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July 7, 1999

COMMISSION ACTION REQUESTED BY SEPTEMBER 1, 1999

By Hand

The Honorable David P. Boergers, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Commencement of New York Independent System Operator Operations

Dear Mr. Boergers:

The New York Independent System Operator, Inc. ("New York ISO" or "ISO") and the Member Systems of the New York Power Pool ("Member Systems") are working diligently to permit the ISO to commence operations on September 1, 1999. In furtherance of that goal, pursuant to Section 205 of the Federal Power Act and 18 C.F.R. § 35.13 (1998), the New York ISO and the Member Systems hereby file six copies of the following documents:

- (1) Temporary Extraordinary Procedures for Correcting Market Design Flaws and Addressing Transitional Abnormalities ("Temporary Extraordinary Procedures") (Attachments A-1 and A-2), and
- (2) An Unexecuted Letter Agreement between the New York ISO and the Member Systems providing for a "Cutover Plan" (Attachment B)

The Temporary Extraordinary Procedures are being filed as an attachment both to the ISO Open Access Tariff ("ISO OATT") and the ISO Market Administration and Control Area Services Tariff ("ISO Services Tariff"). A complete list of documents submitted is provided as Attachment C hereto.

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Those persons and their addresses to whom correspondence with respect to this filing should be addressed are shown on Attachment D hereto.

Background

On April 30, 1999, the Member Systems submitted materials developed in compliance with the ordering provisions of the Commission's orders in *Central Hudson Gas & Electric Corp., et al.*, 83 FERC ¶ 61,352 (1998), *order on reh'g*, 87 FERC ¶ 61,135 (1999), and in *Central Hudson Gas & Electric Corp., et al.*, 86 FERC ¶ 61,062 (1999), *reh'g pending*. That filing is awaiting Commission action. Also on April 30, 1999, the Commission, with modifications, authorized the transfer of jurisdictional transmission facilities to the New York ISO as requested by the Member Systems and rejected a proposed settlement related to the governance of the ISO. A revised governance settlement was filed on July 2, 1999.

Prior to September 1, 1999 all New York ISO systems, including software, operating systems and communications, will have been extensively tested through a program of off-line testing. Despite this exhaustive program, it is possible though not probable that unanticipated problems may develop during the initial operating period.

Summary of Filing

The ISO will not commence operations unless it is confident that all of the New York ISO systems will operate as intended. Nevertheless, because of the inability to test those systems on a real-time basis and to test the systems under all of the circumstances under which the systems are expected to operate, the ISO is proposing that the Commission provide the ISO with two types of additional authority. These are: Temporary Extraordinary Procedures that would be available for the first ninety (90) days of ISO operations and a letter-agreement between the ISO and Members Systems providing a "Cutover Plan" under which, in circumstances not currently anticipated, the ISO could temporarily shut down the ISO Administered Markets and terminate service under the ISO Tariffs until such time as the circumstances referred to above have been remedied. Operations would temporarily revert to the Commission-approved New York Power Pool ("NYPP") procedures.

Temporary Extraordinary Procedures

Temporary Extraordinary Procedures will permit the ISO to propose, or in emergencies impose, extraordinary corrective measures, as described below. The Temporary Extraordinary

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Procedures generally track NEPOOL's Market Rule 15 that was approved by the Commission in *New England Power Pool and ISO New England, Inc.*, 87 FERC ¶ 61,055 (1999). One difference from Market Rule 15's market power mitigation measures is that the New York ISO is requesting authority to implement, when necessary, specific market mitigation measures on an interim basis. These specific market mitigation measures will be filed at the Commission by September 1, 1999 as part of the New York ISO's Market Monitoring Plan.

Temporary Extraordinary Procedures are designed to address issues in the first ninety (90) days of the ISO operations. As a result, Temporary Corrective Actions are limited in duration to ninety (90) days, provided that market power mitigation measures may only be imposed or continued in place under the Temporary Extraordinary Procedures until a market monitoring plan and comprehensive market power mitigation measures have been approved by the Commission. The Temporary Extraordinary Procedures themselves are limited in duration to ninety (90) days unless they are re-approved as filed or as amended by the Management Committee and re-approved by the Commission.

The Temporary Extraordinary Procedures address "Market Design Flaws" and "Transition Abnormalities." A "Market Design Flaw" is defined as a market structure, market design or implementation flaw giving rise to situations in which market conditions or the application of ISO Procedures would result in prices that would not be produced in a workably competitive market. A "Transitional Abnormality" is defined as a situation in which a system equipment malfunction, including telecommunications failures or widespread and massive electric transmission or equipment outages, would prevent the dispatch of the system as contemplated by the market rules. Market Design Flaws and Transitional Abnormalities do not include situations in which prices rise and fall based on demand and supply levels determined by efficient competition in periods of relative scarcity or relative surplus. The ISO will avoid interfering with pricing determined under competitive conditions.

