

**Northeast ISOs
Seams Resolution Report
History of Seam Issues Resolution**

Open Projects

P9 Pending (Orig. Projected June 2003) – LAKE ERIE SYSTEM REDISPATCH PROJECT IMPLEMENTATION

This NPCC procedure allows the redispatch of suppliers across regions to alleviate the potential curtailments of transactions due to TLR requests whenever a control area is in an energy short situation. The project requires implementation of operating procedures and billing and settlement process to account for the regional redispatch. PJM, NYISO, MISO, and IESO have finished analyzing the causes of high circulating flows and have provided a report with recommendations <http://www.jointandcommon.com/working-groups/joint-and-common/downloads/20070525-loop-flow-investigation-report.pdf>. A second phase of the loop flow study has been approved to study the sources of high circulation on specific flowgates. This second phase of the loop flow study is currently in progress with a projected completion date of mid July 2008. This study effort is currently on schedule. A summary of the study can be found at <http://www.pjm.com/committees/mic/downloads/20080611-item-08-loop-flow-update.pdf>.

P15 Q3-2005 (Orig. Date 2003 but changed as a result of SMD NOPR) - REGIONAL RESOURCE ADEQUACY MODEL (RAM) GROUP

The Regional Resource Adequacy Model (RAM) Working Group (formerly the JCAG Working Group) was set up to develop longer-range UCAP markets in NY, PJM and ISO-NE than currently exist. The RAM Working Group developed initial recommendations in mid-2002. The work plan was reassessed in light of the SMD NOPR and the ISOs/RTOs filed joint comments addressing resource adequacy on January 10, 2003. The comments described a central market-based resource adequacy framework, which was consistent with the goals of the SMD NOPR. NERA was selected to analyze the proposed central resource adequacy market design, and presented their final report at the February 26 regional RAM meeting. A NYISO status report was filed with FERC on February 27, 2004. The broad range of concerns raised by stakeholder groups in each ISO/RTO make it unlikely that all of the ISO/RTOs would adopt the RAM proposal as it was then currently formulated. It was anticipated that this effort would lead, instead, to enhancements in the capacity markets in each region. In enhancing their existing markets, the ISO/RTOs have committed to maintain the ability to trade the same product (UCAP) between regions and to identify and remove any remaining barriers to the trading of capacity between regions. Each region has Resource Adequacy/ICAP working groups looking at this issue. The NYISO submitted a hybrid proposal to its stakeholders for consideration which incorporates a voluntary forward capacity market for procurement of a portion of its future resource requirements. On June 16, 2006, the Commission issued an order approving the proposed capacity market settlement agreement for the New England region, which provides for the eventual implementation of a forward capacity market after an interim transition period that begins on December 1, 2006. PJM introduced a proposal for a Reliability Pricing Model ("RPM") in June 2004 and has subsequently presented and revised the proposal at numerous stakeholder meetings. The proposal has been presented and discussed with its Members Committee, at FERC and at its jurisdictional commissions. PJM has presented training programs and tutorials to members and interested parties.

Milestones and timetable:

- ISO-NE has implemented a transitional capacity payment mechanism as of December 1, 2006 pursuant to FERC's approval of the capacity market settlement agreement. Devon Power, LLC, 115 FERC ¶ 61,340, order on reh'g and clarification, 117 FERC ¶ 61,133 (2006). In addition, ISO-NE is in the process of implementing the post-transition Forward Capacity Market established by the settlement

agreement. On February 28, 2007, the FERC ordered ISO-NE to propose a process for such capacity exports, or explain why Forward Capacity Market rules would address LIPA's concerns, within 180 days.

