

NYISO Electric System Planning Working Group Meeting

**April 15, 2004
10:00 am – 3:00 pm**

Con Edison – NYC, NY

Of the sixteenth meeting of the New York Independent System Operator Electric System Planning Working Group held April 15, 2004 at Con Edison in NYC, NY.

Welcome and Introductions

Mr. Bill Palazzo, Chairman of the Electric System Planning welcomed the Electric System Planning Working Group to the meeting and stated the agenda.

Approval of the Meeting Minutes

The minutes from the March 1st and March 29th meeting were approved and will be posted to the NYISO/MDEX website.

Initial Planning Process Implementation Issues

Mr. Bill Lamanna provided a status update on the initial planning process implementation issues. Mr. Lamanna reported the following under scenario analysis status:

- Under construction scenario showing resource problems
- Risks identified in LI
- Scenarios without risk expanded in scope
- Loss of largest generator expanded into SENY and LI
- Scenario of NYC and LI at resource margin
- Concepts for fuel diversity assessment still being developed

A summary of the Load and Capacity Tables and resulting LOLE numbers for the baseline and scenario analyses will be distributed next week and the full report in mid May. Distinctions will be made on impacts of losing large dual fuel units.

Congestion Impact Calculation Update – Jim Mitsche

Mr. Mitsche provided an update on the PROBE congestion impact calculations. Tasks have been identified as “first priority” and “next priority”. Identified under first priority tasks are: 2003 congestion impact calculation, defining an “usual day” analysis approach,

aligning SCUC and PROBE modeling, documenting process and results interpretation, and collecting 2004 data. Next priority tasks will be to develop automated SCUC – PROBE results comparison, automate calculation process, and report metrics monthly.

Slide 4 – Preliminary 2003 NY Congestion - Mr. Mitsche will provide a draft write up explaining what these numbers represent. It was noted that the TCC hedging calculation has not yet been included in this preliminary table. It was agreed that TCC's associated with grandfathered contracts should be included in the hedging calculation.

Mr. Mitsche recommended using the unusual day identification approach, where a day is considered unusual if there is 95% confidence that the day's high (congestion \$) (average MWhr) variation is higher than other variation for any of these factors:

- Load level in 10% increments
- For the season
- For the day-of-the-week

The proposed unusual days identification scheme isolated 27 days with unusual amount of congestion. These 27 days represented about 25% of the total congestion impact.

Congestion impacts observations/conclusions for 2003:

- Absent a bidding response, min savings from eliminating all congestion is \$77 million per year for NYS. (on a bid production cost basis)
- Congestion only negatively impacted zones J&K load
- Transmission in zones J&K, plus the CE interface were the primary reasons for congestion.

Mr. Mitsche reported that the 2003 congestion impacts is close to completion, and the 2004 data has been received (Jan-Feb) and is waiting analysis.

NYISO Comprehensive Reliability Planning Process Development – John Buechler

Mr. John Buechler summarized the revised draft that incorporated stakeholder's comments, and the "issues list" that was discussed at the March 29th meeting. General revisions included the addition of an appendix for historic congestion, continued role for ESPWG/TPAS during the implementation of the Comprehensive Reliability Planning Process, and the continued practice of voting at the OC.

Specific issues:

- Section 3.2.1: Reliability Needs Assessment - Adopt suggestion to consider mitigation through alternate system configurations/operational modes
- Sections 4.2.4 & 6.1 - Adopt suggestion that changes in market rules be considered in parallel with specific resource solutions
- Section 7.2: Regulated Responses - Added new Section 7.2.4 allowing the NYISO to decide if a regulated solution should proceed in parallel with a market-based solution
- Section 7.3: Gap Solutions - Redrafted to clarify:

1. “Normal Process” would be through the Comprehensive Reliability Planning Process and would appear in Final Report
2. Under an imminent threat to the reliability of the NY power system, the NYISO Board may issue a request for a gap solution outside of the normal planning cycle
3. NYTOs would have the responsibility to propose “gap” solutions in response to a NYISO request under either case

The roles of the PSC, the NYISO, and the TOs remain an open issue.