In the event of an ISO declaration of a Market Design Flaw or Transitional Abnormality, the ISO may take "Extraordinary Corrective Action" when, absent an immediate corrective measure, reliability would be unduly impaired, one or more market prices could not be reasonably developed as a result of a Transitional Abnormality, or one or more Locational Based Marginal Prices would reach levels substantially unrelated to prices that would be derived absent an identified Market Design Flaw. Extraordinary Corrective Action also is permitted in the event that, absent an immediate corrective measure, (i) software design produces results inconsistent

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with one or more market rules, or (ii) software failures prevent the calculations contemplated by the market rules from being completed or completed correctly.

If an Extraordinary Corrective Action is needed to mitigate an exercise of market power, the ISO will take appropriate action under a set of comprehensive market power mitigation measures that will be circulated for review and input by the market participants and other interested parties, and filed by the ISO with the Commission by September 1, 1999 as part of the Market Monitoring Plan. The ISO will also act pursuant to any applicable procedures specified in the Market Monitoring Plan that will be filed with the Commission by the ISO by July 26, 1999, in accordance with Ordering Paragraph (N) of *Central Hudson*, 86 FERC ¶ 61,062 at 61,240.

If the ISO anticipates taking Extraordinary Corrective Action, it will post a notice on its OASIS and on its website that it is considering such action and will post the Extraordinary Corrective Action as soon as possible. An Extraordinary Corrective Action may change the price Market Participants receive or pay under the ISO Tariffs. The ISO's preferred solution is to make any changes in price on a prospective basis.

Cutover Plan

On September 1, 1999, or as soon thereafter as ISO operations commence, a two-week initial operating period will commence. As indicated above, prior to that date, all New York ISO systems will have been tested extensively. However, completely integrated operation of the ISO systems will only be accomplished through real-time operations involving all participants. For the initial operating period, the ISO will assume control of the NYPP employees and control center; the ISO OATT and ISO Services Tariff will go into effect; and the LBMP market will begin. At this point, NYPP assets and employees will not have been formally transferred to the ISO and the ISO Related Agreements will not have been executed, but the NYPP employees and the control center will be under ISO control, the employees will have agreed to become employees of the ISO, and the employees and consultants receiving market information will have subscribed to the ISO's Code of Conduct.

During the initial operating period the ISO will have the right to declare that a problem exists that is so serious as to warrant a shut-down of the ISO Administered Markets and termination of service under the ISO OATT. Declaration of a shut-down will be based on the ISO's judgment that there exists unacceptable risk to electric system reliability or unacceptable operation of the ISO Administered Markets. Such action would be taken by the ISO only in the event of a problem so serious that it could not be reasonably addressed by the less drastic

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measures already available to the ISO pursuant to the ISO OATT and the ISO Services Tariff and pursuant to the Temporary Extraordinary Procedures. Notice of a shut-down will be posted on the ISO OASIS and website.

If the ISO determines that the ISO Administered Markets must be shut-down, the system will revert to NYPP operation as it existed prior to the commencement of ISO operations. The details of such reversion are being defined through a collaborative process with Market Participants. These details will be posted on the ISO OASIS and website and will likely include the following:

- a. provision of transmission service under previously approved company OATTs;
- b. transactions between NYPP Members on a split-the-savings basis;
- c. bilateral transactions as they occur under current NYPP operation;
- d. NYPP operating procedures restored; and
- e. NYPP control of NYPP assets and employees.

The Member Systems filings in Docket Nos. ER97-1523-000 *et al.* contemplated that the Member System OATTs and the NYPP Agreement would be terminated when the ISO commences operations. Under the Cutover Plan, those OATTs and the NYPP Agreement will be temporarily suspended during the initial operating period(s).

If the ISO temporarily shuts down the ISO Administered Markets, the Member Systems will assume responsibility for correcting the problems affecting the ISO Administered Markets. Once the ISO and the Member Systems determine, following consultation with the Management Committee, that the problems affecting the ISO Administered Markets are corrected, a new two-week initial operating period will commence, with the same procedures followed until successful completion of an initial operating period.

If the ISO Administered Markets are not shutdown, following an initial operating period, then the NYPP assets and employees will be transferred to the ISO, ISO Related Agreements will

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be executed and the ISO will accept the software systems, operating procedures and communications systems.

Responses to 18 C.F.R. § 35.13(a)(2)(iii)

The New York ISO and the Member Systems hereby submit their responses to 18 C.F.R. § 35.13(a)(2)(iii).

List of Documents Submitted

See Attachment C hereto.

