

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Remedying Undue Discrimination)	Docket No.	RM01-12-000
through Open Access Transmission Service)		
and Standard Electricity Market Design)		
New York Independent System Operator, Inc.)	Docket No.	RT01-95-000

TECHNICAL CONFERENCE IN NEW YORK CITY

(October 20, 2003)

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On behalf of
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New York market participants, particularly the New York Transmission Owners (“NYTOs”), have focused on identifying and resolving cross-border “seams” issues since the earliest days of the NYISO. Standard market products, coupled with the ability to seamlessly transact across control area boundaries, are key to broadening the scope of the marketplace, improving economic efficiency, and enhancing the transition to competitive markets in the electric industry.

Several successful seams initiatives have been implemented to date, most notably: (i) market modifications dealing with phantom transactions; (ii) inter-ISO agreements on reserve sharing; (iii) development of prescheduled and multi-hour block transactions; and (iv) appropriate market pricing at non-competitive proxy buses. Yet, several significant issues remain before us.

ELIMINATION OF CROSS-BORDER RATE PANCAKING

Rate pancaking is a widely recognized barrier to inter-ISO transactions. There is general consensus in New York to eliminate embedded cost rate pancaking for export and wheel-through transactions. This consensus is predicated on two key principles. First, elimination of these charges must be done in a revenue neutral manner that allows transmission owners to recover the revenues that will be lost. Second, ISOs or control area operators on both sides of each border must provide reciprocal treatment in the elimination of the cross-border, embedded cost charges. The NYTOs stand ready to move forward on this basis when negotiations for reciprocal treatment are completed with our neighbors.

While important, rate pancaking is not necessarily the most important seams issue before us. Two other critical issues are currently under active discussion: Counter-intuitive Transactions and Resource Adequacy.

COUNTER-INTUITIVE TRANSACTIONS and VRD

The NYISO's Independent Market Advisor, Dr. David Patton, has noted in several "State of the Market" reports that significant concern exists regarding the level of counter-intuitive transactions taking place between the NYISO and its two neighboring ISO markets, particularly under high load conditions. These transactions are moving power from a high cost market to a lower cost market. For example, suppliers may export energy from New York where the locational clearing price of energy is \$40 per MWH to PJM, where the price is \$30 per MWH. These transactions tend to raise the prices on the higher priced side of the interface and lower the prices on the lower priced side, thereby sending bad price signals and failing to dispatch more efficient generation. Recent estimates indicate that potential savings associated with improving the efficiency of cross-border transactions could be in the range of hundreds of millions of dollars per year.

Fortunately, efforts are underway to address this issue. The NYISO's SMD II project is a positive step in the right direction. The SMD II software will improve the consistency of system representation between the NYISO's day-ahead and real-time markets and provide market participants with enhanced transaction tools. Additionally, ISO-NE and NYISO recently proposed a "Virtual Regional Dispatch" ("VRD") system. The VRD would allow the ISOs to schedule economically efficient transactions so that resources with lower bid costs will be used in cross-border transactions to displace resources with more expensive bid costs. While today's time limitations preclude a detailed discussion of VRD, the NYTOs believe it is a very positive step towards formulating a single northeast coordinated dispatch and is a much needed element for correcting counter-intuitive transactions.

RESOURCE ADEQUACY AND A REGIONAL CAPACITY MARKET

With regard to Resource Adequacy, the northeast is currently a maze of different products and market rules. The NYTOs believe that, with standardized Resource Adequacy products, we may realize significant benefits in resource development, market efficiency, and electric system reliability.

Once again, positive action is underway. The three Northeast ISOs formed the Resource Adequacy Model ("RAM") Working Group. Alternative market models have been identified and a consultant is in the final stages of evaluating the benefits of adopting these proposals.

NEXT STEPS

So where do we go from here? It is imperative to establish a timeline for completing the Rate De-Pancaking, VRD, and RAM efforts. Moving forward, it would be reasonable to continue to foster targeted inter-ISO/RTO working groups on key new issues.

It is also helpful to recognize that some issues may best be handled (at least initially) by limiting discussions to a single border — with proof of concept, or pilot projects on a limited scale prior to broader implementation. In some cases, it may not be rational or necessary to implement certain initiatives on a broad, regional basis.

We must strive to enhance opportunities for market stakeholders to participate in the process. This can be reasonably handled through enhancements to the existing ISO committee process. Currently, committee and working group chairs participate in the inter-ISO meetings to discuss upcoming quarterly seams reports. However, the reports are generally not prepared far enough in advance to allow drafts to be discussed at the committee and working group level prior to the inter-ISO meetings. A more formal process to vet these reports is recommended. This process would provide market participants with greater involvement in identifying and resolving issues. Such feedback can then be carried back to the inter-ISO meetings. The NYISO has indicated that it will consider this matter and develop a proposal to improve the process. The NYTOs look forward to working with the NYISO on this issue.

The three Northeast ISOs formed a chief information officer (“CIO”) Committee. The NYTOs commend the ISOs for doing this. One constructive suggestion to improve the seams resolution process is to have the CIO Committee, combined with the independent market advisors review software and related market rule impacts on competitive conditions, seams and efficiency in cross-border transactions, and periodically meet at stakeholder committee meetings on these issues. This would help resolve existing seams and avoid new ones.

The NYTOs recommend that FERC actively participate in the northeast seams process to facilitate progress among the ISOs/RTOs and its expeditious implementation. This process should include clearly identified milestones and schedules against which progress may be objectively measured. With the Commission’s continued vigilance on integrating what are fundamentally similar LMP markets in the northeast, the NYTOs are confident market improvements will continue among all three markets and with our Canadian neighbors.