

IESO SENIOR MANAGEMENT UPDATE

To: Stakeholder Advisory Committee

Date: August 25, 2010

Subject: Broader Regional Markets Initiative

Information Item

The purpose of this memorandum is to provide the Stakeholder Advisory Committee with an update on activities associated with NYISO's January 12th 2010 response filing to a FERC order requiring NYISO to "expeditiously develop long-term comprehensive solutions to the loop flow problem with its neighbouring Regional Transmission Organizations (RTOs), including addressing interface pricing and congestion management".

Background

The NYISO has been working in collaboration with PJM, the Midwest ISO, and the IESO to further develop and refine the details of implementing the five proposed Broader Regional Market Solutions to Lake Erie loop flow and to address the concerns raised by stakeholders.

In tandem, an economic analysis of the Broader Regional Markets initiatives was conducted by the NYISO's Independent Market Monitor, Potomac Economics. A preliminary report was initially presented to NYISO's Management Committee in April and updated in June. [see attachment B at http://elibrary.FERC.gov/idmws/file_list.asp?accession_num=20100816-5145]. The market monitor's analysis indicated that under a \$6 per MMBTU natural gas price scenario, annual regional production cost savings of at least \$362 million of which \$193 million would be annual savings on New York interfaces and constraints could be achieved. On a net financial basis, however, the results suggest that there may be only limited benefits to Ontario consumers¹.

On July 15th, FERC issued an opinion/order responding to NYISO's report. This order can be accessed at: http://elibrary.FERC.gov/idmws/file_list.asp?accession_num=20100715-3007.

¹ Also, there was no specific accounting of greenhouse gas impacts or of the impacts on consumer prices in each region.

In its order FERC stated that it agreed that “[the] planned regional initiatives, taken as a whole, appear to represent a constructive, workable framework for minimizing the occurrence of Lake Erie region loop flow.” Further, FERC directed ITC, Midwest ISO, PJM and NYISO to provide answers to a number of additional questions regarding various components of the Broader Regional Markets Initiatives by August 16th. These responses have been submitted and are accessible via FERC’s Online eLibrary under docket ER08-1281 sub docket 004. FERC also asked two questions of the IESO regarding whether we had tariff mechanisms to address loop flows caused by transactions between entities outside of the local four ISOs and whether a 2009 update to PJM’s congestion management models has affected loop flows in our control area. Although the IESO is non-jurisdictional in respect to FERC, we elected to reply to FERC’s queries and our filed response can be accessed at:

http://www.ieso.ca/imoweb/pubs/corp2/IESO_Response_FERC_ER08-1281-004.pdf .

The current status of each of the solutions identified in NYISO’s report to FERC is as follows.

Implementation of Ontario-Michigan Phase Angle Regulators (“PARs”)

Hydro One in Ontario recently completed (July 2010) an upgrade to the telemetry and communications on an interconnection with Michigan to enhance its protection system response. This will enable relay and operational testing required prior to energizing the PARs. In addition, the Midwest ISO is coordinating regulatory, modeling, pricing, and software tasks with ITC, IESO, NYISO and PJM to gain a further understanding of how the PARs will perform under several expected operational scenarios. It is anticipated that completion of the additional tasks necessary to permit ITC’s PARs to enter service will occur during the fourth quarter of 2010.

ITC has been seeking FERC support for additional O&M cost recovery from entities beyond its own customers before energizing the PARs in Michigan, leaving some uncertainty as to ITC’s execution of the required operating agreements in respect to these devices.

Buy-Through of Congestion

The ISO design team is developing the criteria for activating/terminating Buy-Through of Congestion events, the associated settlement protocols and the interaction of the Buy-Through of Congestion protocol with the NERC Transmission Loading Relief (TLR) protocol. To address equity concerns raised by non-ISO/RTO parties, the scope of the Buy-Through of Congestion protocol is being expanded to allow participation by non-ISO/RTO scheduling entities.

The team is also working with the Interchange Distribution Calculator Working Group (IDCWG) to develop recommended changes that may be required to the Interchange Distribution Calculator.

Congestion Management/Market-to-Market Coordination

All ISOs are working to supply the necessary real-time data to the NERC Parallel Flow Visualization tool.

The Midwest ISO is leading a study of PAR and other controllable devices available to limit Lake Erie loop flows. This effort is expected to identify the devices which are capable of influencing the loop flows and to study the potential reliability and market impacts of better coordinated operation. The study may lead to the development of a Regional PAR Coordination Operating Guide.

Interface Pricing Revisions

NYISO has presented a NYISO proxy bus pricing design concept to its market participants for review – possible deployment in 2011. Joint team discussions of proxy bus pricing in PJM and MISO with PAR controls are underway.

Interregional Transaction Coordination

NYISO is working towards a phased approach which starts with its transactions with HQ, followed by 15 minute adjustment of schedules across its NYISO/ PJM tie lines.

Next Steps

A third joint Stakeholder Technical Conference on Broader Regional Markets - Solutions to Loop Flows is scheduled for September 27th. The meeting, being hosted by PJM, will be a continuation of the discussions, activities and feedback to date related to the white paper submitted to FERC and the solutions presented at previous technical conferences. The meeting will provide a detailed update on solution development efforts made to date and to seek input from interested Stakeholders on design and implementation details.

An announcement of this meeting has been provided in the IESO's weekly bulletin (August 12th, 2010) to market participants. The meeting is being hosted by PJM at the Loews Hotel in downtown Philadelphia, PA.

IESO Perspective

The IESO continues to maintain that amongst all of the solutions offered in the report, the “physical” solution of implementing the Phase Angle Regulators on the Ontario-Michigan interface is first and best solution to the Lake Erie loop flow situation. The operation of these devices to better control the interface flows to schedule will significantly reduce loop flows and thereby will play a key role in addressing many of the Commission’s concerns in respect to the associated loop flows. As a consequence, the IESO continues to advocate that the Ontario-Michigan PARs be brought into service as soon as possible.