Proposed Effective Date and Request for Waivers

Because the New York ISO will not commence operations in the absence of the authority contained in the Temporary Extraordinary Procedures and Cutover Plan, the New York ISO and the Member Systems request an effective date of September 1, 1999. As a practical matter, the New York ISO needs the Commission to accept this filing in advance of September 1, 1999 so as to permit the ISO to have a Commission order in hand when it announces the commencement of operations. Waiver of the Commission's notice requirements is appropriate in that the ISO is moving as quickly as possible to commence operations and to submit to the Commission any materials necessary to accomplish that objective. In addition, the ISO has utilized the time to consult with the Market Participants on this proposal. Approval is needed prior to commencement of operations. The ISO and the Member Systems also request a waiver of any other applicable Commission requirement not otherwise satisfied by this filing.

**Names and Addresses of Persons to Whom
the Rate Schedule Change has been Mailed**

A copy of this filing is being served upon all persons on the Commission's official service list(s) in Docket Nos. ER97-1523-000, OA97-470-000 and ER97-4234-000 (not consolidated) and on the respective electric utility regulatory agencies in New York, New Jersey and Pennsylvania.

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Brief Description of the Rate Schedule Change

See "Summary of Filing" above.

A Statement of the Reasons for the Rate Schedule Change

See "Summary of Filing" above.

A Showing that all Requisite Agreement has been Obtained

No such agreement is required.

Discriminatory Employment Practices

No cost of service statements are supplied. Therefore, there are no costs which have been alleged or judged in any administrative or judicial proceeding to be illegal, duplicative, or unnecessary that are demonstrably the product of discriminatory practices.

Federal Register Notice

A draft *Federal Register* Notice is provided as Attachment E. Additionally, an electronic version in WordPerfect 5.1 format of the Notice is being furnished with this filing.

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Effect of Rate Schedule Change

Even if the ISO were to take an Extraordinary Corrective Action or were to declare, pursuant to the Cutover Plan, that the New York Power Pool procedures and related OATTs have been reinstated, it would be impossible to compare sales, services and revenues.

WHEREFORE, the Commission should issue an order approving the Temporary Extraordinary Procedures and the Cutover Plan.

Respectfully submitted,

NEW YORK INDEPENDENT
SYSTEM OPERATOR, INC.

By: _____
Counsel

Arnold H. Quint
William F. Young
Ted J. Murphy
Hunton & Williams
1900 K Street, NW
Washington, DC 20006
Of Counsel

MEMBER SYSTEMS OF THE
NEW YORK POWER POOL

By: _____
Counsel

Paul L. Gioia
LeBoeuf, Lamb, Greene & MacRae, L.L.P.
One Commerce Plaza, Suite 2020
99 Washington Avenue
Albany, NY 12210-2820
Of Counsel

cc: Official Service Lists in ER97-1523-000,

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O97-470-000 and ER97-4234-000
(not consolidated)

Attachment Q to ISO Open Access Transmission Tariff

Temporary Extraordinary Procedures for
Correcting Market Design Flaws and Addressing Transitional Abnormalities

These Temporary Extraordinary Procedures shall become effective when the New York Independent System Operator, Inc. (“New York ISO” or “ISO”) commences to operate the ISO Administered Markets. Terms not otherwise defined herein shall be defined in accordance with the Independent System Operator Agreement.

The ISO Staff, with the assistance of the Market Advisor as appropriate, shall monitor for possible market structure, market design or implementation flaws, as defined below, in the ISO Administered Markets. If such flaws are identified, the ISO may impose corrective measures as specified below. The ISO may also impose corrective measures where transitional abnormalities, as defined below, prevent dispatch of the system as contemplated by the ISO Procedures.

A. Definition of Market Design Flaws and Transitional Abnormalities

A “Market Design Flaw” is defined as a market structure, market design or implementation flaw giving rise to situations in which market conditions or the application of ISO Procedures would result in inefficient markets or prices that would not be produced in a workably competitive market. Possible indications of Market Design Flaws include the dispatch of higher priced resources in the market when resources with lower-priced bids are available and not selected to operate, and there is no valid reason for not operating the lower-priced resource; situations in which approved procedures would inadvertently create a shortage of supply in actual operations when sufficient supply would have otherwise been available; or the derivation of prices in the price model that are significantly inconsistent with the actual operation of the system.

A “Transitional Abnormality” is defined as a situation in which a systemic equipment malfunction, including telecommunications failures or widespread and massive electric transmission or equipment outages, would prevent the dispatch of the system as contemplated by the market rules.

“Extraordinary Corrective Action” is defined as action taken to correct a Market Design Flaw or a Transitional Abnormality.

Market Design Flaws and Transitional Abnormalities do not include situations in which prices rise to levels based on demand and supply levels determined by efficient competition in periods of relative scarcity, or fall to levels based on demand and supply levels determined by efficient competition in times of relative surplus. The ISO shall, to the extent possible, avoid interfering with these competitive price signals.

B. Normal Procedure for Evaluating and Correcting Market Design Flaws

When time permits, corrective actions for Market Design Flaws shall normally be made through the process described in the ISO Agreement. The ISO is committed to ongoing consultation and cooperation with the Market Participants. To the extent practicable, the ISO shall work in consultation with the Market Participants and jurisdictional agencies, as appropriate, to design and adopt corrective measures for any Market Design Flaw.