- ISO-NE filed a proposal for capacity exports under its Forward Capacity Market on August 6, 2007
- Beginning on February 4 and ending on February 6, 2008, ISO New England conducted the first New England Forward Capacity Market Auction for the Capacity Year beginning June 1, 2010 and ending May 31, 2011. ISO New England's Forward Capacity Auction Results Filing may be viewed at: http://www.iso-ne.com/regulatory/ferc/filings/2008/mar/er08-633-000_03-03-08_fca_results_filing.pdf
- PJM introduced a proposal for a Reliability Pricing Model ("RPM") in June 2004 and has subsequently presented and revised the proposal at numerous stakeholder meetings and has discussed the proposal with various PJM states PUCs. PJM has discussed the proposal with the NY PSC, with the NYISO and with MISO to ensure that the RPM proposal would not impact seams or create adverse impacts on regional markets. PJM filed its RPM proposal with FERC on August 31, 2005 and FERC held a technical conference on RPM on February 3, 2006. In an order on (Docket Numbers EL05-148-000, ER05-1410-000) April 20, the FERC endorsed the major principles of RPM. It called for the technical conference and hearings, which were held on June 7th and June 8th, to help resolve details prior to implementing RPM in place. RPM Settlement Proceedings were initiated in mid-June 2006. Parties filed proposed settlement on Sept 29, 2006 which is expected to be contested by a few parties in opposition. On December 21, 2006, FERC approved, with conditions, the RPM Settlement Agreement. The December 21st Order also denies rehearing of the Commission's finding of the April 20 order that PJM's current capacity market rules are not just and reasonable. PJM's first RPM auction began on April 2 and closed on April 6. It was for delivery of capacity during the 2007/2008 planning year (June 1, 2007 to May 31, 2008). The auctions procure needed capacity after participants have specified self-supply and contracted (bilateral) resources. Generally, annual auctions will procure capacity three years prior to the required need to provide opportunity for planned resources to compete to supply the needed capacity service. PJM's long-standing capacity requirement ensures that there are sufficient resources in place to meet the peak demand for electricity plus a reserve margin. PJM members can use generation, transmission or demand response, including energy-efficiency programs. They can meet their supply requirements by owning resources (self-supply) or contracting for them (bilaterals). PJM's analysis shows that the RPM will yield lower costs overall than the previous model. The intent of RPM is to send pricing signals that will attract investment in new capacity resources where they are most needed further enhancing reliability. The 2007-2008, 2008-2009, 2009-2010, 2010-2011 and 2011-2012 Base Residual Auction Reports and the 2008-2009 Third Incremental Auction Report are located on the PJM website under the corresponding Delivery Year headings: <http://www.pjm.com/markets/rpm/operations.html>.
- PJM has commissioned a study in accordance with Open Access Transmission Tariff requirements to evaluate the performance of the Reliability Pricing Model in addressing the infrastructure investment issues identified by PJM and stakeholders in 2004-2006. The intent of the evaluation is to analyze the various aspects of the RPM model to evaluate the performance of RPM in providing investment signals for new and existing generation and demand response resources. The analysis will include an assessment to verify that RPM is working as intended in terms of facilitating market investment to ensure appropriate levels of capacity are maintained consistent with reliability principles and standards. The analysis will include a review of the RPM Base Residual auction results up to and including the 2011/2012 auction. The analysis will also include simulation of market conditions to quantify the ability of the market to invest in new Capacity Resources and to meet the applicable reliability requirements on a probabilistic basis. The study report was released on June 30, 2008 and may be viewed at; <http://www.pjm.com/documents/ferc/documents/2008/20080630-er05-1410-000.pdf>.
- Presentations were made by ISO-NE and PJM describing their FCM and RPM approved market designs at NYISO November 2nd and 17th ICAP Working Group meetings.
- In a recent decision on appeal, the NYISO Board [also] directed NYISO's management to actively pursue with Market Participants: (i) appropriate revisions to the Demand Curves; (ii) whether longer term

or forward ICAP markets would benefit New York; and (iii) whether monopsony power exists and, if so, what mitigation measures may be appropriate to prevent abuse of such market power. On February 12, 2007, the NYISO presented a timetable to the ICAP Working Group for the development of a straw proposal for forward ICAP market design by July 1, 2007; stakeholder discussion of proposal in Q3-2007; and governance discussions/approval during Q3-2007 & Q4-2007 time period.

