their efforts in working with the NYISO on this proposal. He explained that he recently had the opportunity to participate in a few technical conferences regarding uplift and price formation at the FERC. At the crux of those discussions was an overarching theme; the NYISO's market design is best in class. Time and time again, other participants of the conference would hold up NYISO market features as examples on how to construct an efficient market. He continued by stating that the NYISO has the Market Participants to thank for working with it and challenging the NYISO to create the best market design.

Mr. DeSocio stated he views the Comprehensive Shortage Pricing proposal as the next step in ensuring the New York market design remains best in class. Stakeholders have challenged the NYISO to bring forth the best and most workable changes to its market structure. The NYISO has been working on its

Comprehensive Shortage Pricing design since fall of 2013. It has been a long road, Mr. DeSocio mentioned, but the NYISO is nearing the end with this presentation and vote here today at the BIC.

In the past few weeks, NYISO has held many discussions with its stakeholders regarding the cost of this proposal. The NYISO does not take cost impacts on consumers lightly; however, the NYISO believes that the benefits of this proposal are far greater than its costs. In fact, the cost of this proposal is dwarfed by the costs of market changes proposed or being proposed by its neighbors. ISO-NE's performance incentive program is expected to cost over \$1 billion, and PJM's board recently approved PJM to follow suit with a performance proposal that will cost nearly \$5 billion.

With this in mind, he continued, there have been many discussions on the possibility of delaying implementation of this proposal until November 2015. While the NYISO expected that the comprehensive shortage pricing would be implemented as planned in June 2015, it believes that this alternative implementation date would be a reasonable compromise between generator and load interests. The NYISO has reviewed the 2015 cost impacts of such an alternative and found that implementing this proposal (in full) in November 2015 would result in 2015 costs of roughly \$25MM; roughly a reduction of \$100MM from costs related to a June 2015 implementation. As a reminder, the estimated 2015 costs for a June 2015 implementation were roughly \$125MM.

This initiative will enhance reliability and unit availability, and provide for fuel assurance and for more cost effective operation by ensuring that New York generators have a strong reason to be available for operation during cold and hot weather events. It will incent New York generators to make timely arrangements to procure fuel on a day-ahead basis.

New York is heavily reliant on natural gas. Increased reliance on natural gas, combined with recent extreme weather, compel the NYISO to take action to protect reliability by improving generator performance, unit availability and fuel assurance. The Comprehensive Shortage Pricing proposal will help achieve these objectives by providing long term economically efficient price signals and incentivizing the desired behavior by suppliers and consumers. In the short term, there may be price increases in the energy market. However, these price increases should be mostly offset by CTS-related savings. Once the demand curves are re-set for years beginning in 2017, increased energy prices from shortage pricing, if history is any guide, are expected to be offset by lower capacity costs. Moreover Comprehensive Shortage Pricing is expected to significantly improve the performance of the generator fleet during critical operating periods such as the polar vortex conditions New York experienced last winter. On January 7, 2014, more than 7,000 MW of generators were unavailable in New York. The NYISO expects this number to be significantly less once these market measures are implemented. Increased generator availability benefits consumers to the tune of \$200M for every 0.5% decrease in the Installed Reserve Margin (IRM). Delaying implementation of Comprehensive Shortage Pricing would delay performance and consumer benefits. The NYISO strongly believes that a November 2015 implementation date is prudent from both a reliability and consumer viewpoint.

Mr. Bill Heinrich (NYS DPS) stated he hopes the NYISO doesn't perform consumer impact analyses for nothing. Once we see price a tag on a proposal, it should impact whether to continue or to make changes. Procurement changes could be made in the SENY region to add an extra 600 MWs for a relatively modest price. Mr. Heinrich continued that the NYISO has the capacity market project that seems to be like it could be implemented in a revenue neutral way. When there is a large consumer impact, Mr. Heinrich advised that we should look at what we can do in a step wise fashion and come up with some sort of phase in plan. We haven't seen the NYISO sharpen its pencil on this, and there should be some rational way to phase this in.