C. Procedure for Imposition of Extraordinary Corrective Action

If the ISO determines that a Market Design Flaw or Transitional Abnormality exists, the ISO may take Extraordinary Corrective Action to correct a Market Design Flaw or to address a Transitional Abnormality in accordance with these Temporary Extraordinary Procedures. As set forth in this Section C, Extraordinary Corrective Actions are to be effective and applied on an interim basis only, and are to be imposed only during the time needed to address a Transitional

Abnormality or to develop a long-term solution to a Market Design Flaw on a non-emergency basis. If continuation of a corrective measure is determined to be necessary beyond such interim period, the Extraordinary Corrective Action must be replaced by longer-term corrective measures such as software modifications or revised ISO Procedures developed under normal ISO Agreement processes.

If an Extraordinary Corrective Action is needed to mitigate an exercise of market power, the ISO will take appropriate action under a set of comprehensive market power mitigation measures to be filed with the Commission by September 1, 1999, and will act pursuant to applicable procedures in the Market Monitoring Plan to be filed with the Commission by July 26, 1999.

1. Circumstances When Extraordinary Corrective Action Is Permitted

Extraordinary Corrective Action is permitted under circumstances in which, absent an immediate corrective measure, reliability would be unduly impaired, one or more market prices could not reasonably be developed as a result of a Transitional Abnormality, or one or more LBMPs would reach levels substantially unrelated to prices that would be derived absent an identified Market Design Flaw. Extraordinary Corrective Action also is permitted in the event that, absent an immediate corrective measure, (i) software design produces results inconsistent with one or more market rules, or (ii) software failures prevent the calculations contemplated by the market rules from being completed or completed correctly.

The ISO shall not take Extraordinary Corrective Action to correct a perceived Market Design Flaw unless the ISO has reasonably determined both of the following:

- (a) the perceived problem cannot be addressed through revised ISO operations not requiring changes in ISO Procedures; and

- (b) corrective measures are required immediately and must take effect before the ISO can begin or complete consultation and cooperation with the Market Participants, and jurisdictional agencies as necessary, to develop any appropriate rule or rule change in accordance with the ISO Agreement.

2. Procedures For Taking Extraordinary Corrective Action

a. Notice to Market Participants and Public

In any hour for which the ISO reasonably believes that a Market Design Flaw or Transitional Abnormality will require Extraordinary Corrective Action that will affect the determination of one or more LBMPs or other clearing prices, the ISO shall post on the ISO OASIS and website as soon as reasonably practicable a notice that the ISO is considering Extraordinary Corrective Action as to that hour. To the extent possible, the ISO will post a notice of a proposed Extraordinary Corrective Action, and if possible a description of the proposed action, before bids are to be submitted for such hour. If the circumstances do not permit advance notice, the ISO shall endeavor to post such a notice on its OASIS and its website on or before one hour prior to the closing of day-ahead bids for the next trading day, or prior to the closing of bids in the real time market, but in no event more than twenty-four (24) hours after the hour for which LBMPs or other clearing prices would be affected by the contemplated Extraordinary Corrective Action.

b. Posting of Extraordinary Corrective Actions

If the ISO has not been able to post a description of an Extraordinary Corrective Action prior to an hour for which LBMPs or other clearing prices will be affected, then as soon as possible but in no event later than five (5) calendar days after the hour in question (or, if a series of hours are at issue, the first hour affected), the ISO must either post a description of its proposed Extraordinary Corrective Action by posting it on the ISO OASIS and website or remove the notice of possible Extraordinary Corrective Action from the ISO OASIS and website.

Unless an Extraordinary Corrective Action is posted within such period, the notice of possible Extraordinary Corrective Action shall be deemed to be withdrawn as to that hour.

c. Scope of Extraordinary Corrective Actions

Extraordinary Corrective Actions are limited to the measures listed below, which are listed in order of least restrictive to most restrictive. To the extent Extraordinary Corrective Action is necessary, the ISO shall impose the least restrictive of such measures that it reasonably concludes is sufficient to address on an interim emergency basis the Market Design Flaw or Transitional Abnormality.

(1) Notify the Market Participants that a shortage of one or more energy or other products may develop and request that Market Participants submit bids which provide greater operating flexibility for such products;

(2) If possible with reasonable certainty, recalculate LBMPs or other clearing prices as they should have been but for a Transitional Abnormality or Market Design Flaw, and substitute the recalculated LBMPs or other clearing prices for the prices reflecting the Transitional Abnormality or Market Design Flaw.

(3) If LBMPs or other clearing prices cannot be recalculated with reasonable certainty in accordance with item (2) above, the ISO may institute such alternative procedures as it deems appropriate under the circumstances, until such time as the ISO is able to implement workable LBMP or other markets.

