

March 5, 2003

BY FEDEX

Chuck King
Secretary, Management Committee
New York Independent System Operator, Inc.
3890 Carman Road
Schenectady, NY 12303

**Re: LIPA Appeal of Business Issues Committee Action on
10-Minute Non-Synchronous Reserves Market**

Dear Mr. King:

KeySpan-Ravenswood, LLC hereby files a Motion in Support of LIPA's Appeal of the Business Issues Committee's decision at its February 11, 2003 meeting relating to modifications of the 10-Minute Non-Synchronous Reserves Market.

If you have any questions or require additional information, please contact me at (718) 403-2333. Thank you for your consideration of this matter.

Respectfully submitted,

/s/
Edwin G. Kichline

cc: Robert Fernandez (by e-mail)
Mollie Lampi (by e-mail)
Kristen Kranz (by e-mail)

Motion in Support of Appeal of the Long Island Lighting Company d/b/a LIPA

Movant: KeySpan-Ravenswood, LLC

Action Appealed: Action on Motion #3: On February 11, 2003, the Business Issues Committee rejected a motion to revise the market monitoring procedures for the 10-Minute Non-Synchronous Reserves market in accordance with the recommendations of the NYISO's Independent Market Advisor and its market monitoring staff.

Summary of Motion and Argument: KeySpan-Ravenswood, LLC ("KeySpan"), hereby moves in support of the appeal filed by the Long Island Lighting Company d/b/a LIPA ("LIPA") of the Business Issues Committee's ("BIC's") decision on February 11, 2003 rejecting the proposed modifications to the market monitoring procedures for the 10-Minute Non-Synchronous Reserves market. KeySpan respectfully requests that the Management Committee reverse the BIC's decision rejecting Motion #3, and approve the revisions as proposed by the NYISO's Independent Market Advisor, Market Monitoring Unit ("MMU"), and Staff.

The BIC Disregarded the Significant Changes and Improvements in the Market Since the Existing Offer Cap Was Established, and Unreasonably Discounted the Ability of the Market Monitoring Unit to Detect and Prevent Market Abuse With the Revised Market Monitoring Procedures.

As LIPA noted in its appeal, the BIC unreasonably rejected well-reasoned recommendations made by David B. Patton, Ph.D., the Independent Market Advisor ("MA") for the NYISO, as well as recommendations made by the NYISO Market Monitoring Unit and Staff, and rejected the proposed modifications to the 10-Minute Non-Synchronous Reserves ("10-Minute NSR") market. These recommendations were made after careful consideration of the changes in the market since the offer cap was implemented and the proposed alternate market monitoring process and mitigation measures.

After identifying several significant structural market enhancements,¹ as well as market design modifications,² which have resulted in the 10-Minute NSR market becoming competitive, Dr. Patton recommended specific changes that would allow the existing \$2.52 offer cap to be replaced with an alternative reference level system and other safeguards to monitor and mitigate potential market abuse. The market analysis presented by the NYISO Staff showed that the 10-Minute NSR market currently has approximately four times the supply capability needed to serve the market and an increased number of suppliers. There has been an increase in competition, and a corresponding reduction in market power in this market, since the \$2.52 offer cap was instituted. Notwithstanding these structural and market improvements, Dr. Patton's recommendations were not to remove market monitoring or mitigation measures; his proposal was to simply revise them. Mitigation measures would not be eliminated; they would merely be revised.

Specifically, as explained at the February 11, 2003 BIC meeting, the static one-size-fits-all \$2.52 offer cap would be replaced with market monitoring procedures based on a reference level system. The reference level for offers would be the *lower of* \$2.52 or accepted offers in prior periods. Moreover, the proposed changes also require units that have sold capacity to offer 10-Minute NSR. Finally, continual assessment of the competitive performance of the market after the reference level system is implemented will be conducted, as is done with all other market monitoring. NYISO Staff even agreed to report the results of these assessments to the BIC.

The NYISO MMU and Staff agreed with Dr. Patton. At the February 11, 2003 BIC meeting, Dr. James Savitt, of the NYISO's MMU, proposed the adoption of the new market

¹ Some of the structural market enhancements include supply from Gilboa, reductions in locational reserve requirements, and regional reserve sharing.

² Some of the market design improvements include lost opportunity cost payments and payment of locational clearing prices to suppliers.

monitoring process for the 10-Minute NSR market, as described above. Contrary to the statements and claims of some market participants opposing the proposal, the NYISO proposal does not eliminate the MMU's ability to monitor the market and take corrective action, if necessary. If the MMU and the MA were to conclude that an individual market participant or the 10-Minute NSR market was not behaving in a competitive manner, action could be taken. The NYISO could even propose mitigation measures under § 205 of the Federal Power Act and, if needed, under § 205 "exigent circumstances" authority.

Accordingly, the NYISO still has ample authority to take necessary actions to protect against the abuse of market power, or to quickly change market rules in the event market conditions are not workably competitive. Members who opposed the proposal simply refused to recognize the NYISO's ability to protect against the abuse of market power and take immediate action if market conditions are not workably competitive.

In light of the significant structural and market enhancements that have occurred since the offer cap was enacted, and the continuation of market monitoring and mitigation measures proposed by the MMU and NYISO staff, rejecting the NYISO's proposal is an unnecessary impediment and delay to the reopening of the 10-Minute NSR market. For these reasons, KeySpan supports LIPA's appeal, and respectfully requests that the Management Committee reverse the BIC's decision rejecting Motion #3, and approve the revisions as proposed by the NYISO Independent Market Advisor, Market Monitoring Unit, and Staff.

Respectfully submitted,

/s/

James M. D'Andrea
Edwin G. Kichline

Counsel for KeySpan-Ravenswood, LLC

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