

NYISO Business Issues Committee Meeting Minutes – DRAFT

June 14, 2006

The New York State Nurses Association

11 Cornell Road

Latham, NY 12110

1. Welcome: 10:12 a.m.

Mr. Ray Kinney (NYSEG), Chair of the Business Issues Committee (BIC), called the meeting to order at 10:12 a.m. and welcomed the members of BIC. Meeting participants introduced themselves and their affiliations.

Mr. Kinney welcomed Mr. Rana Mukerji as the NYISO's new Vice President of Market Structures and introduced him to BIC members. Mr. Kinney acknowledged John Buechler (NYISO), who handled those duties previous to Mr. Mukerji joining the NYISO. Mr. Mukerji said he was delighted to be at the NYISO and is looking forward to working with BIC. Mr. Kinney then took roll call.

2. Approval of minutes for March 27 and April 5:

Mr. Frank Francis (NYISO) presented the packet of minutes from March 27 and April 5, 2006 and asked for comments. No additional comments were provided by the Committee.

Motion #1

Motion to approve the minutes of the March 27 and April 5, 2006 BIC meetings.

Motion passed unanimously by show of hands.

3. Market Operations Report

Mr. Buechler provided the following overview of the Market Operations Report:

- The NYISO implemented a May 1 change in Real Time Load Pocket modeling for New York City. The NYISO has carefully monitored market operations and market monitoring impacts.
- Overall, the LBMPs for May were down slightly from April. Real Time LBMPs increased, primarily due to a May 30 price spike caused by unexpected hot weather. Higher-price balancing resources were called on in-day, causing higher average Real Time prices than Day-Ahead prices.
- Fuel prices were down, with a slight increase in kerosene. Uplift has decreased.

Mr. Tim Foxen (NRG Power Marketing) raised questions regarding the decision to proceed with the May 30 software implementation in light of system conditions. Mr. Buechler responded by noting that implementation issues didn't significantly

impact the noted price spike. Higher prices were due to using higher-priced resources, as reflected in the Report.

Mr. Bob Ricketts (Brascan Energy Marketing) questioned whether an issue involving intervals of Hour 16 in Real Time pricing on June 1 was related to the May 30 software deployment. Rick Gonzales (NYISO) indicated that a number of unique operational circumstances occurred on June 1, including simultaneous thunderstorm watch constraints and NYC area export constraints. Hot weather earlier in the week caused heavier loads in New York City on May 30, with lighter loads in the NYC area by June 1; the high level of available generation resulted in NYC export constraints during the June 1 Thunderstorm Alert.

Mr. Kinney asked Mr. Buechler for a target date for a “Lessons Learned” analysis of May 30 events and software deployments. Mr. Buechler said he would get back to Mr. Kinney with a date.

Mr. Kinney commented that the June 13 Day-Ahead Zonal LBMPs were reserved and corrected for the day and asked for an explanation. Mr. Gonzales said there was a software issue that affected the Zonal LBMP pricing determination for the June 14 Zonal LBMP run which resulted in incorrect Zonal LBMP prices being posted. All other posted prices were correct. The issue was quickly identified, and the NYISO issued a reservation the afternoon of June 13. The Zonal LBMP prices were corrected that evening. The NYISO is investigating the situation to prevent a reoccurrence.

4. Northeast Seams Report

Mr. Buechler presented a Northeast Seams Report update:

- Regional Resource Adequacy: The settlement involving ISO-New England’s ICAP proposal has been recently approved by FERC. PJM is in settlement discussions at FERC on their ICAP proposal.
- Cross-Border Controllable Line Scheduling: NYISO is on schedule for the implementation of software for the Cedars-Dennison line and the 1385 Line in October.
- NY MS-7040 Transfer Study: Increased transfer limits were not implemented on June 1 for the reasons stated below:

Mr. Gonzales said SOAS will be reviewing a future operating study to verify existing reliability-based limits for the proposed Hydro-Quebec import change to allow transfers to NYISO in excess of 1500MW. A Public Service Commission (PSC) request for additional analysis to ensure existing reliability criteria is under review and will be further discussed with the subcommittee and Operating Committee. The investigation of the ISO-New England source contingency work and loss of minimum oil burn criteria have caused delays; the operating study report is expected at the July SOAS meeting. Howard Fromer (PSEG Energy Resources & Trade LLC) asked about the timing of the increased Real Time capability for Hydro-Quebec imports and whether the NYISO will notify

the market or if it will show up on NYISO OASIS as available transmission capacity. Mr. Gonzales said the NYISO OASIS will be used for marketplace notification and expected implementation of the new HQ transfer procedure within a week of the SOAS presentation – assuming there are no changes to reliability-based limits. Doreen Saia (Mirant New York, Inc.) asked if the NYISO had completed training of its operators for the new scheduling protocol and Mr. Gonzales indicated the training is complete.