- The NYISO submitted a hybrid proposal to its stakeholders for consideration incorporating a voluntary forward capacity market for procurement of a portion of its future resource requirements.
- The NYISO has engaged NERA to develop a conceptual forward market design; discussions with the ICAPWG were held on 8/7/2007 and 9/12/2007. Con Edison presented their concept of a forward market to the ICAPWG on 9/12/2007, and IPPNY provided comments on the NYISO's and Con Edison's proposals at the 11/2/2007 ICAPWG meeting. The NYISO will continue to work with stakeholders to develop the details of a forward market design.
- At the Jan. 22, 2008 ICAPWG meeting, the NYISO presented an outline of one element of a forward market, the process to more closely tie together the demand curve reset process and the Reliability Needs Assessment. At the February 27, 2008 meeting of the ICAPWG the NYISO continued discussion of forward capacity market design elements. Considerations related to voluntary, mandatory and partial mandatory forward purchase obligations were presented and discussed with stakeholders. NYISO design objectives include the continuation of successful elements of the current market design, improvements to the demand curve update process, development of meaningful forward price signals, and strengthening the linkage to the Comprehensive Reliability Planning Process.
- At the joint NYISO Board of Directors Management Committee meeting on June 10, 2008 market participants expressed a range of views on alternative forward capacity market designs. Based on the input from those discussions, NYISO staff is preparing a revised straw proposal for discussion with stakeholders. The NYISO is committed to working with stakeholders on exploring a FCM market design for New York.

P18 Q3-2007 (orig. Projected 2004) – NYISO AND ISO-NE – INTRA-HOUR TRANSACTION SCHEDULING (ITS) (INCLUDING PARTICIPANT DRIVEN AS WELL AS VIRTUAL REGIONAL DISPATCH (VRD) SOLUTIONS)

ITS is intended to provide a means to respond to excessive and persistent price differentials between the markets at times when sufficient capacity remains available on the transmission interface to provide substantive reduction in the differential. Due to market rules associated with transaction scheduling that require over one hour of advance notice to schedule a transaction and the associated risks to market participants, price differences are not well arbitrated in real-time by Market Participants (MPs).

Milestones and timetable:

- NYISO and ISO-NE have documented a technical definition of a virtual regional dispatch process and have received potentially viable alternative methodologies from their stakeholders. The ISOs will proceed with further stakeholder meetings to finalize the technical definition and to work towards a joint stakeholder acceptance of the proposal.
- The first set of pilot tests were conducted on April 20-21, 2005. Any additional tests will be scheduled based upon results evaluation of the April tests.
- NYISO and ISO-NE issued a report on the first pilot test on October 24, 2005. A joint meeting of NY and NE stakeholders to review the pilot test report and further develop market participant based proposals for improving the efficiency of the NYISO/ISO-NE interface was held on November 14, 2005. Based on discussions at that meeting, ITS will be considered along with other market issues as part of the NYISO rules assessment initiative currently underway.

- Prior to the interruption in ITS activity a participant-initiated proposal for intra-hour transaction scheduling was under consideration.
http://www.nyiso.com/public/committees/documents.jsp?com=bic_mswg&directory=2005-01-18&cols=5&rows=5&start=26&maxDisplay=999). The proposal would allow transactions to be scheduled on shorter notice and, potentially, for shorter duration. The shorter timeframes would allow participants to more quickly respond to price differences between the two areas.
- In 2007 NYISO evaluated inter-market real-time transaction scheduling as part of an evaluation of scheduling and dispatch market rules.
http://www.nyiso.com/public/committees/documents.jsp?com=bic_miwg&directory=2007-05-24&cols=5&rows=5&start=1&maxDisplay=999. A resumption of ITS efforts would then consider any potential changes recommended by the NY rules assessment. Both NYISO and ISO-NE have high priority, large projects underway that preclude activity on Intra-hour Transaction Scheduling before 2008.
- NYISO and ISO-NE will jointly perform an analysis of the impact of uneconomic interchange between the NYISO and ISO-NE control areas. This analysis will attempt to identify the potential economic benefits of more efficient use of available interface transfer capacity. The ISO's intend to bring the results of this analysis forward to stakeholders for review and feedback. NYISO and ISO-NE will work together to identify market mechanisms that can lead to more efficient scheduling and dispatch across the interface between control areas.
- On June 23, 2008, the NEPOOL Participants Committee voted to support an ISO-NE proposal to allow intra-hour scheduling of transactions with neighboring control areas. Rule revisions to implement this change will be filed with the FERC in July 2008. Initially ISO-NE expects to implement this scheduling functionality at the New Brunswick interface.
- The NYISO's 2007 State of the Market Report provides an analysis of scheduling and pricing patterns at the NYISO's interfaces with neighboring control areas. This analysis indicates that there is an opportunity to increase the efficient use of transfer capacity during unconstrained periods resulting in both production cost and net consumer benefits in both control areas. The analysis indicates that reducing the transaction scheduling lead time would enable market participants to more efficiently schedule transactions. The report recommends the development of processes to improve coordination between the ISOs even if only during limited circumstances, such as reserve shortages.

