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July 28, 2008

VIA ELECTRONIC MAIL AND FIRST CLASS MAIL

Steven G. Whitley
President and Chief Executive Officer
New York Independent System Operator
10 Krey Boulevard
Rensselaer, NY 12144

Dear Mr. Whitley:

The New York Transmission Owners, LIPA and NYPA ("NYTOs") are hopeful that the recently enacted tariff changes will both help reduce the significant cost impacts the NYISO's market participants have been subject to as a result of the inefficient scheduling of circuitous external transactions and allow the NYISO to better inform all market participants of the NYISO's analysis and conclusions concerning the operational effects these transactions had on the NYISO's markets and market participants and the remedies adopted by the NYISO. While the NYTOs are encouraged by the statements at the Management Committee meeting on July 23rd, the NYISO must endeavor to learn from this incident and seek ways to prevent similar harm in the future, the NYTOs remain concerned about the level of information sharing on the causes of this condition and its market and potential reliability impacts. The NYTOs are aware that NYMPA has recently requested specific action be taken by the NYISO in order to assess the effects, results, and proposed rules intended to eliminate incentives for inefficient scheduling of external transactions (External Proxy Bus Seams).¹ Given our ongoing concerns, the NYTOs fully support NYMPA's request.

During the past several months, NYISO staff made very brief presentations to market participants regarding the cause of an observed increase in Rate Schedule 1 charges. Many market participants, including the NYTOs, expressed their concern regarding these costs and whether they were the result of a market design flaw. The current level of information provided by the NYISO limits the ability of market participants to assess the NYISO's investigation and the corrective actions taken by the NYISO such as the potential impact on day-ahead market

¹ Letter; Unexplained Increase in NYISO Schedule 1 Charges, July 3, 2008

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TCC shortfalls and whether remedial actions for the financial harm caused by this condition are available to the NYISO and its market participants. This information also will be needed by market participants as they consider the NYISO's request that they endorse the tariff revisions submitted by the NYISO.

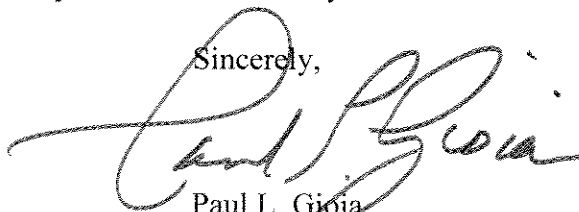
At this time the NYISO's actions have mostly focused on finding a means to correct the problem going forward which has been appropriate given the need to first prevent additional financial harm to NYISO customers. Now that the NYISO has acted to resolve the problem going forward it is appropriate for the NYISO to assure market participants that NYISO market monitoring is performing a full examination of the transactions in question to determine if a retroactive remedy for the NYISO's customers is warranted, and to provide information to stakeholders that can be useful for them to decide an appropriate course of action.

In this regard the NYTOs join NYMPA in requesting that the NYISO provide a timely and detailed written report to market participants. That report should include a summary of the analysis done by the NYISO, its observations about all of the potential causes of this problem, a detailed analysis on the impacts of this problem on the NYISO's markets, a detailed analysis of the impacts of this problem on the reliability of the bulk power system, a list of actions taken by the NYISO and whether these are seen as interim or final remedies, a list of additional tariff modifications to address similar situations in the future, and a list of unresolved issues and concerns.

The NYTOs are also concerned that the significant differences between day-ahead and real-time flow distributions caused by this issue could have created operational conditions that might have also have had economic impacts to customers in the State. The NYISO should address these operational and economic impacts in the written report to market participants requested by NYMPA.

We would appreciate a response to this letter at your earliest convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul L. Gioia". The signature is fluid and cursive, with a large initial "P" and "G".

Paul L. Gioia
Counsel to the NYTOs