5. Working Group Updates

A. Billing and Accounting (BAWG)

Mr. Dave Hall (NYSEG/RGE) reported that the BAWG met on May 25.

The group discussed:

- The SAS 70 audit process and audit procedures with MPAAS and KPMG.
- Final invoices for August-December 2003, April 2005 12-month, December 2005 4-month, and April 2006. It discussed draft postings for January-June 2004.
- Market Participants' questions on manual adjustments and March 2004 invoice final bill posting – prompting a BAWG June 19 meeting.
- The Calpine bankruptcy; there should be no impacts on the NYISO.
- A presentation on the Load Forecast Review Process – which will be updated – as well as the draft BAWG milestones list for discussion with the BPCTF.
- A request of DSS to consider developing standard market templates for MPs.
- The Projects Priority Team (PPT) and billing projects status, and the draft Meter Data Scorecard.
- The status of 14 invoices the NYISO intends to settle in early July.

B. Billing and Price Corrections Task Force (BPCTF)

Mr. Francis reported that the BPCTF met on June 6. At the meeting, the group:

- Reviewed price correction issues
- Reviewed the BAWG thresholds list. Mr. Hall said the BAWG would have a list for BIC consideration/approval at the July BIC meeting.
- Set a joint meeting with BAWG on June 19 at ConEd in New York City. One topic will be the alternate dispute resolution.

C. Electric System Planning (Joint OC/BIC WG)

Mr. Tariq Niazi (NYS Consumer Protection Board) reported that the ESPWG met June 8:

- Most of the meeting was spent on the NYISO's presentation of the Comprehensive Reliability Plan (CRP) results.

- The ESPWG will hold a June 29 joint meeting with the TPAS to discuss the CRP draft report.
- A final report may go to BIC and the Operating Committee (OC) on July 12 and July 13 respectively; special meetings will be called if the report isn't ready by July 13. The report would go to the Management Committee (MC), and to the NYISO Board of Directors in August.
- The NYISO updated the Reliability Needs Assessment (RNA) after an operating reserve database error was discovered after the RNA concluded. The ESPWG assessed Market Solutions and considered Alternative Regulated Solutions (ARS). More details can be found on NYISO Web site.
- In the reports, Transmission Owners (TOs) said they may need capacitor banks. Several generation proposals were offered as market solutions.
- The ESPWG is working on monitoring status procedures and criteria for evaluating proposed solutions. It should wrap up June 27.
- The ESPWG will meet on June 22 to work on issues not related to the CRP.

Mr. Foxen asked about the process to submit written comments about the CRP. Mr. Niazi said comments can be sent to Carl Patka (NYISO) and John Adams (NYISO). Mr. Fromer commented that the bulk of the solutions identified by TOs were being done outside the CRP project; they won't be funded through the NYISO/FERC tariff. Mr. Niazi outlined identified solutions, which he said were being worked on in "normal course of business."

D. ICAP Working Group

Mr. Glenn Haake (IPPNY) gave a report on the June 12 meeting. The group:

- Reviewed a presentation on recent ICAP clearing prices and bidding.
- Heard an update on DEC's distributed generation rulemaking imposing a 30-day running time limit.
- Discussed a 2nd draft schedule for demand curve update and reviewed first draft of the RFP document.
- Discussed proposed revision to Attachment F.

1. Resource Adequacy Issues Task Force

Mr. Haake gave report. The RAITF:

- Reviewed an ICS White Paper.
- Was advised GE has started Upstate-Downstate study; target date is Aug. 1. He said he will suggest pushing the date back to the end of August at next RAITF meeting.
- Discussed the possibility that it may not be feasible for the New York State Reliability Council to adopt a revised

approach by Aug. 1. MPs can address issues raised by National Grid through the NYISO.