Any revised prices established by the ISO shall be consistent with Section 4.23 of the New York Independent System Operator Market Administration and Control Area Services Tariff, as applicable, and shall serve as the basis for Settlement.

d. Limited Duration

An Extraordinary Corrective Action shall remain in effect only as long as the ISO reasonably determines to be necessary, but shall in no event remain in effect longer than ninety (90) days; provided, however, that market power mitigation measures may only be imposed or continued in place under these extraordinary procedures until a market monitoring plan and comprehensive market power mitigation measures have been approved by the FERC. An Extraordinary Corrective Action shall be applied prospectively from the hour for which notice has been provided pursuant to Section C.2.a. above and so long as the associated problem remains in effect; provided, however, that for the first ninety (90) days following the date on which the ISO commences to operate the ISO Administered Markets, but not thereafter unless this provision is re-approved as filed or as amended by the Management Committee or the ISO, an Extraordinary Corrective Action can also be effective and applied to those hours for which the potential for Extraordinary Corrective Action has been posted in the manner and within the times prescribed by Section C.2.b above.

3. Replacement or Removal of Extraordinary Corrective Actions

During the time that an Extraordinary Corrective Action is in effect, the ISO, Market Participants and other interested parties shall cooperate to develop a new or modified ISO Procedure or other remedial measure, if needed, before the termination of the Extraordinary Corrective Action.

D. Termination of these Temporary Extraordinary Procedures

Except as specified in Section C.2.d above, these Extraordinary Procedures shall terminate ninety (90) calendar days after the date on which the ISO commences to administer the ISO Administered Markets, unless they have been re-approved as filed or as amended by the Management Committee and the Federal Energy Regulatory Commission (“FERC”) within that

time period. The authority granted herein with respect to the imposition of Extraordinary Corrective Actions to address market power issues shall terminate upon approval by the FERC of market power mitigation measures pursuant to the Market Monitoring Plan.

Attachment E to New York Independent System Operator
Market Administration and Control Area Services Tariff

Temporary Extraordinary Procedures for
Correcting Market Design Flaws and Addressing Transitional Abnormalities

These Temporary Extraordinary Procedures shall become effective when the New York Independent System Operator, Inc. (“New York ISO” or “ISO”) commences to operate the ISO Administered Markets. Terms not otherwise defined herein shall be defined in accordance with the Independent System Operator Agreement.

The ISO Staff, with the assistance of the Market Advisor as appropriate, shall monitor for possible market structure, market design or implementation flaws, as defined below, in the ISO Administered Markets. If such flaws are identified, the ISO may impose corrective measures as specified below. The ISO may also impose corrective measures where transitional abnormalities, as defined below, prevent dispatch of the system as contemplated by the ISO Procedures.

A. Definition of Market Design Flaws and Transitional Abnormalities

A “Market Design Flaw” is defined as a market structure, market design or implementation flaw giving rise to situations in which market conditions or the application of ISO Procedures would result in inefficient markets or prices that would not be produced in a workably competitive market. Possible indications of Market Design Flaws include the dispatch of higher priced resources in the market when resources with lower-priced bids are available and not selected to operate, and there is no valid reason for not operating the lower-priced resource; situations in which approved procedures would inadvertently create a shortage of supply in actual

operations when sufficient supply would have otherwise been available; or the derivation of prices in the price model that are significantly inconsistent with the actual operation of the system.

A “Transitional Abnormality” is defined as a situation in which a systemic equipment malfunction, including telecommunications failures or widespread and massive electric transmission or equipment outages, would prevent the dispatch of the system as contemplated by the market rules.

“Extraordinary Corrective Action” is defined as action taken to correct a Market Design Flaw or a Transitional Abnormality.

Market Design Flaws and Transitional Abnormalities do not include situations in which prices rise to levels based on demand and supply levels determined by efficient competition in periods of relative scarcity, or fall to levels based on demand and supply levels determined by efficient competition in times of relative surplus. The ISO shall, to the extent possible, avoid interfering with these competitive price signals.

B. Normal Procedure for Evaluating and Correcting Market Design Flaws

When time permits, corrective actions for Market Design Flaws shall normally be made through the process described in the ISO Agreement. The ISO is committed to ongoing consultation and cooperation with the Market Participants. To the extent practicable, the ISO shall work in consultation with the Market Participants and jurisdictional agencies, as appropriate, to design and adopt corrective measures for any Market Design Flaw.

C. Procedure for Imposition of Extraordinary Corrective Action

If the ISO determines that a Market Design Flaw or Transitional Abnormality exists, the ISO may take Extraordinary Corrective Action to correct a Market Design Flaw or to address a

Transitional Abnormality in accordance with these Temporary Extraordinary Procedures. As set forth in this Section C, Extraordinary Corrective Actions are to be effective and applied on an interim basis only, and are to be imposed only during the time needed to address a Transitional Abnormality or to develop a long-term solution to a Market Design Flaw on a non-emergency basis. If continuation of a corrective measure is determined to be necessary beyond such interim period, the Extraordinary Corrective Action must be replaced by longer-term corrective measures such as software modifications or revised ISO Procedures developed under normal ISO Agreement processes.

