

New York Independent System Operator
Schedule 1 Evaluation Project
BSP Subcommittee Presentation

December 11, 2003



Overview

- Project Purpose
- Brief History
- Project Methodology
- Review of Potential End Results
- BSP Input and Involvement
- Preliminary Project Schedule & Project Status
- Next Meeting with BSP Subcommittee

Project Purpose

- Complete a Schedule 1 Unbundling Study to review the allocation of the costs of NYISO services to Market Participants
 - Includes costs currently recovered under both OATT Schedule 1 and MST Schedule 1
- Review ISO/RTO cost allocation and rate design at other ISOs/RTOs as an input to the NYISO Unbundling
- Review the impact of the NYISO IT budget on the Schedule 1 costs and allocations

Brief History

- Within NYISO
 - NYISO and MP conducted collaborative process to unbundle Schedule 1 rates in *May to December 2001*
 - Study resulted in a number of motions for rate design before BOD, MC, BIC and Schedule and Pricing WG
 - Could not gain approvals at all levels
 - BOD instituted 85/15 effective *June 2002*
 - MC approved new Schedule 1 study to begin in *2003*
 - R. J. Rudden began project initiation in *late October 2003*

Brief History

- Before FERC
 - Conditionally accepted NYISO OATT - 86 FERC ¶ 61,062
 - Accepted filing and ordered submission of revised unbundled rates *by 7/2/01* - 92 FERC ¶ 61,279
 - NYISO request for extension to file unbundled rates *pending since 9/5/01*; FERC has not responded
 - In accepting 85/15 as temporary split between LSEs and Generators, FERC ordered NYISO to look at appropriateness of 85/15 as soon as possible (Docket No. ER01-1961) on *9/25/02*

Project Methodology

- Review unbundling at NYISO and other ISOs
- Interview NYISO Departments
- Design unbundling proposals
- Analyze MP impacts and practicality of proposals
- Present recommended draft proposal to NYISO, BSP
- Revise proposal based on feedback

Project Methodology

- Review Unbundling at NYISO
 - Review results of 2001 Study
 - 2001 Study reviewed various allocations to
 - LSE
 - Generators
 - Transmission Owners
 - TCC holders
 - Wheel Through & Export customers

Project Methodology

- Review Unbundling at NYISO
 - Review FERC orders and issues
 - Review NYISO 2003 actuals and 2004 budgets

Project Methodology

- Review Unbundling at NYISO
 - Develop Guiding Principles for project

1. Assign cost recovery to those creating the need
2. Send appropriate price-signals
3. Hold MPs accountable for the costs of projects they request
4. Build rate design from knowledge of other ISO designs
5. Provide a smooth transition to any new rate design
6. Support NYISO Strategic Plan goals for full regulatory compliance and promotion of a workable competitive market

Project Methodology

- Review Unbundling at other ISOs
 - Review PJM, ISO-NE & CAISO Schedule 1 rate designs

PRESENT PJM	PRESENT ISO-NE	PROPOSED CAISO
Control Area	Scheduling Services: Scheduling, System Control & Dispatch Service	Grid Reliability-Core
Control Area & eSchedules		Grid Reliability-Scalable
Market Support & Regulation and Frequency Response	Energy Administration Services: core operation of Energy Market	Market Services- Forward Scheduling & Market Services- Market Usage
Capacity Adequacy	Reliability Administration Services: core operation of Reliability Markets	Grid Reliability-Core
Cap. Res./ Obl. Mgmt.		
FTRs		Market Services- Congestion
Market Support & Management Services		Settlements, Billing, Customer Service
Management Services		

Project Methodology

- Interview NYISO Departments
 - Regarding selection of service categories
 - Regarding allocation of time and costs among service categories
 - 2004 Budget
 - 2003 Actual activities, adjusted for expected changes
 - Regarding beneficiaries for each service category
 - Regarding draft rate designs / billing determinants

Project Methodology

- Draft unbundling proposals
 - Develop draft service categories and subcategories
 - Allocate time and costs among categories and subcategories
 - Identify beneficiaries for each service category
 - Evaluate billing determinants for each category
 - Develop possible rate designs / billing determinants

Project Methodology

- Analyze MP impacts and practicality of proposals
 - Review practicality of collecting information and creating bills costs for the unbundling proposals
 - Review MP impact of proposed unbundling
 - Review 2004 IT Budget impact on rates and MPs
 - Select a draft recommended unbundling proposal, including service categories and beneficiaries, cost allocation, and rate design / billing determinants

Project Methodology

- Analyze MP impacts and practicality of proposals
 - Sample of design criteria

1. As a practical matter, can the costs for the functions categories be separately identified and measured?
2. Are the costs of sufficient magnitude to warrant separate treatment?
3. Are the beneficiary customer groups for the category similar or dissimilar?
4. Do the categories have dissimilar cost drivers?
5. Are their practical billing determinants that can be identified?

Project Methodology

- Present recommended draft unbundling to NYISO and BSP
 - Present draft recommended unbundling proposal to NYISO key NYISO personnel – revise as necessary
 - Present draft recommended unbundling proposal to BSP – revise as necessary

Review of Potential End Results

- Unlikely to remain with 85/15
- Not everyone will be satisfied since some will pay more and some less
- Likely greater differentiation than just Load MWh and Generation MWh
- Will require monthly or annual true-ups
- Schedule for implementation, including possible FERC filing, are unknown

BSP Input and Involvement

- Meet a least three times with BSP
 - This meeting and and two additional in early 2004
 - May need telephone follow-ups
- Seek input on methodology, schedule and results
- Review and comment to categories
- Review and comment to beneficiaries
- Review and comment to recommended rate design / billing determinants

Project Schedule & Project Status

Schedule 1 Analysis - Preliminary Project Schedule

Week	November				December				January				February				March			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Task I. Update Cost Allocation Evaluation																				
Cost Allocation Kick-Off			■	■	■															
Cost Allocation Analysis					■	■	■			■	■	■	■							
BSP Subcommittee Meetings						★						★						★		
Brief Analysis of Other Cost Inputs												■	■	■	■					
Customer Impact Analysis												■	■	■	■					
Report													■	■	■	■	■	■		
Task II. Evaluation of IT Budget Impact																				
IT Budget Analysis							■			■	■	■								
Report													■	■						

Project Schedule and Status

- Status
 - Completed preliminary review of other ISOs
 - Reviewed NYISO actuals and budgets
 - Began interviews with NYISO departments
 - Continuing with interviews and category development

Next Meeting with BSP Subcommittee

- Up to this group
- Rudden recommends
 - Meeting 2 - between January 26 and February 6
 - Meeting 3 – March 1 to March 5