P21 Q4-2006 (orig. Projected 2004) – NORTHEAST GENERATOR ATTRIBUTES TRACKING (GAT) SYSTEM

Green power suppliers need transparent and efficient tracking of the attributes of green power traded across the ISOs that assures that no double counting occurs.

- NY is working with market participants to determine the suitability of adapting the New England Generator Information System (GIS) to New York markets. The NYISO has been actively participating in the NY Dept. of Public Service hearings on a Renewable Portfolio Standard, where attributes trading is identified as a necessary and desirable condition. On September 24, 2004, the New York State Public Service Commission (PSC) issued its Order on the Renewable Portfolio Standard that outlines a centralized procurement process for renewables. A workshop on the need for a GATS system, sponsored by the PSC and New York State Energy Research and Development Authority (NYSERDA), was held on July 14, 2005. On September 21, 2005, the PSC issued a State Administrative Procedure Act (SAPA) notice stating that it is considering authorizing PSC Staff and NYSERDA, in consultation with the NYISO, to begin the design of a certificate-based tracking and trading system. In the RPS Program January 26, 2006 Order in Case 03-E-0188, the New York Public Service Commission expressed its inclination to modify the current Environmental Disclosure Program to include an attributes accounting system similar to systems used in other states. The NYISO, NYPSC, and NYSERDA met on December 19, 2006 to discuss the PSC's implementation schedule and to review the potential involvement of the NYISO in such a system.

- The IESO is awaiting direction from government before proceeding further on this initiative.
- PJM Environmental Information Services Inc (PJM-EIS), a wholly owned subsidiary of PJM Technologies, launched its Generation Attribute Tracking System (GATS). The system was placed in service in September 2005. The system is now being used by PJM LSEs to demonstrate compliance with RPS programs in five PJM jurisdictions (NJ, MD, DC, DE, and PA). As of March 2008 there are 181 subscribers and 342 registered renewable generators in GATS. 22 of these registered renewable generators are located outside of PJM in regions where a tracking system does not currently exist. Each of these external facilities has qualified for one or more PJM-state RPS programs, and GATS facilitates their participation and enhances their liquidity.
- In July 2002, the New England Power Pool (NEPOOL) launched the NEPOOL Generation Information System (GIS). This system tracks the generation attributes, emissions, and outputs of all generators in New England. The system also facilitates the trading of renewable energy certificates (REC) for states with renewable energy portfolio standards (RPS).
- The NEPOOL GIS was the first tracking system in the nation to support multi-state RPS programs. The PJM-EIS GATS was designed on the basis of the NEPOOL GIS. Although there are some functional differences, the two systems are compatible in architecture, core functionality and look-and-feel.
- Consistent with current New England state requirements. NEPOOL's Generator Information System Operating Rules recognize the need to track the attributes of all energy transmitted between New England and other ISOs. Under those rules, energy transactions with unit-specific NERC Tags are given the attributes of the particular generating station while all other energy transactions are given attributes of the system mix of the exporting control area.

P24 June 2007 - CROSS-BORDER CONTROLLABLE LINE SCHEDULING -

NYISO software will be designed or modified to model Controllable Lines across control areas through an external proxy bus, providing market participants with the ability to bid to or from the new proxy bus in the Day-Ahead Market and schedule transactions in real-time. NYISO and ISO-NE operators will have the ability to monitor a Controllable Line and curtail transactions on the line.

Milestones and timetable:

- Full market deployment of the Cross-Sound Scheduled Line occurred on June 7, 2005. The Cross Sound Scheduled Line was implemented on June 7, 2005. The Northport-Norwalk Scheduled Line was implemented on June 27, 2007. The Neptune Scheduled Line was implemented on July 1, 2007.
- NYISO deployed software to permit scheduling transactions at the Dennison proxy bus with HQ in October 2006. The interface was expected to be activated for bidding on August 1, 2007. The activation has been delayed due to complications related to DOE regulations governing the management of exports at the Cedars – Dennison interface.
- The NYISO has been working with Alcoa Power Generating, Inc., Hydro Quebec TransEnergie, Cedar Rapids Transmission Company and National Grid to address issues associated with the operation of the Dennison Scheduled Line. The parties are targeting October 1, 2008 as the market implementation date, dependent on system conditions at that time. A technical bulletin describing the bidding rules applicable to the bidding and scheduling of External Transactions at Dennison will be distributed in advance of the market implementation date.
- Linden VFT, a 300MW injection from PJM to NYISO is targeted to begin operations during the third quarter 2009 with full operation targeted for the fourth quarter of 2009.