If an Extraordinary Corrective Action is needed to mitigate an exercise of market power, the ISO will take appropriate action under a set of comprehensive market power mitigation measures to be filed with the Commission by September 1, 1999, and will act pursuant to applicable procedures in the Market Monitoring Plan to be filed with the Commission by July 26, 1999.

1. Circumstances When Extraordinary Corrective Action Is Permitted

Extraordinary Corrective Action is permitted under circumstances in which, absent an immediate corrective measure, reliability would be unduly impaired, one or more market prices could not reasonably be developed as a result of a Transitional Abnormality, or one or more LBMPs would reach levels substantially unrelated to prices that would be derived absent an identified Market Design Flaw. Extraordinary Corrective Action also is permitted in the event that, absent an immediate corrective measure, (i) software design produces results inconsistent with one or more market rules, or (ii) software failures prevent the calculations contemplated by the market rules from being completed or completed correctly.

The ISO shall not take Extraordinary Corrective Action to correct a perceived Market Design Flaw unless the ISO has reasonably determined both of the following:

- (a) the perceived problem cannot be addressed through revised ISO operations not requiring changes in ISO Procedures; and
- (b) corrective measures are required immediately and must take effect before the ISO can begin or complete consultation and cooperation with the Market Participants, and jurisdictional agencies as necessary, to develop any appropriate rule or rule change in accordance with the ISO Agreement.

2. Procedures For Taking Extraordinary Corrective Action

a. Notice to Market Participants and Public

In any hour for which the ISO reasonably believes that a Market Design Flaw or Transitional Abnormality will require Extraordinary Corrective Action that will affect the determination of one or more LBMPs or other clearing prices, the ISO shall post on the ISO OASIS and website as soon as reasonably practicable a notice that the ISO is considering Extraordinary Corrective Action as to that hour. To the extent possible, the ISO will post a notice of a proposed Extraordinary Corrective Action, and if possible a description of the proposed action, before bids are to be submitted for such hour. If the circumstances do not permit advance notice, the ISO shall endeavor to post such a notice on its OASIS and its website on or before one hour prior to the closing of day-ahead bids for the next trading day, or prior to the closing of bids in the real time market, but in no event more than twenty-four (24) hours after the hour for which LBMPs or other clearing prices would be affected by the contemplated Extraordinary Corrective Action.

b. Posting of Extraordinary Corrective Actions

If the ISO has not been able to post a description of an Extraordinary Corrective Action prior to an hour for which LBMPs or other clearing prices will be affected, then as soon as possible but in no event later than five (5) calendar days after the hour in question (or, if a series of hours are at issue, the first hour affected), the ISO must either post a description of its proposed Extraordinary Corrective Action by posting it on the ISO OASIS and website or remove the notice of possible Extraordinary Corrective Action from the ISO OASIS and website. Unless an Extraordinary Corrective Action is posted within such period, the notice of possible Extraordinary Corrective Action shall be deemed to be withdrawn as to that hour.

c. Scope of Extraordinary Corrective Actions

Extraordinary Corrective Actions are limited to the measures listed below, which are listed in order of least restrictive to most restrictive. To the extent Extraordinary Corrective Action is necessary, the ISO shall impose the least restrictive of such measures that it reasonably concludes is sufficient to address on an interim emergency basis the Market Design Flaw or Transitional Abnormality.

(1) Notify the Market Participants that a shortage of one or more energy or other products may develop and request that Market Participants submit bids which provide greater operating flexibility for such products;

(2) If possible with reasonable certainty, recalculate LBMPs or other clearing prices as they should have been but for a Transitional Abnormality or Market Design Flaw, and substitute the recalculated LBMPs or other clearing prices for the prices reflecting the Transitional Abnormality or Market Design Flaw.

(3) If LBMPs or other clearing prices cannot be recalculated with reasonable certainty in accordance with item (2) above, the ISO may institute such alternative procedures as it deems appropriate under the circumstances, until such time as the ISO is able to implement workable LBMP or other markets.

Any revised prices established by the ISO shall be consistent with Section 4.23 of the New York Independent System Operator Market Administration and Control Area Services Tariff, as applicable, and shall serve as the basis for Settlement.

d. Limited Duration

An Extraordinary Corrective Action shall remain in effect only as long as the ISO reasonably determines to be necessary, but shall in no event remain in effect longer than ninety (90) days; provided, however, that market power mitigation measures may only be imposed or continued in place under these extraordinary procedures until a market monitoring plan and comprehensive market power mitigation measures have been approved by the FERC. An Extraordinary Corrective Action shall be applied prospectively from the hour for which notice has been provided pursuant to Section C.2.a. above and so long as the associated problem remains in effect; provided, however, that for the first ninety (90) days following the date on which the ISO commences to operate the ISO Administered Markets, but not thereafter unless this provision is re-approved as filed or as amended by the Management Committee or the ISO, an Extraordinary Corrective Action can also be effective and applied to those hours for which the potential for Extraordinary Corrective Action has been posted in the manner and within the times prescribed by Section C.2.b above.

