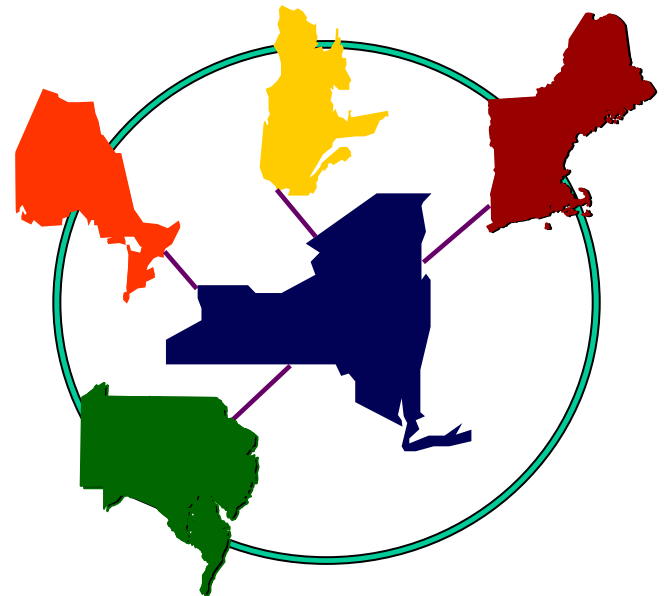


Northeast Seams Report

Update on Northeast Seams Issues

September 21, 2005

Business Issues Committee Meeting





Status of Seams Projects

Current Deliverables

Issue	Activity Description
1. Intra-Hour Transaction Scheduling	<ul style="list-style-type: none">▪ NYISO and ISO-NE have documented a technical definition of a virtual regional dispatch process and have received potentially viable alternative methodologies from their stakeholders. The ISOs will proceed with further stakeholder meetings to finalize the technical definition and to work towards a joint stakeholder acceptance of the proposal. Target is to complete an acceptable proposal by the end of 2005.▪ The first set of pilot tests were conducted on April 20-21; a report on the results of the pilot test in New York will be issued in September 2005. Expect to discuss results of the Pilot test at a MSWG in October.▪ Following NYISO, ISO-NE and stakeholder review of the pilot program results in October, 2005, and assessment of market participant based proposals for improving the efficiency of the NYISO/ISO-NE interface, further phases of this work will be developed.

Note: The complete list and description of seams issues is posted on the NYISO website and updated each quarter for FERC. This presentation is only a summary of recent activities and near term deliverables.



Status of Seams Projects

Current Deliverables (cont'd)

Issue	Activity Description
<p>2. Regional Resource Adequacy (RAM)</p>	<ul style="list-style-type: none"> ▪ The NYISO has submitted a hybrid proposal to its stakeholders for consideration incorporating a voluntary forward capacity market for procurement of a portion of its future resource requirements. ▪ On March 1, 2004, ISO-NE filed a locational capacity market with the Commission. In an order issued June 2, 2004, the Commission established hearing procedures and specified that a locational capacity market would be implemented in New England on January 1, 2006. ISO-NE is currently awaiting a ruling from FERC on its proposed locational capacity market. ▪ PJM introduced a proposal for a Reliability Pricing Model (“RPM”) in June 2004 and has subsequently presented and revised the proposal at numerous stakeholder meetings. PJM made a presentation on its RPM at the April 11, 2005 ICAP WG meeting. The PJM Board of Managers received comments from Members at the May 5 Annual Meeting. FERC held a Technical Conference on June 16th to review the PJM proposal for RPM. FERC and the PJM Board are waiting for written comments, and will re-assess the proposal at that time. ▪ A joint meeting of ISO-NE/NYISO/PJM and stakeholders is being deferred until such time as clear direction is established with pending market changes in the PJM and ISO-NE markets. The NY ICAPWG will continue reviewing both the PJM and ISO-NE proposals as part of their ongoing activities.

Note: The complete list and description of seams issues is posted on the NYISO website and updated each quarter for FERC. This presentation is only a summary of recent activities and near term deliverables.



Other Seams Related Activity

Recent Initiatives

Issue	Activity Description
3. Cross-Border Controllable Line Scheduling	<ul style="list-style-type: none">▪ Full market deployment of the Cross-Sound Scheduled Line occurred on June 7, 2005▪ Implementation Date for 1385 Line: NYISO and ISO-NE have discussed the implementation of scheduling of transactions on the 1385 (Northport to Norwalk Harbor) cable with LIPA and NUSCO and the addition of appropriate pricing nodes. ISO-NE has provided its Participants with a memo describing the operational issues of scheduling across the 1385 line and proposed solutions. The Participants are currently scheduled to discuss the issues in November 2005. The multiple critical projects that ISO-NE and its stakeholders will be coordinating over the next two years indicate a no-later-than date of October 2006.

Note: The complete list and description of seams issues is posted on the NYISO website and updated each quarter for FERC. This presentation is only a summary of recent activities and near term deliverables.



