NYISO Management Committee Meeting

August 30, 2006
New York Nurses Association
11 Cornell Road
Latham, NY
10:05 a.m. – 11:02 a.m.

Draft MINUTES OF THE MEETING

1. Introduction, Meeting Objectives & Chairman's Report
Mr. Jerry Ancona (National Grid), Chairman, called the meeting to order at 10:05 a.m.

2. Approval of the Minutes
Mr. Ray Stalter (NYISO) asked for comments on the July 18 minutes. No additional comments were provided by the Committee.

Motion #1:
Motion to approve the Minutes of the July 18, 2006 MC meeting.
Motion passed unanimously by show of hands.

3. President's Report
Mark Lynch, CEO and President of the NYISO presented highlights of report. Mr. Lynch noted that the most recent software deployment was performed at 8:40 p.m. on Tuesday, August 8. The timing of the deployment was a result of input from Market Participants after the May June 30 software release. Mr. Lynch noted that the deployment was less disruptive to the marketplace, and service was restored quicker than anticipated. Mr. Lynch added that this deployment was a good demonstration of the NYISO responding to Market Participant input.

Mr. Lynch then discussed the August 2 peak load record, and thanked Market Participants for their collaborative efforts during the demand period. He mentioned the high availability of generators and noted that peak demand was met while also providing emergency power to New England. He also recognized the efforts of the NYISO Operating staff during that time.

Turning to Price Corrections during June, July and early August, Mr. Lynch said many of these corrections were due to line outages, high peaks and congestions during this time period. He said the NYISO does have a pricing proposal that will address many of these issues.

Mr. Howard Fromer (PSEG) asked if someone could address voltage related issues during peak conditions. Mr. Mike Calimano (NYISO) replied that there did not appear to be any voltage related issued in the Hudson Valley region, but there were in Western New York. He noted that there was one Con Ed cable out in July and that during the hot week in August the Dunwoodie and Sprainbrook series reactors were out of service.

Mr. Glenn Haake (IPPNY) asked if the previous operational protocol relating to operating the newer facilities in NYC had to be put into place when the series reactors were taken out recently. Mr. Calimano said to some extent they were, but they are still investigating those situations to be sure there were no short circuit violations. Operations will provide a report on their review.

Mr. Mark Younger suggested a review of scarcity pricing rules to ensure that all of the reasons for calling on EDRP and SCR programs are addressed. He would like to see if the NYISO could put together the different reasons for the activations, and discuss potential revisions to pricing rules to cover those reasons before next summer. Mr. Calimano agreed that it was a reasonable discussion. Mr. Stuart Nachmias (Con Edison) suggested discussing the issue at the Price Responsive Load Working Group scheduled for September 7. Mr. Lynch said that Mr. Younger made a reasonable point and he agreed to initiate his suggestions once all of the data comes in from summer performance.

Mr. Lynch reported that the Board of Directors had agreed not to change their overall compensation following an external analysis with the exception of increasing the Chair's meeting compensation to $3,000 per committee meeting day in keeping with compensation of other directors.

Regarding market performance highlights, Mr. Lynch referred to the meeting materials and told committee members that questions were welcome to be sent to Ray Staler.

4. New Business

Mr. Ancona (National Grid), Chairman, said that there were inquiries regarding Con Ed's decision to remove the capacity proposal from the agenda. Mr. Nachmias said that Con Ed was still in the process of reviewing suggested modifications and inputs to the proposal from other parties.

Regarding the liability limitation proposal that was also deferred for action at this meeting, Mr. Neil Butterklee (Con Ed) said that there were questions regarding the language in the proposal, and that it would be beneficial for people to have more time to answer at another by-laws meeting.

Tim Foxen (NRG) asked if there would be substantive changes over what was proposed at BIC, and if so, would Con Ed consider bringing the proposal back into the ICAP working group to be vetted further. Mr. Nachmias said that he did not know and added that the overall structure remains and it is only one small part of the proposal that might change. He said when the full of extent of the change is known, it will be communicated in advance of the next MC meeting.

Mr. Foxen wanted the minutes to reflect that NRG believes that given the possible amendments that were discussed, and given the changes being made throughout the month, it would make sense to send the proposal back to the working group level.

Mr. Lynch said the NYISO will make a presentation at the ICAP Working Group of preliminary findings and potential concerns regarding the proposal. Mr. Frommer expressed a concern that there was not an independent report by Dr. Dave Patton. He sited other instances where Dr. Patton reported on the structure of the mitigation. Mr. Lynch said that NYISO's presentation has been fully discussed and vetted with Dr. Patton and he concurs.