- GE commented that the MARS model used to calculate the 2006-07 IRM had emergency operating procedures problems. More analysis is needed.

E. Interconnection Issues Task Force (IITF)

Mr. Haake gave report. The IITF:

- Submitted its Deliverability Compliance filing June 6; comments are due June 28.

F. Market Structures Working Group (MSWG)

Mr. Liam Baker (Reliant Energy Services) reported. At its June 2 meeting, the MSWG:

- Discussed a new proxy bus at Dennison.
- Heard a NYISO DSS work plan presentation.
- Heard a presentation on NYISO fuel indexing process changes.
- Discussed ConEd's proposed changes to the minimum oil burn reliability rule and potential market impacts.
- Heard a report on the Market Rules Assessment Initiative.

G. Price Responsive Load Working Group (PRLWG)

Mr. Rick Mancini (Customized Energy Solutions) reported via phone. At its June 5 meeting, the PRLWG:

- Reviewed EDRP and SCR program registration.
- Heard an update on demand response project in Ancillary Services Market. NYISO intends to have something for 4th quarter 2007.
- Heard an update on DG Ruling from the DEC. There are outstanding issues; the group hopes to meet soon with a DEC representative.
- Will hold a July 26 teleconference meeting.

Mr. Fromer asked about a PRLWG discussion regarding 100 MW in zones J and K and wanted to know if it was distributed generation or demand response. Mr. Mancini said curtailments led to the Zone J increase; in Zone K, the increase was due to temporary GTs being located. He suggested checking the NYISO Web site for more information.

H. Scheduling and Pricing Working Group (S&PWG)

Mr. Bart Franey (National Grid) reported.

- The S&PWG held two teleconferences to discuss prepayment programs.

6. Proposed Voltage Support Payment Eligibility for Non-Generator Sources

The NYISO offered a voltage support motion, which had two parts: The first part of the motion proposed terms and conditions for compensating the Cross Sound Cable (CSC) for providing voltage support. The second part of the motion sought

approval of tariff language that would permit the NYISO to pay other non-generator VAR sources for reactive capability. Under the NYISO proposal, new resources would go to BIC for consideration and could become an eligible voltage support supplier via revisions to the Ancillary Services Manual.

Mr. Kinney questioned if the Ancillary Services Manual was the appropriate place to define payment terms and conditions. Dr. Kevin Jones (LIPA) said basic issues (rates, etc.) would be included in the NYISO's. The intent is to have broad language that will permit the NYISO to treat all non-generator sources of dynamic voltage support comparably. Potential dynamic voltage support suppliers seeking payment would be required to go to the BIC to get the Ancillary Services Manual changed to permit them to be compensated. Mr. Jerry Ancona (National Grid) emphatically stated that the proposed revisions could overincent the construction of non-generator voltage support resources. Mr. Patka said that prospective suppliers would have to satisfy certain tests and provide necessary data to qualify as a voltage support provider.

Ms. Saia questioned including a tariff provision that essentially says new suppliers will get paid and have the Ancillary Services Manual dictate when that does or does not happen. Mr. Fromer said he was unsure if Item 1 in the proposal is compatible with LIPA's goal of being treated fairly. It outlines payment/non-payment procedures and doesn't address other aspects. Dr. Jones said items 1-4 are specific to CSCs in unique situations. LIPA does not have "every other provision here" that applies to a generator or the tariff. Mr. Fromer asked that Dr. Jones' statements be reflected in these minutes. He said he understood that providers must supply service when asked or potentially lose their provider status.

Mr. Mark Younger (Slater Consulting) said that it looks as if the revisions do not prohibit non-market based providers from being paid. Mr. Patka suggested a wording change that Mr. Younger agreed to. Mr. Younger asked if the language in items 1-4 had been reviewed by NYISO working groups. Mr. Jones said MSWG reviewed it and it was posted at BIC.

Mr. Tim Bush (Navigant Consulting) said LIPA should be compensated for CSC service, but the proposed revisions should be limited to the CSC; the rest should be returned to the MSWG for review as appropriate tariff language. The revisions were too vague and not ready for a BIC vote. Mr. Bill Heinrich (NYS DPS) agreed. Dr. Jones said LIPA was willing to strike language regarding generic treatment of non-generator sources with NYISO approval. Mr. Patka said the NYISO was concerned with making tariff amendments for single suppliers. Mr. Franey said the NYISO should not offer broad tariff language to allow other technologies in without a thorough review. Mr. Heinrich agreed.

