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July 17, 2008

Via E-Mail and Overnight Delivery

Karen Antion, Chair
New York Independent System Operator
c/o Stephen G. Whitley, President
New York Independent System Operator
10 Krey Blvd.
Rensselaer, N.Y. 12144

Re: Dynergy Power Marketing Inc.; Motion in Support of Appeal

Dear Ms. Antion and Mr. Whitley:

Attached is a Motion of Dynergy Power Marketing, Inc. ("Dynergy") in support of the appeal filed by Consolidated Edison Company of New York, Inc. and Orange and Rockland Utilities, Inc. The appeal was filed as a result of the Management Committee's decision at its June 27, 2008 meeting to grant the appeal filed by New York Regional Interconnect Inc. If the Board schedules oral argument in this matter, Dynergy requests and opportunity to participate

Respectfully submitted,

By: /s/ Glenn D. Haake

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MOTION IN SUPPORT OF APPEAL

Pursuant to Article 5 of the ISO Agreement and Section 1.03 of the NYISO's Procedural Rules for Appeals to the ISO Board, Dynegy Power Marketing, Inc. ("DPM") submits this motion in support of the appeal filed by Consolidated Edison Company of New York, Inc. ("Con Edison") and Orange and Rockland Utilities, Inc. ("O&R," collectively, the "Companies") of the Management Committee's ("MC") decision at its June 27, 2008 meeting to grant the appeal filed by New York Regional Interconnect Inc. ("NYRI") and listed as item 6 on the MC agenda. NYRI's appeal requested that the MC overturn the Operating Committee's ("OC") rejection, at its May 22, 2008 meeting, of the System Reliability Impact Study ("SRIS") for NYRI's proposed 400 kV transmission line with a rated power flow of 1,200 MW from Marcy, New York to New Windsor, New York (the "Project").

SUMMARY

In their appeal, the Companies raise a number of significant technical flaws and omissions in the NYRI SRIS that call into question the accuracy of the conclusions set forth in the SRIS with respect to the impact of the Project on system reliability. To DPM's knowledge, a number of these issues were not discussed or evaluated during the proceedings before the Transmission Planning Advisory Subcommittee ("TPAS") and the OC. Accordingly, DPM supports the Companies' request that the NYISO Board of Directors ("Board") overturn the MC decision and reject the SRIS so that further evaluation of these issues can be undertaken. In addition, during the course of these proceedings it has become clear that there is a loophole in the deliverability procedures being developed by the NYISO that would allow the Project to degrade the deliverability of existing resources and evade responsibility for funding needed System Deliverability Upgrades ("SDU"). DPM requests that the Board direct NYISO staff to develop deliverability procedures to close this loophole on an expedited basis, so that they can be in place if and when the Project is reviewed in a future Facilities Study.

BACKGROUND

DPM's affiliate, Dynegy Northeast Generation, Inc. ("DNG"), which is owned indirectly by Dynegy Inc., owns Dynegy Roseton, L.L.C. ("Roseton"), which operates a gas- and oil-fired generation facility of approximately 1,200 net MW, and Dynegy Danskammer, L.L.C. ("Danskammer"), which operates a coal-, gas-, and oil-fired facility of approximately 500 net MW. Roseton and Danskammer are located in the service territory of Central Hudson Electric and Gas Corporation ("Central Hudson") and participate in the NYISO-administered wholesale markets.¹ DPM, which is headquartered in Houston, Texas and is an indirect subsidiary of Dynegy Inc, is a marketer of wholesale electric power, marketing energy, ancillary services and capacity from its affiliated power plants. Through its subsidiaries, Dynegy Inc. produces and sells electric energy, capacity and ancillary services in key U.S. markets. The power generation portfolio consists of more than 19,000 megawatts of baseload, intermediate and peaking power plants fueled by a mix of natural gas, coal and fuel oil.