P26 COORDINATION OF INTERREGIONAL PLANNING

To continue to develop ways to improve the coordination of planning for the Northeast region, this project is established to identify future deliverables towards achieving progress in this endeavor. ISO-NE, NYISO and PJM will be presenting the results of their current efforts under the Northeastern Coordination of Planning Protocol. Under the Northeastern Coordination of Planning Protocol, a Northeast group of NYISO, PJM, & ISO-NE called "Joint ISO/RTO Planning Committee" (JIPC) met with market participants at the March 23, 2007 meeting of the Inter-area Planning Stakeholder Committee (IPSAC) and several presentations were made. PJM, NYISO, and ISO-NE are currently exchanging modeling information and load flow analysis such that work completed in 2006 can be expanded in the 2007 work-plan.

On December 14, 2007 another IPSAC meeting was held by teleconference and web-ex at which the ISOs made presentations on several topics, including: New England Loss of Source Feasibility Study; planned system improvements in each ISO/RTO region; environmental and renewable resource issues. In addition, the ISOs presented their proposed Scope of Work for an inter-regional transmission adequacy study for discussion and stakeholder input. Stakeholders raised additional issues that are currently under consideration. Interim study results for the transmission analysis were discussed with stakeholders at an IPSAC meeting held on June 27, 2008. At this meeting, the ISO/RTOs also reviewed their plans for additional analyses with stakeholders. Plans call for conduct of further transmission studies, and production analyses. An update will be presented to stakeholders at a meeting planned for the 4th quarter 2008. The agenda and meeting materials from the Dec 14, 2007 and the June 27, 2008 meetings are posted at the following link: <http://www.interiso.com/documents.cfm>. Additional materials have been posted by each of the ISO/RTOs on their secure links.

The integration of over 450 MW (nameplate) of wind resources in the NY North Country is planned for 2009. ISO-NE and NYISO are conducting joint operating studies to ensure reliable operation of the system. These issues were discussed with stakeholders at the June IPSAC meeting.

P33 INTERREGIONAL CONGESTION MANAGEMENT

NYISO and PJM are evaluating a coordinated bilateral Congestion Management Process concept. PJM and NYISO met in April and May 2007 and discussed possible opportunities for coordination. The main intent of this activity is to develop a concept that enables optimal dispatch between control areas such that one control area may alleviate congestion in the other. A straw-man proposal is planned to be developed by late 2007 with market participant review planned for early 2008. Any PJM-NYISO congestion management results are expected to be shared with ISO-NE. PJM and NYISO met in September 2007 to continue discussion of possible opportunities for coordination.

- NYISO and PJM are evaluating a coordinated bilateral Congestion Management Process concept. The intent of this activity is to develop a concept that enables optimal dispatch between control areas such that one control area may alleviate congestion in the other. NYISO continues to work with PJM on the development of a feasible process. NYISO presented a Congestion Management process overview to market participants at the December 14, 2007 Market Issues Working Group.
- PJM and NYISO had a productive meeting on January 29th, 2008 to continue discussions on a potential congestion management process. More specifically, the parties reviewed RTO to RTO redispatch examples, interaction between any new process and existing PJM NYISO agreements and potential data exchanges. It is PJM's and NYISO's intent to complete the development of a conceptual design for a congestion management process and present this to stakeholders by the end of 2008.
- PJM and NYISO have held several meetings in the first half of 2008 to develop a conceptual design for implementing a coordinated congestion management process. These discussions have focused on the overall design, potential operational procedures and data coordination protocols necessary to integrate a congestion management process. The last meeting between the design teams occurred on April 9th, 2008. The ISOs will continue work on the development of a conceptual design serving the needs of both control areas with the intent of bringing a proposal forward by the end of 2008.