Mr. Paul Gioia (TOs) stated the Transmission Owners see merit in the NYISO proposal but are concerned that our regulator feels all of the issues have not been fully vetted and they aren't comfortable with it. He suggested taking more time to discuss merits of proposal and concerns and also delaying the vote. TOs want an opportunity to discuss with the PSC so that they are comfortable with results. If the NYISO agrees that a November implementation is acceptable, then pushing off the vote won't be an issue.

Mr. Howard Fromer (PSEG) stated he was not sure why a delay would be productive except to give the TOs an opportunity to explain why they have been supportive on much of the proposal. We have a vote today and this will require going to the MC, therefore, TOs and the DPS have an opportunity between today and next week to have discussions and inform the PSC, who has been involved for months in the development. This is nothing new.

Ms. Doreen Saia (Greenburg Traurig for Entergy) explained the NYISO has answered the questions posed; doing the first two steps does nothing if you don't have the price behind it. If you look at what is happening in surrounding regions, PJM and ISO-NE are moving ahead aggressively. This topic is core to address fuel assurance and performance incentives, and that is the cornerstone of the NYISO's proposal. She expressed concern about the filing date and the need to get this before the Board in January. Ms. Saia added these are efficiency changes. The stakeholders expedited CTS, both suppliers and load heavily supported those changes as they produced more efficient results despite prices being lower. She said it was disturbing that cost was overriding having more efficient markets and that it was a dangerous path if we permit price impacts to derail improvements to market efficiency. New York is not an island.

Ms. Liz Grisaru (NYSDPS) said the DPS believes this proposal has substantial merit but is concerned about the mismatch between immediate consumer impact and much less certain offset or integration into the Demand Curve reset. She said that DPS wanted to understand better the impact because DPS needed to know how the ratepayers would be impacted.

Mr. David Clark (Power Supply Long Island) stated he supported the overall proposal because it would reduce contingencies. However, Power Supply Long Island would be willing to defer a vote to reach a broader consensus..

Mr. Andrew Antinori (NYPA) said it seemed unusual that we vote now and not file with FERC for six or seven months. He said that the DPS has legitimate concerns and NYPA did not see any harm in delaying vote for a month. In response, Mr. Fromer explained that there are software issues; and even under the best of circumstances if the Board approved in January 2015, it would still be five (5) months before software could go live.

Mr. Bart Franey (National Grid) said the month delay wasn't really so much to improve upon the proposal, but it was more to see if a November date was feasible and what the pros and cons were and to generate more support of the proposal. The PSC was left out of the discussion and if they are asking for more time, it doesn't seem to be a huge disruption in the proposal. He said that National Grid supported the proposal and supported delaying for a month to let the PSC do their examination.

Mr. Mark Younger (Hudson Energy Economics for Indeck) pointed to the NYISO's upcoming February 2015 report to FERC on fuel assurance and said that Comprehensive Shortage Pricing is a significant piece to provide the right incentives and it assures suppliers procure reserves in the right location to meet the SRC's reserves restoration obligation. The proposal directly addresses reliability issues. He

expressed concern that if the stakeholders don't vote now and February comes, the NYISO will have nothing to show to FERC on fuel assurance because the PSC slowed us down.

Mr. Ting Chan (Central Hudson) stated that he supported the proposal, but is looking for assurance that when it comes to Demand Curve reset that we tried 100% to reflect our cost. Given what we heard from the PSC, Central Hudson is supportive of a delay and feels it is in their best interest.

Proposed Motion #3:

The Business Issues Committee ("BIC") hereby recommends that the Management Committee approve changes to the NYISO's OATT and MST with regard to the Comprehensive Shortage Pricing updates as more fully described in the presentation made to the BIC on December 10, 2014.