Mr. Morgan Parke (Multiple Intervenors) said the LIPA issue calls for generic tariff language. He favors a generic approach, especially for smaller projects. Mr. Younger said he had no problem approving the measure for LIPA. But he had many concerns with the revision's generic language and the NYISO's move

to bring it to the BIC without MSWG review. The generic language should be dropped; if included, he said he would vote against the measure. Mr. Patka said the generic language had MSWG review and he suggested another wording change.

Mr. Bob Gow (NYPA) said he favored language that would not require a tariff revision for every new technology. To force new projects through a process as stringent as the CSC review could scuttle many non-generator resource projects. Ms. Saia asked why the language couldn't be removed and worked on for the next MC meeting. Doing so would avoid abstentions or no votes on the motion.

Mr. Kinney directed parties with concerns and problems about the motion to work them out with LIPA during lunch break. The BIC broke for lunch at 12:21 p.m.

After re-convening, Dr. Jones said that LIPA and NYISO representatives agreed to strike all language not specific to the CSC in the motion. Language dealing with other non-generator sources is needed; it will be developed and reviewed by the MC. The motion offered will approve payment for the CSC as a comparable source.

Mr. Ancona asked if the revised tariff language will be reviewed by a NYISO working group or go straight to the MC. Mr. Patka said he didn't have the NYISO's working group schedule. He suggested circulating the draft tariff language to BIC and MSWG members and set a process to have it vetted.

The tariff language should reflect four principals, which Mr. Patka asked to be noted in these minutes:

All non-generator suppliers should be compensated if they provide dynamic VAR support that;

1. Is comparable to a generator or synchronous condenser VAR sources;
2. Meets technical qualifications determined in Ancillary Services Manual;
3. And are not otherwise compensated for providing the service (via the inclusion of the facilities in rate base or otherwise.

Motion #2:

The Business Issues Committee approves payment for the Cross Sound Cable on a comparable basis to Generators and recommends that the corresponding tariff language modifying Rate Schedule 2 of the OATT and Market Services Tariff be submitted to the MC for approval.

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Motion passed unanimously by show of hands with the following abstentions:

Multiple Interveners
U.S. Power Gen.
Entergy Nuclear
NYPA
Freeport Electric

Village of Rockville Center
Jamestown BPU
Galt Power
Epic Merchant Energy
NYSEG/RG&E

7. Proposed Revisions to the Proposed NYISO Pre-Payment Program

Mr. Norman Mah (ConEdison) presented revisions to the Pre-Payment Program proposal that call for:

1. Changing the payment due date from Friday to Monday;
2. Reducing the time a MP has to cure its default from three days to one day;
3. And changes to the NYISO's method of calculating credit support for the Pre-Payment Program.

Motion #3:

The Business Issues Committee (BIC) hereby approves modifications to the May 17, 2006 BIC motion addressing the NYISO Prepayment Agreement Cure Period. The modifications, as presented to the BIC on June 14, 2006, will reduce the credit risk in the NYISO markets by replacing the true-up collateral with a pro-rated three-day energy collateral. BIC recommends a consolidated proposal be presented to the Management Committee on June 28th for consideration and approval.

Motion passed unanimously by show of hands with the following abstentions:

Multiple Interveners
Edison Mission

8. Review of NYISO Metering Scorecard

Mr. Randy Bowers (NYISO) presented. Mr. Bowers said he believed with some process improvement, the changes outlined in the Scorecard could be pulled into a four-month True-Up.

Mr. Fromer asked if Mr. Bowers tracked frequent occurrences by metering installations to determine if the same meters have been misread or provided erroneous data on multiple occasions. Mr. Bowers said he can identify specific metering installations; the scorecard has helped resolve those issues. The meters are tracked and changed through the Metering Task Force. Overall, metering administration needs a more formal process and a dispute resolution process. However, the problems that existed at the start of the True-Up process have been greatly diminished.

Mr. Jim Schreidrich (Select Energy Inc.) said he'd like to see data by meter made public.

Mr. Younger said TOs should have an "explicitly determined" time period to address issues before the data is made public. Mr. Bowers said he believes

meter readings can be “nailed down” two months after initial invoicing, at the latest. The BIC will establish data reporting thresholds and protocols. Mr. Franey said allowing one shot at resolving meter readings issues is a risk. Mr. Bowers agreed. He said most TOs are willing to consider process improvements.

