

BSP SUBCOMMITTEE
RESPONSES TO QUESTIONS & COMMENTS
PROVIDED AT 3/19/04 MEETING

Comments from IPPNY

- In keeping with Guiding Principle #4, the report should not only study current rate designs at other ISOs, but also examine the existing NYISO study that resulted in the current allocation.

Response: The existing NYISO study was examined as part of this project.

- In the table comparing service categories of the four ISOs (Page 14 of the Rudden presentation), it would be helpful to see another column of “Current NYISO” categories.

Response: Current NYISO rates are bundled, with no differentiation of services.

- The study should consider reducing the number of categories in New York to align more consistently with other ISOs.
 - Capacity Planning should be included under Reliability Planning since it is a tool used for reliability studies including the Internal Reserve Margin Study and Locational Capacity Requirements, which are reliability-based requirements.
 - The Management Services category could benefit from more explanation. It may also be appropriate to include governance and customer specific/support items in this category.

Response: The number of categories was reduced. Capacity Planning was merged into System Reliability. Annual Membership / Governance was merged into Management Services. Customer Specific items are billed to the responsible customers.

- Next Steps should include extensive opportunity for market participant involvement, including:
 - A response to market participant comments should be available at the next BSP meeting.
 - Appropriate NYISO staff should be present at next BSP meeting to discuss the existing NYISO study used for current allocations.
 - In order to provide input into the process, before a final draft is prepared, preliminary Rudden results should be reviewed by BSP.
 - While these opportunities for participation are important, the study should also remain independent and provide a neutral evaluation of what the allocation should be.

Response: The first three items have been addressed. The study remains independent, and the recommendations of Rudden are based on impartial criteria, which have been listed in the March 19 presentation to the BSP.

Comments from Jamestown Board of Public Utilities

I have taken a quick look at the presentation and wonder where in the analysis we are taking care of the Virtual Bidding Market. I believe that there were significant costs associated with the implementation of this market and there are costs associated with this Market, which in developing a true Schedule 1 Cost/Recovery Analysis needs to be addressed. I noticed that in the ISO NE market they appear to have implemented a cost recovery mechanism for their Virtual Traders. The NYISO has not yet implemented a cost recovery from this segment of the market, which I believe is appropriate, and would also eliminate another one of the new Seams Issues with ISO NE.

Response: Virtual Bidding was implemented in 2001. The NYISO did not finance any project costs in 2001. Therefore, all development costs for Virtual Bidding have already been recovered and there are none in the 2004 Budget.

The ongoing incremental costs of the Virtual Bidding Market (VBM) are included with the costs of the Energy and Ancillary Services Markets. The ongoing costs specific to VBM are not separately identifiable, but are believed to be small.

Under the initially proposed Service Categories and rate design, VBM participants would pay the rate applicable to transactions in the Energy Markets, and participants who do not engage in Energy Market transactions (e.g., those with bilateral transactions) would not pay the Energy and Ancillary Services Markets rate.

Comments from ConEd

- How do the categories fit in the structure of OATT vs. Market Services Tariff?

Response: This will be addressed on implementation.

- People here raised the issue you raised about how management services would be allocated.

Response: Management Services “support the activities required for all of the Service Categories” and are similar to Administrative & General (A&G) costs in a typical utility cost of service study. Therefore, these costs were allocated in the same proportion as the directly assigned or allocated costs, excluding Corporate costs.

- Debt service should be allocated by program/project, for example, debt service on debt incurred to build virtual dispatch should be allocated to marketers.

Response: Virtual Bidding was implemented in 2001. The NYISO did not finance any project costs in 2001. Therefore, all development costs for Virtual Bidding have already been recovered and there are none on the 2004 Budget.

Debt service costs arising from the 2003 Budget Financing were allocated among the projects in the 2004 Budget. This was as close as possible to allocating costs by project.

- There was concern that everything would be classified as reliability. One way to look at reliability might be to limit it to the cost of today's equivalent of the old power pool control room.

Response: System Reliability was not used as the “default category” for costs, which could not be readily assigned.

- ISO Administrative costs, meaning meetings, officers' salaries, and Board costs could be billed per capita (real per capita 1/n) this would capture environmental groups, etc. who use the services and benefit but do not pay.

Response: Per capita billing discourages participation by smaller groups, which is contrary to NYISO policies. Therefore, per capita billing (and customer charges) was not recommended for any Service Category.

- For selling of ancillary services under the market services tariff, half the cost should go to supply under that tariff and half to buyers under the OATT.

Response: It would be desirable to separate cost responsibility for the Ancillary Services markets from the Energy markets, but this was not possible because activities performed by the NYISO cannot be separately identified. Therefore, it is proposed to recover all costs in the Energy and Ancillary Services Markets Service Category solely from Energy

markets participants. In addition, having separate Billing Units for Ancillary Services markets would increase the costs and time required for implementation.