ARGUMENT

I. The Companies Have Raised Material Issues Concerning Errors and Omissions in the SRIS that Require Further Review

The Companies allege that the SRIS failed to calculate voltage limits on the UPNY/ConEd interface correctly due to several errors and omissions in the assumptions and modeling underlying the SRIS. These errors include use of incorrect pre-contingency voltage levels in New York City and the Lower Hudson Valley, failure to reflect the Gilboa 135 MVAR capacitor bank included in the base case, incorrectly modeling an O&R transformer as retired and incorrectly modeling Central Hudson's 345/115 transformers. The Companies state that if these errors were corrected, the SRIS would have shown that the Project will degrade binding transfer limits.

NYRI has argued that even if the Project did have this impact, the issue can be resolved by simply dispatching down or off the Project. However, The Companies have presented an example to illustrate that, depending on the nature of the day-ahead market commitment, it may not be feasible to dispatch the Project down without drawing upon operating reserves, which

¹ DPM markets the energy, capacity and ancillary services from these and other Dynegy-affiliated units.

could jeopardize reliability. To DPM's knowledge, this assertion has not been rebutted by NYRI and is not addressed in either the SRIS or NYISO staff's analysis. Given the uncertainty surrounding the conclusions set forth in the SRIS regarding the impact of the Project on system reliability, the Board should overturn the MC decision and reject the SRIS.

II. The Board Should Direct NYISO Staff to Develop Procedures to Ensure the Project Does not Degrade Deliverability

The meeting minutes from the NYISO's December 20, 2007 TPAS meeting and the NYISO staff analysis of NYRI's SRIS² indicate that if the Project were energized, it would create system overload conditions on the Central Hudson transmission system in the vicinity of the Roseton and Danskammer units. This, in turn, would limit Central Hudson's ability to secure its transmission system at various levels of Danskammer and Roseton output, raising the possibility of reduced operational flexibility of those units to provide critical voltage support in that region. Following the OC's rejection of NYRI's SRIS and before the MC vote, NYRI agreed to fund system upgrades that alleviate the overloading conditions affecting the Danskammer unit, but no upgrades have been provided to address the adverse impact on the Roseton unit. What this means is that the Project, when energized, will effectively reduce the deliverability of the Roseton facility.

During the discussion of the SRIS at the May 22, 2008 OC meeting, both NYRI and NYISO staff stated that the deliverability requirements contained in the conceptual deliverability plan ("Plan") approved by FERC and currently being memorialized in the tariff would not apply to the NYRI Project, because the Plan's provisions apply only to generators seeking Capacity Resource Interconnection Status ("CRIS") and merchant transmission facilities that seek Unforced Capacity Deliverability Rights ("UDR"); the NYRI Project does not fit within either category of facilities (see Meeting Minutes for the May 22, 2008 OC meeting, p. 5). IPPNY raised this potential problem when the Plan was filed at FERC, noting that it is discriminatory because it requires generators and merchant transmission projects to fund SDUs if they degrade

² See: http://www.nyiso.com/public/committees/documents.jsp?com=oc_tpas&directory=2007-12-20

transmission interface limits, but no such requirement is applied to regulated transmission projects.

Given the importance of maintaining existing levels of deliverability to ensure system reliability, it is critical that ratepayer funded regulated transmission facilities not be constructed in a manner that degrades deliverability and that they be obligated to fund SDUs required to preserve existing system deliverability. NYRI has argued that a generator that does not seek CRIS status could have a similar impact. However, it is highly unlikely that a generator large enough to materially affect deliverability would be economically viable if it were not eligible for capacity revenues. Such is not the case, however, for a regulated transmission facility, such as the NYRI Project, which is seeking incentive rates (a 13.5% rate of return) at FERC and therefore would not require market revenues to support construction. Thus, the threat to deliverability of a regulated transmission facility is much greater than the theoretical risk that an energy only generator would pose. The NYISO has worked long and hard to develop an efficient and effective deliverability requirement that preserves and maintains system deliverability. Accordingly, the Board should direct NYISO staff to develop procedures to ensure regulated transmission projects meet the same standards as generators and merchant transmission facilities must meet to maintain system deliverability.

CONCLUSION

For the foregoing reasons, the Board should (1) reject NYRI's SRIS, and (2) direct NYISO staff to develop on an expedited basis procedures to ensure that the construction of transmission facilities, including the NYRI Project, does not degrade the deliverability of existing resources.

Respectfully submitted,

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