

**New York Independent System Operator
Joint meeting of**

BUSINESS ISSUES COMMITTEE MEETING
and
OPERATING COMMITTEE MEETING
Wednesday, October 22, 2003

The Desmond
660 Albany Shaker Road
Albany, NY 12110

Draft Minutes

I. Introductions

Mr. Larry DeWitt, Chairman of the Business Issues Committee (BIC) called the meeting to order at 9:30 a.m. and welcomed the members of the BIC and OC. Mr. DeWitt stated the meeting's agenda and schedule for the remainder of the day.

II. Proposed Revised Market Rules Associated with the Implementation of the Real Time Systems (RTS) Project

Mr. Dewitt outlined issues that Market Participants have been concerned with regarding the market revisions for the RTS project. Ms. Mollie Lampi, NYISO Senior Attorney, announced that all the issues raised by MPs have been helpful to the NYISO in better understanding market design concerns. Ms. Lampi provided an overview of the issues that the NYISO would be providing details on today.

Mr. Andrew Hartshorn presented "Reserve Demand Curve Issues". Mr. Hartshorn provided reasons for the implementation of the reserve demand curve design and noted its importance. Mr. Hartshorn noted that the pricing is targeted to the supply side of the market which promotes consistency according to system conditions. Mr. Hartshorn stated that by pricing the reserve requirements properly, proper pricing should be maintained during Reserve Pickups (RPU). The tables with the reserve requirements and the demand curves that are proposed for implementation were displayed. Mr. Hartshorn noted that the demand curves were developed with the input from numerous NYISO departments and staff, as well as numerous discussions with MPs; he reviewed the factors considered during development process.

Mr. Jim Scheiderich asked when an RPU is terminated and the regulation market goes back into effect, will the prices spike because of the type of units that will be involved.

Mr. Hartshorn stated that this would not occur, and he would provide more details as it would be covered later in the presentation.

Mr. Hartshorn reviewed the factors leading to revision of the demand curve prices. NYISO Operations was concerned about the amount of spinning and 10-minute total reserve and pricing. Mr. Younger asked if prices went above the demand curve, would the curve be revised. Mr. Hartshorn indicated that it would be revised. Mr. David Patton stated in the event that we don't procure the reserves needed, the chances of being short in the NYCA and not short in the East are low. Mr. Younger was concerned with the possibility of not purchasing from an external area for \$650 to meet the requirements for NYCA, but purchasing up to \$1000 for shortages in the East. Mr. Hartshorn responded that based on the historical data, this is not likely to occur, but if it does the curves can be changed.

Mr. Hartshorn provided examples of what the system would look like immediately following an RPU and he reviewed the continuum of scheduling and pricing solutions. He indicated that the prices can jump, but that this is not a result of the implementation of the reserve demand curve, rather it is the impacts of disjoint supply curve. During an RPU, the regulation market is suspended, and any dispatchable online capacity will be dispatched up which would bump the unit up higher on the price curve. Mr. Meyer Sasson asked if the units that are needed in order to go into a shortage situation would remain at a fixed price causing higher prices. Mr. Hartshorn responded that that a unit cannot easily transition from flexible to become a fixed unit and the Market Monitoring Unit (MMU) will be closely monitoring units that change to being fixed units; units are not allowed to change to fixed units unless there is an operational problem.

Mr. Hartshorn stated that adjustments for the 30-minute demand curve can include recallable exports. Mr. Younger pointed out that this only works if there are actually exports that can be used. Mr. Tim Bush was concerned with the process and he indicated studies have been done that look at the loss of units and there is a certain level of acceptable risk. Mr. Bush added that when using this curve, reserves will be bought at any costs and it doesn't not reflect the fact that there is time to deal with the situation. Mr. Chuck King indicated that the curve can provide an incentive to bring in MWs during continuous high load system conditions and provides a market based solution to help the NYISO Operators get out of shortage conditions as quickly as possible. Mr. Hartshorn added that the reserve demand curves will provide prices that are consistent with the state of the system regardless of whether it is in reserve pickup or normal operation. Mr. Bush stated that the software design does not allow flexibility in the way the system operates during RPUs, and stated it should because the reliability criteria allows for flexibility. Mr. Patton responded that the NERC criteria allows a certain amount of time to restore the reserves, but the NYISO should not necessarily be operating in this situation. Mr. Hartshorn stated that if the constraints on reserves were relaxed the price consistency problem in SCD reserve pickups today would not be resolved. Once this is implemented, NYISO Operations will not change their current procedures. Mr. Hartshorn stated that

this process looks for the least cost solution to solve the constraints.