P34 LIMITATIONS DUE TO LOSS OF LARGE SOURCE

ISO-NE has historically limited resources above certain MW levels when tripping at higher outputs could result in reliability problems for one of the other northeastern markets. PJM, NYISO and ISO-NE have filed a joint protocol with FERC on the coordination of loss of source procedures (http://www.iso-ne.com/regulatory/ferc/filings/2006/dec/er07-231-000_12-22-06_iso_phase_ii.pdf). On January 12, 2007, the Commission issued an order in docket no. ER07-231-000 accepting the joint protocol, without suspension after 60 days notice, effective January 16, 2007. The Commission found, however, that it should have been filed under Section 205 of the FPA and directed the RTOs/ISOs to resubmit the Protocol on tariff sheets. The RTOs/ISOs complied with this directive on February 12, 2007. On May 21, 2007, the Commission issued an order accepting the tariff sheet revisions for the Phase II Procedure, with an effective date of January 16, 2007. Operating studies of the loss of source, including the Phase II HVDC line connecting Quebec and New England, have been updated and approved. Planning studies simulating loss of source events have been updated. The results of these studies were reviewed at the March 23rd Inter-Area Planning Stakeholder Advisory Committee meeting.

Analysis of potential of short-term transmission changes (series reactors) that could relieve the severity of the loss of source contingencies have been shown to produce marginal benefits and to introduce potential operating problems. They were discussed at the December 14, 2007 stakeholder meeting and it was agreed that these changes should not be pursued.

Draft results of a long term assessment of the transmission system that reflects major improvements planned for NYISO, PJM, and ISO-NE were presented at the June 27, 2008 IPSAC meeting.. This assessment includes a determination as to their effect on the limitations on the size of allowable source loss in New England. The analysis also identifies the technical feasibility of mitigating the loss-of-source through the use of voluntary load shedding. Compatibility of such a mechanism with existing reliability rules must also be determined. The preliminary results suggest that the loss of source limit could potentially increase to a 1,500 MW to 1,600 MW level by the 2012 timeframe. A pre-feasibility study that determines the impacts of upgrading the Plattsburgh-Vermont tie to 230kV and of adding a 345kV tie between Southwest Connecticut and Westchester was also discussed with stakeholders. These improvements could result in a further increase in the loss of source limit. Additional study results will be discussed at an IPSAC meeting planned for the 4th quarter 2008. As needed, further analysis will then identify and analyze representative system improvements for discussion with stakeholders in 2009.

P35 DYNAMIC RAMP ALLOCATION BETWEEN PROXY BUSES AT THE NYISO-HYDRO QUEBEC INTERFACE

There are two proxy buses available for scheduling transactions at the NYISO-HQ interface. One proxy bus is available for scheduling import/export transactions into and out of the New York Control Area. The other proxy bus is available for scheduling wheel-through transactions sourced or sunk in another control area. This dual proxy bus arrangement was implemented to remove a barrier to the full use of TTC (Total Transfer Capacity) on the interface while still enforcing the 1,200 MW import limit based on NYCA reserve requirements. The allocation of ramp capacity between the import/export and wheel-through proxies is currently assigned on a fixed basis. Providing for the dynamic allocation of ramp capacity between the two proxy buses will allow for more efficient transaction scheduling at the interface by allowing ramp capacity for the interface to be allocated between the two proxy buses in the economic evaluation of transactions schedules.

- The NYISO is actively pursuing the development of software enhancements necessary to implement the dynamic allocation of ramp between the two proxy buses. The software development and testing is expected to be completed in time for deployment in the fourth quarter of 2008.

Issues under Discussion

Issues that have been brought to the attention of the ISOs but have either not yet resulted in a specific initiative or the initiative has not been approved as a project by the stakeholder process (Date the issue was added to the list is shown at end of each item). Issues may be consolidated, deleted, or moved to the project list as they are more fully considered among the ISOs and stakeholders.

14 REDUCED LEAD TIME FOR IN-DAY TRANSACTION SCHEDULING (NY)

NYISO market participants have expressed a desire to reduce the lead time for submission of real time transactions below the 75-minute limit currently in effect. This feature will also be considered as part of the NYISO rules assessment initiative currently underway. (July 2003)

16 RESERVES PARTICIPATION IN ADJACENT REGIONAL MARKETS (NY-NE-HQ)

There is Market Participant interest in selling operating reserves from generation sources in one region to provide reserves in another region. This issue will be considered along with other longer-term market issues as part of the NYISO Market Evolution Plan, which was presented to NY stakeholders in June 2005. Since late 2005, the NYISO's Market Evolution Plan is part of its strategic planning process. The NYISO suggested this item to its Market Issues WG for stakeholder discussion and prioritization. Following implementation (October 2006) and assessment of their reserve market, ISO-NE will consider inter-control area provision of reserves. (April 2004).

