HQ Netting

Project Update and

Summary of Tariff Changes

Prepared for the

Management Committee
February 21, 2007

Agenda 4

Agenda

- Issue Review
- Market-Based Solution
- Scope of Effort
- Status
- Summary of Tariff Changes
- Motion

Issue Review

- HQ-NY interconnection simultaneously limited by 1500-1800 MW transfer limit to NY or 1000 MW transfer limit to HQ and 1200 MW to NYISO delivery limit.
  - *TB 150 discusses process for transfers above 1500 MW to NY.*
  - *1200 import limit enforced manually after the scheduling process.*
- Single price cannot reflect the cost of both constraints.

Market-Based Solution

- Establish 2nd HQ proxy bus to individually manage import/export and total transfer limitations to accurately capture impact of constraints into prices
  - *Constrain import/export proxy to 1200 MW to NY*
  - *Collectively constrain both proxies to NYCA/HQ transfer limits*
  - *Constrain each proxy to a proxy-specific ramp limit*
  - *Collectively constrain all NYCA proxies based on NYCA ramp limit*

Scope of Effort

- Create 2nd HQ proxy bus
- Establish bid validation rules to confirm transaction bids at each proxy
- Expand OASIS ATC/TTC postings to separately report available import, and total transfer capacity
- Determine and enforce ramp limits for each proxy
- Tariff filing to add second proxy
- No scheduling software modifications required

Status

- Software modifications in development
- Ramp limit allocation to be determined by the ISO
- Software deployment targeted for May/June 2007
  - *Dependent upon FERC approval*

MMP Opinion

- Market Monitoring and the Market Advisor have reviewed the proposal and found that it does not present any new gaming or market power concerns with respect to the HQ proxy busses.

- Market Monitoring will continue to monitor transactions at the HQ proxy busses as part of its regular market monitoring activities.

Supporting Tariff Changes

- Re-define Proxy Generator Bus to reflect the possibility of multiple proxies representing the same interface with a neighboring control area, each reflecting different transmission constraints and, as a result, different LBMPs.
  - *OATT § 1.35g, Services § 2.149*
- Re-define Non-Competitive Proxy Generator Bus to reflect the existence of two Proxy Buses at the interface with HQ.
  - *OATT § 1.26g, Services § 2.115a*

Supporting Tariff Changes

- Re-define Sink Price Cap Bid to reflect the possibility of multiple proxies representing the same interface with a neighboring control area, each reflecting different transmission constraints and, as a result, different LBMPs.
  - *OATT § 1.42.01 (Sheet No. 51) & Services § 2.172b (Sheet No. 67A)*
- Clarify when/how Non-Competitive Proxy Generator Bus rule is triggered at interfaces that are represented by more than one Proxy Generator Bus.
  - *OATT Att. J § I.E.2 (Sheet Nos. 457-457.01), Services Att. B § I.E.2 (Sheet Nos. 335A-335B), and § 4.10 (Sheet No. 106A)*

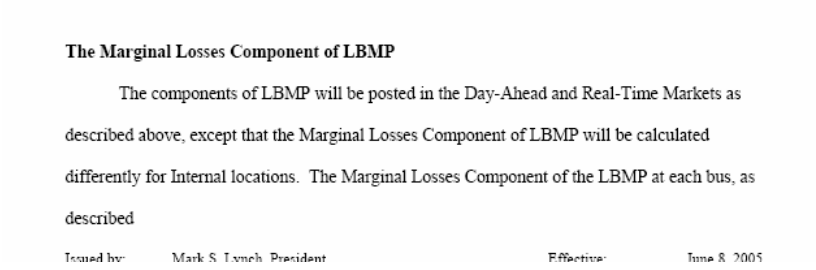
Supporting Tariff Changes

- Clarify when/how the "ECA-B" pricing rule is triggered at competitive interfaces that are represented by more than one Proxy Generator Bus.
  - *OATT Att. J § I.E.1 (Sheet Nos. 457-457.01), Services Att. B § I.E.1 (Sheet Nos. 335-335A), § 4.4.2(E) (Sheet Nos. 97.00E and 97.00F)*

Ministerial Tariff Change

In preparing the HQ Netting Tariff changes NYISO staff discovered a minor discrepancy between Attachment B of the MST, and Attachment J of the OATT. This discrepancy is the absence of a section heading that appears on Attachment B (Sheet 335C), but does not appear on the equivalent sheet of Attachment J (Sheet 457A). The NYISO proposes that the section heading "The Marginal Losses Component of LBMP" be added to Attachment J in an effort to keep the attachments consistent.

Attachment B Text



The Marginal Losses Component of LBMP

The components of LBMP will be posted in the Day-Ahead and Real-Time Markets as described above, except that the Marginal Losses Component of LBMP will be calculated differently for Internal locations. The Marginal Losses Component of the LBMP at each bus, as described

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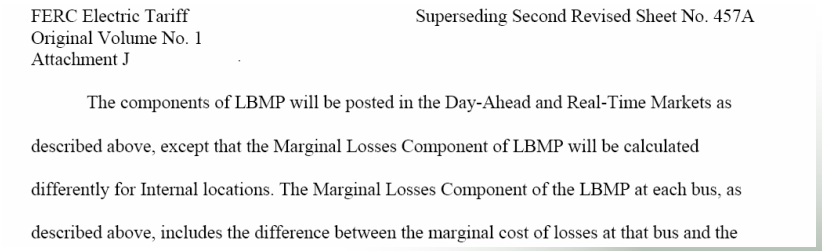
Attachment J Text



FERC Electric Tariff
Original Volume No. 1
Attachment J

Superseding Second Revised Sheet No. 457A

The components of LBMP will be posted in the Day-Ahead and Real-Time Markets as described above, except that the Marginal Losses Component of LBMP will be calculated differently for Internal locations. The Marginal Losses Component of the LBMP at each bus, as described above, includes the difference between the marginal cost of losses at that bus and the