The NYISO had proposed to use the list of NYS Bulk Power Transmission Facilities as the definition of facilities to be subject to the NYISO Planning Process. In response to questions pertaining to this list, it was explained that these are the facilities that have been traditionally utilized for the purpose of the ATR review, which has been accepted by the NPCC.

Action Item: Mr. John Buechler will determine if all NYC PARS are on the NPCC Critical Facilities list and if the facilities on this list are solved for in SCUC.

TOs and NYISO Planning Process for Reliability Needs - Rebecca Craft

Ms. Rebecca Craft reported on the TOs and NYISO Planning Process for Reliability Needs and added that these views represent all but one TO (National Grid).

Under the basic assumptions, the planning process is long-term (10 years) and in the process NYISO identifies reliability needs, the TOs will continue to plan for their systems to meet their local reliability rules. Upgrades (at any voltage level) and other projects that result from this TO system planning will serve as inputs to NYISO planning process and NYISO will identify incremental system needs based on planning for reliability needs.

In addition, the TOs will assume responsibility to ensure reliability is maintained if the market does not respond to needs identified by the NYISO during the planning process. As a default, the TO in whose service territory the reliability need has been identified, will assume responsibility to ensure reliability is maintained. If a reliability project will reside in more than one service territory, or in a service territory other than the one with the identified need, then the relevant TOs will collaborate to determine an appropriate solution.

The TOs recognize that an ultimate backstop may become necessary if they cannot reach agreement on a solution. The TOs will continue to work to determine that backstop

The TOs do not feel that the draft is acceptable, specifically with language in sections 6 and 7 and are planning to discuss further with the NYISO and provide a write-up.

The majority view of the TOs is that costs should be allocated to customers who receive incremental benefits based on who has the need, and who, other than those with the need, receives reliability benefits. Specific cost allocation tools will be developed that will identify meaningful and substantial deferred capital investment and eliminate free riders.

The majority of the TOs support cost recovery through the NYISO tariff or other regional tariff provided that the TOs will determine their own revenue requirement pursuant to regulatory procedures currently in place and regulatory review (this would be set up before the project was undertaken), credit and security issues will be adequately addressed, and acceptable administrative and billing procedures will be implemented by the NYISO.

The group discussed incremental costs.

Mr. Fromer asked the TOs to lay out what role they see in the process for the NYISO. Ms. Craft stated that the NYISO would look at the region as a whole to see what is needed to maintain reliability.

Mr. Mike Mager asked Ms. Craft to distinguish the roles of PSC and FERC in the process. Mr. Butterklee responded that transmission revenues have to be approved by FERC and the PSC – beyond that they haven't gotten into any details.

Mr. Fromer asked for clarification on the difference between the TO's proposal and the current plan structure. Ms. Craft responded that there is detailed language in the document that the TOs would like to discuss with the NYISO with respect to their rights. The TOs are not proposing a shift in the overall scheme in the current planning process. Mr. Howard Fromer asked if the NYISO had plans to enter into separate agreements on these issues and Mr. Buechler stated that the NYISO will be meeting with the TOs to get a better understanding on the issues that they have raised and that the result of those discussions will be reported to the ESPWG for discussion at the next meeting.

The role of the PSC in a regulated solution was discussed. The PSC responded that they will ask if it is in the public interest and lowest cost and if have other alternatives been looked at.

NYISO Regional Planning Process – Mary Ellen Paravolos

Ms. Mary Ellen Paravolos presented National Grid's minority TO position description and stated that National Grid was unable to support the majority TOs position as it contained fundamental flaws.