- Reliability issues related to inter-area reserve have been addressed at the NPCC level, and concepts have been approved to be placed in NPCC Criteria documents.
- Two alternatives were explored. One was an expansion of existing ISO-NE/NYISO reserve sharing agreements, which was rejected because it would meet reliability interests but not market interests. The second alternative was preferred in that it would give access to external reserve resources to the ISO-NE and NYISO markets and would allow competition for the provision of reserve reliably and on a comparable basis.
- ISO-NE and NYISO have had preliminary implementation discussions, but the effort is presently on hold due to manpower limitations and awaits prioritization for implementation. ISO-NE's ability to aggressively pursue this initiative is very much dependent on the final schedules for completion of major market initiatives currently under way or pending FERC decisions and on the results of the collaborative priority setting process that ISO-NE conducts with its stakeholders.

17 THE IMPACT OF EXTERNAL TRANSMISSION OUTAGES ON CONGESTION RENT SHORTFALLS AND ICAP MARKETS (NY-NE)

In the TCC auctions that it conducts, the NYISO permits bidders for TCCs to specify external proxy generator buses as the injection or withdrawal locations. Transmission outages or deratings occurring outside of the NYCA that are not anticipated at the time of a TCC auction can force the NYISO to reduce the assumed transfer capability between the NYCA and the adjacent control area. If the resulting set of TCCs is rendered infeasible, the NYISO will incur congestion rent shortfalls in the day-ahead market. There is currently no way to assign the cost impact (due to the congestion rent shortfall) of that outage to the responsible external transmission owner. TCCs in New York are fully funded, therefore the New York Transmission Owners are exposed to revenue shortfalls when transfer capability is reduced by external outages outside of their control. In addition, transmission outages or deratings that cause reductions in transfer capability between regions may have an impact on ICAP sales between regions. Due to the emphasis on evaluating SMD2 performance subsequent to deployment in February 2005, NY deferred stakeholder discussion on this issue. NYISO Senior Management will evaluate project, scheduling, and

budget impacts in conjunction with all other identified initiatives and determine what further action will be taken. (Oct 2004)

I8 ELIMINATION OF RATE PANCAKING

The NYISO, with the support of the New York TOs, will initiate discussions among the affected parties in the Northeast to explore the potential for rate pancaking relief between New York and PJM. A meeting between the NY and PJM TOs was held on August 18, 2005 to initiate discussions on this issue. With the Transmissions Owners as the primary drivers of this issue, NYISO and PJM are awaiting indications of intent from PJM's TOs as to the level of priority this issue has with the PJM's TOs. On November 02, 2006, PJM supplied transaction data regarding volume and rates for PJM exports into NY.

The NYISO has also initiated discussions with IESO to eliminate export fees. The revenue application review process for the transmitter that owns the inter-tie transmission lines in Ontario, and is responsible to the provincial regulator for this fee, is currently ongoing. The possibility of eliminating the transmission export fee, along with other options, is being discussed at this rate hearing. In May 2007, the Ontario Energy Board recently upheld the \$1/MWh export charge from IESO. However, the IESO will be (1) conducting a study on appropriate export transmission service rates for Hydro One Networks' 2010 rate process; and (2) will start negotiations with the NYISO and other neighboring jurisdictions to pursue reciprocal arrangements to eliminate export charges. The IESO will begin discussions with its neighbors early in 2008 and will complete its market impact studies in 2009. The Ontario Energy Board must approve any changes to Hydro One's export transmission charges.

I13 INTERREGIONAL COST ALLOCATION

The Northeastern ISO/RTO Coordination of Planning Protocol currently provides that cost allocation will be addressed consistent with the provisions of each ISO/RTO's Tariff. Merchant and elective upgrades can already be accommodated within existing tariffs. Studies are ongoing to identify potential cross border physical improvements to the system. The Protocol allows for the development of additional cost sharing mechanisms as may be needed in the future.