

Gentlemen:

The following is a list of questions/comments that NYPA has compiled regarding the subject Straw Proposal and would appreciate a response (where appropriate) to the questions raised below:

1. Page 2 (Comment): Price guarantees are no longer required for RTM transactions. This is a benefit to the market because the cost of uneconomic transactions is now recovered through uplift. It should be less than before because of BME improvements.

Question: Would the NYISO quantify the uplift costs from transactions with ISO NE over the last 12 months?

Response: We don't know if this question can be readily answered. The NYISO doesn't think they maintain historical data on uplift in a manner that makes the uplift attributable to external transactions on a particular interface readily available. They will investigate and provide it if it is reasonably available.

2. Page 3 (Comment): DAM participants are expected to benefit from VRD even though there are no charges in the DAM market design. We believe this is true because market participants can see the optimum RTM power flows (and hopefully in the future the optimum controllable tie flows) from recent days and use that to refine their transaction bids. Another benefit to the DAM external transaction participants is that if the DAM transactions turn out to be uneconomic in RTM it does not flow, i.e., it like buying down a dispatchable unit in RTM. NYPA views this as being good for the market since it reduces transaction risk.

Question: Would the ISO's verify that our views mentioned above on this are correct?

Response: There should be efficiency gains in the DAM as a consequence of a more efficient real time market as noted in the comment. It is also possible that improved real-time price convergence between NYISO and NEPOOL will reduce the risks incurred by market participants scheduling interregional transactions in the day-ahead markets.

3. Page 3 (Comment): There seems to be a lot of lag in the process, i.e., schedules are finalized 15 minutes before flowing.

Question: Do the ISO's envision reducing the adjustments to the transactions on say a 5 minute basis once the ISO's gain some experience with the process and if determined to be beneficial?

Response: It is not practical to produce forecasted demands, sensitivity curves in each market, exchange sensitivity data and implement schedule

changes within 5 minutes with the limited software proposed for the initial implementation of VRD. The proposal calls for initially modifying schedules every 15 minutes and if post implementation studies of the performance indicate that 5 minute exchanges would offer significant additional efficiency, than moving to 5 minute intervals will be considered.

The proposal calls for schedule changes every 15 minutes but because schedule changes will be ramped over 10 minutes, actual schedule adjustments will commence 10 minutes after the decision to adjust interchange, not 15 minutes afterwards. It may in be possible to reduce this 10 minute interval but practical experience with the operation of VRD is needed before a commitment could be made to shorten the interval for adjusting interchange in response to price differentials.

4. Page 4(Question): Will the NYISO RTS process consider VRD schedules in the commitment process or will it use the DAM schedules whether they are economic or not?

Response: It will consider expected VRD schedules in intra-day unit commitment processes. The intention is to include in the VRD implementation the establishment of forward (covering 1 hour) curves from which to predict the hourly value to be used for hour ahead scheduling functions like transaction scheduling at non-VRD interfaces.

5. Page 7(Comment/Question): The process seems to negate the value of RTM transactions whether it is 15 minute or hourly. Is this true?

Response: The process will negate the value of RTM Transactions intended to arbitrage real-time price differences between NYISO and NEPOOL markets. The prospect of closer real-time price convergence at the NYISO NEPOOL interface and ability to schedule inter-regional transactions after the fact, may make it less risky for load serving entities and suppliers (generator owners) to schedule real time inter-regional bilateral transactions. Thus, intra-regional hedging transactions between these parties in real time may become more attractive.

6. Page 8 (Comment/Question): The transaction charge is equal to the difference between the 2 ISOs proxy bus prices so there does not seem to be any benefit for the market participant, i.e., which seems analogous to internal bilateral transactions. Is this true?

Response: See response to Question 5. The transactions do become similar to internal bilateral transactions.

7. Page 11 (Comment): NYPA feels that VRD residuals should be retained by the selling ISO and flowed back through Schedule 1 in the case of the NYISO. This

will provide a partial offset to the higher LBMP's resulting from the sales (as noted in footnote 7) and also partially offset the lost revenues from export fees that had flowed to the load. **Do the ISO's agree?**

The option of retaining VRD residual congestion rent dollars in the selling area has strong arguments for the proposal. That is why the solution appeared in the straw proposal. However, the ISOs recognize that it is not the only defensible proposal and the market participants need to suggest and contribute to the evaluation of the alternatives. It should also be kept in mind that the non-congestion residual may be negative.

8. Page 19 (Comment): As a going forward issue, the selection of the proper proxy bus for a particular interval will be critical. Niagara may be fine if there is no congestion on the system but if Central East is congested a proxy bus that approximates the response of east of Central East generators will be necessary. Also some operator intervention may be necessary so that congestion does not cycle on and off in successive intervals. This might cause pricing havoc.

Response: Inherent in the fixed proxy bus representation of free flowing ties is the risk of exposure to system conditions that produce imprecise pricing of interchange transactions. The proxy busses that are used today to settle market transactions were selected because they offered practical solutions to interchange pricing. To date, there has been no analysis indicating that any pricing distortions on the NYISO/NEPOOL interface have been material. It is possible that analysis will indicate that the current proxy bus locations may not be optimal for VRD implementation or would not permit achieving all of the potential benefits. There will be an assessment of the effectiveness of converging prices at the current proxy bus locations or a new location to be defined prior to proceeding with VRD development. It should be noted that because the actual choice of the proxy buses used for VRD price convergence will not affect the net charges for interregional transactions under the proposed settlement rules, it may eventually be possible to modify the proxy bus used for VRD price convergence based on system conditions.

Thanks,

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