3. Replacement or Removal of Extraordinary Corrective Actions

During the time that an Extraordinary Corrective Action is in effect, the ISO, Market Participants and other interested parties shall cooperate to develop a new or modified ISO Procedure or other remedial measure, if needed, before the termination of the Extraordinary Corrective Action.

D. Termination of these Temporary Extraordinary Procedures

Except as specified in Section C.2.d above, these Extraordinary Procedures shall terminate ninety (90) calendar days after the date on which the ISO commences to administer the ISO Administered Markets, unless they have been re-approved as filed or as amended by the Management Committee and the Federal Energy Regulatory Commission (“FERC”) within that time period. The authority granted herein with respect to the imposition of Extraordinary Corrective Actions to address market power issues shall terminate upon approval by FERC of market power mitigation measures pursuant to the Market Monitoring Plan.

Unexecuted Letter Agreement

*[Draft Letter to Member Companies of the NYPP]
Letterhead of New York ISO]*

[Chief Executive Officer]
Central Hudson Gas and Electric Corporation
[Address]

[Chief Executive Officer]
Consolidated Edison Company of New York, Inc.
[Address]

[Chief Executive Officer]
LIPA
[Address]

[Chief Executive Officer]
New York State Electric and Gas Corporation
[Address]

[Chief Executive Officer]
Niagara Mohawk Power Corporation
[Address]

[Chief Executive Officer]
Orange and Rockland Utilities, Inc.
[Address]

[Chief Executive Officer]
Rochester Gas and Electric Corporation
[Address]

[Chief Executive Officer]
Power Authority of the State of New York
[Address]

LETTER AGREEMENT FOR IMPLEMENTATION OF ISO CUTOVER PLAN

Gentlemen:

This letter, if agreed to by each of the addressees named above (the "Member Companies," and together with the New York ISO, the "Parties") shall become an agreement to implement the

New York ISO Cutover Plan (the "Cutover Plan") for one or more initial operating period(s), each with a duration of not more than two weeks (each, an "Initial Operating Period"), for the purpose of providing a backup contingency plan for the New York State Power System in the event the ISO determines that a problem or problems occur during the Initial Operating Period that poses an unacceptable risk to electric system reliability or unacceptable operation of the ISO Administered Markets that is so serious as to warrant a shut-down of the ISO Administered Markets and termination of service under the ISO Tariffs.

The ISO agrees to purchase liability insurance in the total amount of \$300 million, effective no later than the beginning of the first Initial Operating Period, and to name each of the Member Companies as an additional insured. The Parties agree to work diligently to implement the provisions of the attached "Cutover Plan." This letter incorporates by reference all the provisions of the attached Cutover Plan, and each Member Company's agreement to this letter constitutes agreement to each of the provisions of that attachment. Furthermore, each Member Company may agree to the provisions of this letter in separate counterparts; all the Member Companies do not need to signify agreement by signing the same copy of this letter for this agreement to become binding on all the Parties. The New York ISO shall give notice to each Member Company when all the Member Companies have agreed to this letter.

Please sign and return one copy of this letter to me at your earliest convenience.

Sincerely,

William J. Museler

Attachment

Seen and Agreed:

Central Hudson Gas & Electric Corporation

Date: _____

By: _____
[Authorized Officer]

Seen and Agreed: **Consolidated Edison Company of New York, Inc.**

Date: _____ By: _____
[Authorized Officer]

Seen and Agreed: **LIPA**

Date: _____ By: _____
[Authorized Officer]

Seen and Agreed: **New York State Electric and Gas Corporation**

Date: _____ By: _____
[Authorized Officer]

Seen and Agreed: **Niagara Mohawk Power Corporation**

Date: _____ By: _____
[Authorized Officer]

Seen and Agreed: **Orange and Rockland Utilities, Inc.**

Date: _____ By: _____
[Authorized Officer]

Seen and Agreed:

Rochester Gas and Electric Corporation

Date: _____

By: _____
[Authorized Officer]

Seen and Agreed:

Power Authority of the State of New York

Date: _____

By: _____
[Authorized Officer]

ISO CUTOVER PLAN

The following is the outline of an ISO cutover plan:

1. Prior to September 1, 1999 all New York ISO systems, including software, operating systems and communications, will have been tested through off-line testing and market trial testing. Completely integrated operation of the ISO systems will only be accomplished by initiating the new ISO Administered Markets and ISO OATT and real-time operations involving all participants.