The NYISO provided responses to a number of questions and issues raised at previous meetings. Mr. Hartshorn discussed how a load pickup differs from a RPU. If the load pickup is predictable, then it won't look like an RPU at all because RTC and RTD will be expecting this and will plan for it by committing and dispatching additional resources or scheduling additional imports. If the load pickup is unanticipated, there are a number of solutions available in RTD. Based on system conditions, Operators have the option to go into RTD-CAM, which would bring on more resources without initiating an RPU. It was asked if the reinstatement of regulation after an RPU may cause the demand curve to activate immediately following the RPU. Mr. Hartshorn stated that even though the regulation sits off to the side, it is co-optimized with the other resources. Regulation is usually 5 minutes of the unit's ramp rate and can usually recover in a single dispatch step. This may occur in cases where the regulation providers were capacity restrained during the RPU.

Another issue of concern to MPs was what the system would look like during a period of sustained \$1,000 prices. Mr. Hartshorn explained during these conditions there would be little or no 30-minute reserves on the system because the 30-minute reserves pricing stops at \$200 and bidding would be into the energy market. RTC would be scheduling expensive imports to maintain reserves. Due to the 30-minute shortage of reserves, the EDRP and SCR programs would be activated. Ms. Saia asked if the SCR and EDRP activation would still require notification. Mr. Hartshorn indicated these would still require notification. Mr. Patton stated this example was based on past system conditions and the curves have been set to satisfy these system conditions.

Another concern of MPs was under what conditions could the energy prices reach \$1,700. Mr. Hartshorn stated that it is not very likely this would occur. All constraints would need to be violated and all actions at the \$1,000 pricing would have been used as well as activation of the SCR and EDRP and the system would most likely be operating in the major emergency mode. NYISO Operations has never seen all six NYCA and eastern constraints violated. Mr. Fromer stated that looking out to summer 2004, the system will be adding about 1,000 MW of new resources, which makes it more unlikely that peak situations with limited resources experienced in summer 2002 would occur. Mr. Hartshorn stated units will no longer be able to offer dispatchable energy and without providing reserves. A question was asked related to the reserve price setting mechanism during EDRP events specifically related to the situation where Long Island units might be a marginal provider questioning why the LI units would be prohibited from setting clearing price for reserves in the eastern area. Mr. Hartshorn indicated when we overlay the administrative \$500 prices during EDRP conditions, the consistency between the energy schedules, energy prices, reserve schedules and reserve prices is removed. It is this consistency in normal pricing that allows the LI units to set Eastern prices. The rule that is being applied is not discriminatory to Long Island as all areas and product qualities are potentially impacted by the rule that was chosen. The pattern of prices defined by the

dispatch costs associated with each locational reserve cannot be maintained with the administratively set energy prices. Lost opportunity costs will increase and set the clearing price for units in the east during the very limited times EDRP is called.

Mr. Hartshorn discussed the possibility of the periodic review resulting in reductions to the reserve demand curves. Mr. Hartshorn stated that if the demand reserve curve is not reached, it does not mean it's too high. If the all resources were used, then it is possible that the demand curve could be lowered, but we will need to make sure the shadow prices are appropriate and we also need to consider seasonality or other conditions. Mr. Sasson stated that while we need to maintain reliability, this method will be more expensive than Operators taking action. Mr. Hartshorn stated that if Operators need to take action, they are currently allowed to purchase emergency power at prices up to 150% of the LBMP of neighboring control areas. Mr. Patton stated that this is not a trade off between reliability and the market; we are trying to get more consistent market prices by providing the proper market signals.

Mr. Ted Murphy presented "Overview of RTS Tariff Revisions". Mr. Murphy noted changes made to the Service Tariff Article 2 included updating definitions, standardization of references and the new bidding modes. These identical revisions will also be made to Article I of the OATT. Mr. Murphy reviewed the changes that were made in Service Tariff Article 4. Article 4 has been reorganized for better clarity; the day ahead and real time rules have been separated into two areas.

