

September 27, 2000
Page 1

September 27, 2000

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Dear Sirs:

This letter is submitted on behalf of the Transmission Owners of New York State¹ in response to the letter sent to you by the Independent Power Producers of New York, Inc. ("IPPNY"), concerning the NYISO Board of Director's consideration of the Management Committee's decision to extend the current \$1,000/MWh bid cap through April 30, 2001.

¹The Transmission Owners include all of the Members of the Transmission Owners Sector (i.e. Central Hudson Gas & Electric Corporation, Consolidated Edison Company of New York, Inc., New York State Electric & Gas Corporation, Niagara Mohawk Power Corporation, Orange and Rockland Utilities, Inc., and Rochester Gas and Electric Corporation), as well as LIPA and the Power Authority of the State of New York.

September 27, 2000
Page 2

The IPPNY letter requests that a NYISO filing to the Federal Energy Regulatory Commission ("FERC") to extend the bid caps "clearly state the rationale for the bid cap extension and the conditions that are needed to be met before the market no longer needs bid caps".

Rationale For Extension of Bid Caps

In approving the NYISO's request for bid caps during the current summer capability period, FERC stated:

Given that the NYISO's energy market is currently undergoing significant revisions to correct for existing market flaws, and the fact that there is a lack of demand-responsiveness to price, we find that to ensure just and reasonable rates during the summer period, it is necessary to implement some form of bid cap. The Commission recognizes that NYISO has made progress in addressing the market flaw problems; however, we share the concerns of intervenors that we cannot be assured that the corrections implemented by NYISO have completely resolved all of the market flaw issues, or that the recent corrections will not have other unintended adverse consequences.²

At the Management Committee meeting on September 7, the proponents of the bid cap extension explained that the rationale and conditions that justified the adoption of bid caps for the summer capability period continue to exist for the winter capability period, which begins on November 1, 2000.

Despite the NYISO's efforts to address software and market design problems, all of the problems identified have not yet been fully addressed. Furthermore, we have not yet had sufficient experience to justify confidence that the measures taken will be fully effective and will not have unintended adverse consequences.

²New York Independent System Operator Inc., Docket No. ER00-3038-000; New York State Electric & Gas Corporation v. New York Independent System Operator, Inc., Docket Nos. EL00-70-000 and EL00-70-001, 92 FERC ¶ 61,073.

September 27, 2000

Page 4

With respect to the need for an increase in price-responsive load, a NYISO Price-Responsive Load Working Group has been formed to address that issue but it is not reasonable to assume that significant results will be achieved during the upcoming winter capability period.

The Management Committee fully discussed the rationale for the continuation of the FERC approved bid caps and endorsed that rationale in its vote to continue the bid caps through April 30, 2001.

Conditions To Be Met Before the Market No Longer Needs Bid Caps

The NYISO Board and most Market Participants recognize that public confidence in the NYISO markets is essential for the NYISO and the newly established competitive markets to succeed. The Board has taken the initiative in directing NYISO staff to undertake an analysis of the NYISO markets over the past year. The initial results of that study will be shared with the Market Participants at the Semi-Annual ISO Board-Management Committee meeting on October 17. The New York PSC also is reviewing data in order to more fully understand the design and operation of the NYISO markets.

In addition, the NYISO Board has asked the Management Committee to consider the concept of a circuit breaker mechanism, that could be used under certain circumstances to protect the public from unreasonable prices.

We fully expect the Market Participants, through the NYISO committees, to participate in the evaluation of the ongoing studies of the NYISO markets and to work with the NYISO Board and staff to determine whether significant problems remain and what measures, if any, are necessary to ensure that the NYISO markets are workably competitive and that the public is adequately protected.

These efforts to analyze the NYISO markets and consider measures necessary to protect the public have not occurred in a vacuum. They are in response to significant concerns expressed by Market Participants, elected and appointed officials and the general public, with respect to the operation of the NYISO markets and prices for electricity and ancillary services since the NYISO commenced operations. Any credible attempt to define the specific conditions that must exist for

September 27, 2000

Page 5

bid caps to no longer be needed must await the completion of the pending studies of the NYISO markets, a careful analysis of

those studies, and the completion of any additional analysis that may be required. Furthermore, a response to that question, as well as to whether a circuit breaker or other mechanism is necessary to protect the public, will require the careful consideration of the NYISO Board, staff and committees.

Conclusion

There is a clear rationale for the continuation of the FERC approval bid caps through April 30, 2001, and that rationale was fully discussed by the Market Participants at the Management Committee meeting on September 7th, and was adopted by the Management Committee in its approval of the bid cap extension.

Furthermore, it is not possible, at this time, to specifically define the conditions under which bid caps would not be necessary to protect the public. Any definition of such specific conditions would have to await the completion of the pending studies to the NYISO markets, an analysis of those studies, and careful consideration by the NYISO Board, staff and committees.

Sincerely,

Paul L. Gioia
Counsel to the
Transmission Owners