Ms. Doreen Saia (Mirant) asked if Operations was monitoring the reliability of the GT fix during the hot period of weather. Mr. Calimano said the software was working, and they were de-rating. He can verify that at the working group in September

Ms. Saia asked for clarification regarding a notice about three customers who were in default. Mr. Charles Garber (NYISO) stated that on August 25th, the NYISO announced the termination of Solaro Energy Marketing, Sun Tzu Trading, and Fulton Cogeneration Associates. Solaro's associated bad debt loss of about $85K was declared in February. The amount of the loss was collected from the marketplace in the spring at the time of the first distribution of the Enron recoveries. There is no further financial exposure. Sun Tzu Trading was a virtual trader whose losses exceeded its collateral by approximately $196K. The NYISO made an immediate demand from Sun Tzu for payment and suspended Sun Tzu's rights to participate in the market. The NYISO has been pursuing collection efforts and now has legal action pending against this party. Fulton Cogeneration Associates was a UCAP provider that failed to provide the NYISO required DMNC tests to establish its ability to provide capacity pursuant to two bilateral contracts. Fulton Cogeneration Associates was placed in the capacity spot auction to cover its capacity obligations. It failed to pay its resulting financial obligations totaling approximately $273K. The NYISO has pursued collection efforts and also has legal action pending against this party. No bad debt loss has been declared at this time for either Sun Tzu Trading or Fulton Cogeneration Associates.

Mr. Fromer inquired about any virtual trading changes that may be occurring to properly set requirements to avoid such defaults. Mr. Younger noted that that risk in the virtual market is different for someone bidding virtual load than for someone bidding virtual supply, and wanted this to also be a consideration when changes are made to requirements. Mr. Lynch said the Board is aware of these potentials and has initiated an analysis of the exposure of the virtual markets to eliminate or minimize exposure to the market place.

Ms. Saia noted that the press release regarding the CRP Report issued recently stated that the NYISO recommended that Poletti defer retirement from 2008 to 2009. She said when the Poletti retirement was discussed at meetings, the NYISO was clear that it's only charge was to ensure that in-city capacity remained at 80 percent with the retirement, not to make a recommendation. Mr. Lynch said that Ms. Saia's observation was correct, and said that he could check into that to see if it was worded differently in the press release.

Mr. Younger suggested that in the future notices to the marketplace regarding technical issues related to DAM postings, the NYISO should identify whether it knows if the energy schedules are correct or not.

Mr. Dave Gustafson, representing Tom Rudebusch (Duncan, Weinberg, Genzer & Pembroke) read the following statement into the record:

> On July 17, the Public Power Sector (NYPA, LIPA, NYAPP and MEUA) presented a joint proposal on Long Term Transmission Rights (LTTRs) that could serve as a foundation for developing LTTRs in New York, as required by Section 217 of the Federal Power Act. Under this proposal, Load-Serving Entities with long-term power supply arrangements to meet a service obligation must have priority to existing transmission capacity that supports long-term firm transmission rights requested to hedge such arrangements. The joint proposal called for a collaborative working group to address this proposal.
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> On July 20, FERC issued its Final Rule in Order No. 681 requiring that organized markets, including the NYISO, file revised tariff sheets implementing LTTRs within 6 months. In response, on August 21, the NYISO filed a Request for Rehearing of Order No. 681, arguing, erroneously, that FERC did not correctly reflect Congress's intent in enacting Section 217 of the Federal Power Act.
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> Among other errors, the NYISO claims that LTTRs require Auction Revenue Rights (ARRs), when in fact they do not. For example, PJM has filed a ten-year product for its ARR construct, purportedly to comply with Order No. 681. But, FERC has issued a deficiency letter to PJM asking it to explain how 10 year ARRs are consistent with LTTRs. ARRs were not a part of the Public Power Sector's joint proposal.
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> The NYISO also asserts that ". . . Certain NY stakeholders have already informed the NYISO that they believe they are entitled to LTFTRs at no cost." (p. 25) Speaking for the New York Association of Public Power, we have not made that claim, nor it is in the joint proposal.
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> The NYISO claims that it is "likely" that there will many requests for rehearing filed (p. 19). In fact, other than a request from the Midwest TOs, the requests filed were generally for clarification, not broad challenges to FERC's (and Congress's) mandate on LTTRs. The NYISO is out there all alone.
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> The New York Association of Public Power requests that the NYISO comply with its obligations under Order No. 681 in a timely and reasonable manner.

Mr. Fromer took issue with the comment that the NYISO was incorrect in its Request for Rehearing, and stated that he strongly supports the filing that the NYISO made. Mr. Matt Picardi (Corel Power) wanted the record to reflect that Corel supports the filing as well.

In other business, Mr. Fromer asked what efforts the NYISO is making to began the process of educating the new governor on the benefits of a competitive market.
Mr. Lynch said that Mr. Garry Brown (NYISO) is developing a plan to be put in place once a new governor is elected. Mr. Brown announced that NYISO had hired John Cordi as the new Government Affairs and Media Relations manager. He gave Mr. Cordi’s background and said that he will be developing a plan to educate the new Governor and staff. He also stressed that MPs can be helpful in the process as well.

6. Adjourned at 11:02 a.m.