Nat Grid is concerned that the TO role in the process promulgates a planning process based on TO footprints rather than on a regional basis, renders a NYISO Regional Planning Process that will be very limited in scope, and may not result in comprehensive and efficient planning for the region. NYISO and TOs should collectively look at the

system and address what the systems needs are. The TOs obligation to respond to reliability needs does not give clear responsibility to any particular TO and relies on a general responsibility for TOs to collaborate without clearly indicating what happens if collaboration does not yield a result acceptable to all parties.

National Grid proposes that the TO will propose solutions to the NYISO's identified reliability needs for implementation if the market does not respond to needs identified by the NYISO and as a default, the TO in whose service territory the solution resides will implement the solution, unless parties agree otherwise.

National Grid feels that the NYISO planning process focuses on the regional transmission system. NYISO, with TO input, would identify system needs on regional transmission system. The market, and regulated responses by TOs if necessary, then responds to these system needs.

The TOs majority proposal is the lead TO is where the need is, while National Grids proposal is the lead TO is where the solution is.

Mr. Mike Mager stated that all responses should be considered: demand response, transmission or generation.

Cost allocation factors to consider include: Who needs it, who benefits from it, who caused the need. Reliability and economics consideration and use over life of facility also need to be looked at.

Cost Allocation for Reliability Projects Under the NYISO Planning Process – Dr. Mayer Sasson

Dr. Mayer Sasson reported on “Cost Allocation for Reliability Projects under the NYISO Planning Process”. The “beneficiaries pay” project undertaken by the TOs looked at only regulated transmission projects that address reliability needs identified by the NYISO planning process to be considered in the cost allocation process, and that the Market is first given an opportunity to respond.

Ms. Doreen Saia asked if the TOs would be looking at regulated generation or demand response solutions. Mr. Bob Reed replied that due to technicalities of the proposal it may not be applicable to other solutions.

Mr. Howard Fromer raised the issue of consistency – and stated that cost allocation should work the same regardless of the nature of the reliability improvement implemented.

Major steps in determining the beneficiaries:

- TOs that have the need are primarily targeted

- Other TOs that receive reliability benefits are also targeted among those that are identified to result in significant offloading of parallel facilities and substantial deferred capital investment.

Under the line de-loading approach for determining beneficiaries, the NYISO establishes a need through the planning process. A project responding to this need is taken as an input and triggers the cost allocation process. Net benefits are determined by zones defined by TO transmission line ownership and Net percentage de-loading of existing lines considered as a measure of benefit.

Study results, undertaken by PTI, assumed that generation had already been optimally dispatched by the NYISO and did not resolve the identified reliability problem, were generally consistent with the concept that some incremental benefits might be determined based on incremental de-loading approach. This method might be useful for addressing reliability problems that result in incremental changes to the transmission system.

The results concluded that the method used does not work for all cases studied, and therefore cannot serve as a stand-alone method to determine beneficiaries in a beneficiaries-pay methodology. It does appear useful as a tool to address the free rider issue and may be used as one tool within an overarching beneficiaries pay methodology.

The group reached consensus on the beneficiaries pay process. The TOs will continue to work on the complete process for allocating costs under this methodology, including defining it broader than the regulated transmission option.

Mr. Buechler stated that, for purposes of the FERC filing, we would need to define principles that are more specific than just “beneficiaries pay.” Mr. Fromer asked why we are concentrating on free riders. If we propose a project under the normal process we don’t look at co-contributors.

Mr. Mager stated that beneficiaries should fund this but flesh out guiding principles with more details.

ESPWG members were asked to provide comments on specific beneficiaries pay principles to the NYISO by April 30. The NYISO will propose specific language at the next ESPWG meeting.

Mr. Palazzo indicated his intent to have the Comprehensive Reliability Planning Process to the OC for a vote at its May meeting. In order to accomplish this, it was agreed that a special ESPWG meeting will be scheduled on May 6th in Albany.

Next Meeting

The next regularly scheduled ESPWG meeting will be held on May 26th in Albany, NY.