2. The ISO will have authorization, defined in the Temporary Extraordinary Procedures document, to allow it the flexibility to address problems that may arise after it commences to operate the ISO Administered Markets and to administer the ISO OATT. Except as otherwise provided in the Temporary Extraordinary Procedures, this authorization will extend for ninety (90) days after the ISO commences operation of the ISO Administered Markets.

3. On September 1, 1999, a two-week initial operating period commences. The ISO will assume control of the New York Power Pool ("NYPP") employees (both Member System and contractor) and control center; the ISO OATT and ISO Services Tariff will go into effect; the LBMP market will begin. At this point, NYPP assets and employees will not have been formally transferred to the ISO and the ISO Related Agreements will not have been executed, but the NYPP employees and the control center will be under ISO control, and the employees will have subscribed to the ISO's Code of Conduct.

4. For the initial operating period, the software systems, operating procedures and communications systems will be evaluated for proper operation. During this two-week period, all ISO systems, rules, and tariffs will be utilized in their intended fashion. During that period the

ISO will have the right to declare that a problem exists that is so serious as to warrant a shut-down of the ISO Administered Markets. Declaration of shut-down shall be based on the ISO's judgment that there exists unacceptable risk to electric system reliability or unacceptable operation of the ISO Administered Markets and will be posted on the New York ISO OASIS and website. Such action would be taken by the ISO only in the event of a serious problem that the ISO determines in its reasonable judgment could not be reasonably addressed by less drastic measures such as those defined in the Temporary Extraordinary Procedures.

5. If the ISO determines that the ISO Administered Markets must be shut-down, the system will revert to Federal Energy Regulatory Commission-approved NYPP operation.

Although the details of such reversion are being defined, it is likely to include the following:

- a. provision of transmission service under previously approved company OATTs;
- b. transactions between NYPP Members on a split-the-savings basis;
- c. bilateral transactions as they occur under current NYPP operation;
- d. NYPP operating procedures restored; and
- e. NYPP controls NYPP assets and employees.

6. The NYPP members will assume responsibility for fixing the ISO Administered Markets.

7. Once the ISO Administered Markets are fixed, a new two-week initial operating period will commence and so on as necessary until successful completion of an initial operating period.

8. Upon successful completion of an initial operating period, the NYPP assets and employees will be transferred to the ISO, ISO Related Agreements will be executed and the ISO will accept the software systems, operating procedures and communications systems.

List of Documents Submitted

1. Temporary Extraordinary Procedures for Correcting Market Design Flaws and Addressing Transitional Abnormalities. (Attachment A)
 - a. Attachment Q to the ISO Open Access Transmission Tariff (Attachment A-1)
 - b. Attachment E to the ISO Market Administration and Control Area Services Tariff (Attachment A-2)
2. Unexecuted Letter Agreement between the New York ISO and Member Systems providing for a Cutover Plan. (Attachment B)
3. List of Documents Submitted. (Attachment C)
- 4.. Persons to Whom Correspondence should be Addressed. (Attachment D)
5. Draft *Federal Register* Notice. (Attachment E)

Persons to Whom Correspondence Should be Addressed

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**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

New York Independent System Operator, Inc.)	
)	
Central Hudson Gas & Electric Corporation)	
Consolidated Edison Company of New York, Inc.)	
Long Island Lighting Company)	
New York State Electric & Gas Corporation)	Docket No. _____
Niagara Mohawk Power Corporation)	
Orange & Rockland Utilities, Inc.)	
Rochester Gas & Electric Corp.)	
Power Authority of the State of New York)	
)	
New York Power Pool)	

NOTICE OF FILING

Take notice that on July 7, 1999, the New York Independent System Operator, Inc. (“New York ISO”) and the Member Systems of the New York Power Pool (“Member Systems”) tendered for filing Temporary Extraordinary Procedures for Correcting Market Design Flaws and Addressing Transitional Abnormalities and an unexecuted letter agreement between the New York ISO and the Member Systems providing for a Cutover Plan. The New York ISO and Member Systems request an effective date of September 1, 1999 and waiver of the Commission’s notice requirements and of any applicable filing requirements not otherwise satisfied.

A copy of this filing was served upon all persons on the Commission’s official service lists in Docket Nos. ER97-1523-000, OA97-470-000 and ER97-4234-000 (not consolidated), and the respective electric utility regulatory agencies in New York, New Jersey and Pennsylvania.

Any person desiring to be heard or to protest this filing should file a motion to intervene or protest with the Federal Energy Regulatory Commission, 888 First Street, NE, Washington, DC 20426, in accordance with Rules 211 and 214 of the Commission’s Rules of Practice and Procedure (18 C.F.R. §§ 385.211 and 385.214). All such motions or protests should be filed on or before _____. Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make protestants parties to the proceeding. any person wishing to become a party must file a motion to intervene. Copies of this application are on file with the Commission and are available for public inspection.

David P. Boergers
Secretary

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Doc #: 101890; V. 6

Doc Name: boergers letter re: commencement of NY ISO

Author: Quint, Arnold, 00876