Mr. Scott Leuthauser (HQUS) made a motion to amend proposed motion #3 to delay implementation. The mover and seconder deemed the amendment as unfriendly and requested a roll call vote. The motion was acted upon before the language was visible on the screen.

Motion #3A

Motion to amend Motion 3 to delay implementation to November 1, 2015.

Motion passed with 94.23% affirmative votes.

Mr. Antinori made a motion to table Motion #3 and requested a roll call vote.

Motion #3B:

Motion to table motion 3.

Motion failed with 46.55% affirmative votes.

After the motion to table failed, the BIC Chair instructed that the committee would now take the vote on the motion as amended. Mr. Rick Brophy (NYSEG) asked for the motion to be put on the screen. After the language was put on the screen, Con Edison proposed to change the word "delay" to "postpone". NYISO counsel advised that the motion could not be changed because the vote on the motion to amend had already been taken. Ms. Saia indicated that this language did not reflect the motion that Entergy had been seconding. She noted that the NYISO has confirmed at this meeting that the software for the shortage pricing proposal will be deployed in the "OFF" position in June and will be ready to be implemented at that time. Entergy strongly feels that it should be implemented in June to allow the efficiencies that it will bring to the market to be seen and to give the NYISO more data to be used in the next demand curve reset process to allow the net Energy and Ancillary Services revenue projections to be accurate. However, it was made known by several market participants leading up to the vote that they would not vote in favor of a June implementation and would only vote in favor of a November implementation. Because Entergy feels that it is critical to get these market rule changes to FERC for review, Entergy was willing to second the motion but the motion language should have simply stated "with an implementation date of November 1, 2015" to reflect the intent of the movants.

Motion #3:

The Business Issues Committee ("BIC") hereby recommends that the Management Committee approve changes to the NYISO's OATT and MST with regard to the Comprehensive Shortage Pricing updates as presented and amended to delay implementation to November 1, 2015 at the BIC on December 10, 2014.

Motion passed with 83.96% affirmative votes.

7. Working Group Updates

- a. *Billing and Accounting Working Group* – Ms. Eckels reported that the group reviewed the grid accounting report and the proposed Billing & Accounting Manual update.
- b. *Credit Policy Working Group* – Mr. Norman Mah (Con Ed Solutions) NYISO proposed to require all market participants to submit annual financial statements, starting July 2015. Companies with unaudited statements can submit an officer certification of accuracy to waive the audit requirement. Proposal will be voted on early 2015. The Credit Management System will be modified for the projected true-up exposure. The true-up exposure will require additional collateral if a Load Server repetitively under forecast its load by more than 90%. Will be put in service February 2015. Registration will be required for training will be in January 2015.
- c. *Electric Gas Coordination Working Group* – The group has not met since the last BIC.
- d. *Electric System Planning Working Group* – No update.
- e. *Installed Capacity Working Group* – Mr. LaRoe reported that the ICAP completed the Market Monitor's ICAP market recommendations as well as continued discussions on Increased CRIS and began discussions on predefining and eliminating capacity zones.
- f. *Inter-regional Planning Task Force* – No update.
- g. *Load Forecasting Task Force* – Mr. Bryan Irrgang reported the group discussed the 2014 Weather Normalized Peak and 2015 ICAP Forecast.
- h. *Market Issues Working Group* – Chris LaRoe (US PowerGen) reported that MIWG met jointly with PRLWG to review the Behind the Meter Generation Initiative and Market Concepts for Distributed Energy Resources. Discussions continued on Comprehensive Shortage Pricing as well as reviews of fuel changes in reference levels, the reference level manual, fuel availability self-reporting, TCC Markets Attachment L revisions and an update on MIPs. Potomac Economics also provided its Q3 State of the Market Report.
- i. *Price Responsive Load Working Group* – See MIWG update.

8. New Business

None

The meeting adjourned at 12:35 p.m.