Mr. Murphy reviewed the changes in the Services Tariff Attachment B. Identical changes will be done in the OATT, Attachment J. The Service Tariff Attachment C has been renamed to BPCG Formulas. Mr. Murphy reviewed the changes that were necessary in Service Tariff Attachments H and J as well as various other revisions. Each of the slides referenced exact locations of the changes to the tariffs, either by sheet number or by section of the tariff. Final changes to the formulas in Attachment J will be posted by Monday. The complete set of changes is located on the NYISO website.

Mr. Scheiderich was concerned with the process that would be used during market trials. He suggested that prior to market trials, sectors should be allowed to designate a representative to review the testing the NYISO is doing in-house. He proposed these select MPs could observe and raise main questions for the group. Mr. Scheiderich suggested there be discussion and rules could be established at the next BIC and OC meetings to clarify information that MPs would have access to.

Mr. Dewitt stated that this had been raised at the board meeting and Mr. Museler had agreed with an approach that is similar to this. Mr. Scheiderich stated that he would like to hear if any MPs were concerned with this approach. Mr. Dewitt agreed there may be issues associated with confidentiality but noted that action could not be taken today and he suggested this could be further discussed at a future Market Structures Working Group (MSWG) meeting. Mr. King stated the NYISO feels this is a good idea, but he noted a

concern raised by Mr. Fell in that someone that that has not been involved in the project may misinterpret how the program is functioning.

Ms. Saia stated that MPs wanted to be sure the tariff language is correct and that some modifications are still needed, but that if the motion was amended, she would support the changes. Ms. Lampi stated that the NYISO is comfortable advising the Management Committee (MC) that the tariff they are voting on is the tariff that has been posted. The changes that will be posted on Monday with the reasons for the changes. These changes will be posted and distributed to the group and if necessary, an MSWG conference call meeting can be held prior to the MC.

Motion #1

The Business Issues Committee, having reviewed the market changes that the SMD2, Real Time Scheduling system project will require, as presented at the October 8 Business Issues Committee and October 22, 2003 Special Joint OC/BIC meeting, and in a series of Market Structures Working Group meetings, hereby approves the concept, including the levels for the nine reserves demand curves and the regulation demand curve and the process to review and modify those curves that were proposed at the October 22, 2003 Special Joint OC/BIC meeting, and recommends to the Management Committee that it approve, the SMD2, Real Time Scheduling system proposal to be submitted with the ISO Board's concurrence under Section 205 of the Federal Power Act. The BIC leaves it to the Management Committee to approve the tariff language as accurately reflecting the concepts approved. This approval recognizes that NYISO and MPs will work together to review the results of market trials and pursue through tariff amendments or otherwise, modifications that appear necessary to fulfill the indicated intentions, or to address other undesirable results that are identified through the market trials process.

Ms. Saia stated that the supply sector is willing to commit to working with the NYISO, if the NYISO will have gas prices that are more in_line with the actual prices. Mr. Jim Savitt stated the NYISO is willing to work with suppliers on this issue and that Technical Bulletins 67 and 68 would be amended with committee input address this concern. Ms. Saia was concerned with the possibility of gas prices becoming volatile and units on the activation list being AMPed. Mr. Savitt stated that units on the watch list are entitled to the same process protections that other units have.

The motion passed with 3 abstentions, multiple organizations.

Motion #2

The Operating Committee, having reviewed the market changes that the SMD2, Real Time Scheduling system project will require, as presented at the October 9 Operating Committee and October 22, 2003 Special Joint OC/BIC meeting, and in a series of

Market Structures Working Group meetings and SOAS review, hereby approves the concept, including the levels for the nine reserves demand curves and the regulation demand curve and the process to review and modify those curves that were proposed at the October 22, 2003 Special Joint OC/BIC meeting, and recommends to the Management Committee that it approve, the SMD2, Real Time Scheduling system proposal to be submitted with the ISO Board's concurrence under Section 205 of the Federal Power Act. The OC leaves it to the Management Committee to approve the tariff language as accurately reflecting the concepts approved. This approval recognizes that NYISO and MPs will work together to review the results of market trials and pursue through tariff amendments or otherwise, modifications that appear necessary to fulfill the indicated intentions, or to address other undesirable results that are identified through the market trials process.

The motion passed with 3 abstentions, multiple organizations.

III. Adjournment

The meeting adjourned at 1:00 p.m.

Respectfully Submitted,

Ernie Cardone
NYISO Committee Liaison

Ray Stalter
NYISO Committee Liaison