Other Seams Related Activity

Recent Initiatives (continued)

Issue	Activity Description
4. ISO-NE Phase II HVDC Evaluation	<ul style="list-style-type: none">▪ ISO-NE, NYISO, PJM and HQ – This is a joint project lead by ISO-NE and HQ TransÉnergie to update the methodology and procedures for scheduling of the Phase II HVDC interconnection between New England and Quebec.▪ Initial efforts were focused on use of the IDC as a possible tool to forecast availability of Phase II above the 1200 MW limit, however the parties have concluded that the IDC in it's current form would not be suitable.▪ The group has drafted a report, "Review of the PJM-NY-NE Procedures and Methodology for the TE-NE HVDC Line". This document is posted on the ISO-NE website at www.iso-ne.com/smd/transmission_services/scheduling▪ NYISO, PJM and ISO-NE are preparing a data sharing agreement for future data sharing.▪ PJM and NYISO staffs have been participating with ISO-NE and TransEnergie in periodic conference call meetings and continue to support this effort.

Note: The complete list and description of seams issues is posted on the NYISO website and updated each quarter for FERC. This presentation is only a summary of recent activities and near term deliverables.



Issues Pending Further Discussion

Issue	Activity Description
1. Reserves Participation in Adjacent Regional Markets	<ul style="list-style-type: none"> There is Market Participant interest in selling operating reserves from generation sources in one region to provide reserves in another region. This issue will be considered along with other longer-term market issues as part of the NYISO Market Evolution Plan, which was presented to NY stakeholders in June 2005. Subsequently, discussions will be held in Q3-2005 with stakeholders to prioritize this as well as other market issues, at which point NYISO resources will be assigned to look at issues in priority order. ISO-NE will consider inter-control area provision of reserves following implementation and assessment of their reserve market.
2. NY MS-7040 Transfer Study	<ul style="list-style-type: none"> NY study on the impact of MS-7040 transfers above the current 1500 MW limit is complete and recommended no change in the current limit but did recommend developing a process to assess available margins to support HAM scheduling above current MW limits. The NYISO is targeting Q4-2005 for the implementation of this process.
3. Congestion Rent Shortfalls Resulting From External Transmission Outages	<ul style="list-style-type: none"> Transmission outages or deratings occurring outside of the NYCA that are not anticipated at the time of a TCC auction can force the NYISO to reduce the assumed transfer capability between the NYCA and the adjacent control area. If the resulting set of TCCs are rendered infeasible, the NYISO will incur congestion rent shortfalls in the day-ahead market. There is currently no way to assign the cost impact (due to the congestion rent shortfall) of that outage to the responsible external transmission owner. In addition, transmission outages or deratings that cause reductions in transfer capability between regions may have an impact on ICAP sales between regions. Due to the emphasis on evaluating SMD2 performance subsequent to deployment in February 2005, NY has deferred stakeholder discussion on this issue. This issue will be addressed as part of the Market Evolution Plan.

Note: The complete list and description of seams issues is posted on the NYISO website and updated each quarter for FERC. This presentation is only a summary of recent activities and near term deliverables.



Issues Pending Further Discussion (continued)

Issue	Activity Description
4. Modeling of Netted Transactions at the NYISO-HQ Interface	<ul style="list-style-type: none"> Currently, real-time imports from HQ are limited to 1200 MW based upon NY first contingency criteria. Day-ahead and real-time scheduling software recognizes a 1500 MW limit at the NY-HQ proxy bus comprised of imports, exports and wheel-throughs. One solution that has been suggested would create a second proxy bus model at the interface, which would be used to schedule only wheel-through transactions; the first proxy bus would be used to schedule imports/exports up to a net level of 1200 MW. NYISO is developing a white paper on the ramifications of this issue and will make available for stakeholder discussion in Q3-2005. This issue will be addressed as part of the Market Evolution Plan.
5. Multiple Proxy Buses for Free-Flowing Interfaces	<ul style="list-style-type: none"> Further analysis of the feasibility of implementing multiple proxy buses will be included with future assessment of market coordination efforts of the ISOs after implementation and testing of several current initiatives (i.e., PJM's market to market coordination with MISO, NY's SMD2) and will be brought back to a future seams coordination meeting. PJM has invited the NYISO to join in a conference call in September to re-visit this issue.
6. Elimination of Rate Pancaking	<ul style="list-style-type: none"> The NYISO, with the support of the New York TOs, will initiate discussions among the affected parties in the Northeast to explore the potential for rate pancaking relief between New York and PJM. A meeting between the NY and PJM TOs occurred on August 18th. A number of issues and concerns were discussed between NYISO and PJM. The group agreed to form a joint task force to explore the proposal further.

Note: The complete list and description of seams issues is posted on the NYISO website and updated each quarter for FERC. This presentation is only a summary of recent activities and near term deliverables.