

Stephen G. Whitley
President & CEO

July 30, 2008

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Dear Paul:

Thank you for your letter of July 28, 2008. We at the New York Independent System Operator (NYISO) understand the Transmission Owners' (TOs') concerns and will address them as quickly as possible.

In conjunction with the Independent Market Advisor, Dr. David Patton, the NYISO is developing a report about the Lake Erie transactions' market impacts. NYISO staff will provide their findings to all market participants once that effort is completed.

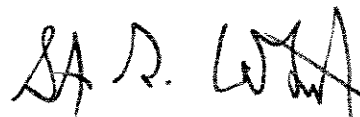
As I indicated in a July 28, 2008 letter to NYMPA and as I committed to stakeholders at the July 23, 2008 Management Committee meeting, the NYISO is also exploring ways to provide greater granularity about residual adjustments in Rate Schedule 1. I am hopeful that this effort will provide the level of detail desired by many stakeholders and lead to a sound process for reducing uplift, where practical, as we collectively develop improvements to infrastructure (*e.g.*, transmission, metering, *etc.*), market rules and NYISO processes.

The ensuing stakeholder process, announced at the July 23, 2008 Management Committee meeting will, we believe, provide the appropriate forums to discuss all issues reasonably related to the circuitous transactions.

Finally, while your letter expresses the TOs' concerns about "the impacts of this problem on the reliability of the bulk power system," please be assured that the reliability of New York's bulk power system was never degraded while the circuitous Lake Erie transactions were occurring.

I look forward to a cooperative, constructive and collaborative dialogue with the TOs and all stakeholders on this important issue.

Sincerely,



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