9. New Business

Demand Response programs

Mr. Fromer asked about a June 1 NYISO FERC filing regarding demand response programs and new generation. He said the filing made “pretty extraordinary statements” that counter other NYISO documents regarding expected new resources and commercial dates. He asked the NYISO to review the document and NYISO statements he claimed went “beyond” what developers represented as reasonable dates.

Mr. Kinney requested the NYISO look into the matter.

Reliability rule implementation change: minimum oil gas burn criteria

Mr. Gonzales explained a proposed June 15 Operating Committee motion regarding a reliability rule implementation change as related to the NYC area minimum oil gas burn criteria. The MSWG has discussed the change in terms of market impacts. Mr. Gonzales indicated that there is a short-term reliability issue at stake and that the NYISO should implement short term practices to the extent possible. The minimum oil burn process transparency can be improved through the use of the NYISO Load Forecast.

Mr. Younger said the issue was discussed at a MSWG meeting. He requested publicly that if the issue was going to the OC for action, it should also be on the BIC action agenda. He said he was troubled about considering it at an OC meeting without discussing it at BIC. Mr. Gonzales said that the OC motion is an implementation change and not a reliability rule change, and noted that the NYISO is working on addressing the market-related concerns.

Mr. Baker offered his own proposal: that ConEd or NYISO must provide sufficient notice prior to 5 a.m. of the day prior to the dispatch day, that the unit would be on minimum oil burn the following day. Appropriate prices would be reflected in the market on a day-ahead basis. He said an OC action “will not consider the business implications of the rule.” He urged the BIC to offer its own plan. Mr. Buechler said the NYISO is considering updating its software to reflect minimum oil burn in Day-Ahead and Real Time markets; the NYISO software is currently unable to make such reference price changes on an automated basis.

Mr. Fromer remarked that if units are instructed to use more expensive fuel, the Day-Ahead bids and price-setting formulas should reflect the decision. Mr. Younger said it was “inconceivable” that software shortfalls bar the NYISO from providing appropriate reference prices to generators giving two-day notice to burn a higher-priced fuel. He asked if the NYISO could make manual changes to reflect the change and produce a reference price to represent the higher priced fuel. Mr. Buechler said it might be possible—depending upon the expected frequency of the updates. Mr. Younger said improper mitigations and schedules – for affected units and the entire market – are created when the NYISO fails to

update the reference price. He said the NYISO should make manual changes to so reference prices reflect higher-priced fuels. Ms. Saia said the affected units have been identified. If an approved proposal calls for these units to be notified ahead of time, the NYISO should have two sets of references – for oil and gas. Manual intervention is necessary here.

Mr. Haake asked that details of the implementation plan be put in writing. Mr. Franey asked when the NYISO will start making the call for units to burn oil and indicated that it is inappropriate for higher energy costs to be reflected in the statewide LBMP. Mr. Franey stated that costs for local constraints that should be isolated to the zones that require the reliability rule. Mr. Kinney agreed, saying that the intent of local reliability rules was for the local customer to pay for those rules.

Mr. Matt Milhous (KeySpan Ravenswood) said that ConEd has pulled the motion off of the OC's June 15 meeting agenda due to NYPA concerns. ConEd is considering calling a special OC meeting to address a revised reliability rule change.

Mr. Jim D'Andrea (KeySpan Ravenswood) stated that the rest of the market needs to be on notice that MPs who perform in good faith to preserve reliability today are acting in the expectation that an appropriate method of compensation will be developed and applied to compensate these MPs for their past and future performance. Mr. Kinney requested that the NYISO to set aside time as soon as possible to address these issues. Questions can be forwarded to Frank Francis. Mr. Younger asked for a special MSWG meeting to be set next week to close out business issues. A special BIC meeting should be called if a special OC meeting is slated – on the same day – so MPs can be assured that business-related issues are resolved as the reliability rule change is implemented. Mr. Mukerji said a MSWG meeting will be scheduled for the following week.

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10. Administrative Matters

- Action item list comments should be sent to Frank Francis.

The meeting was adjourned at 2:55 p.m.

Respectfully Submitted,
Michael A. Lisi
Recording BIC Secretary