

June 25, 2001

Richard J. Grossi,
Chairman, Board of Directors
New York Independent System Operator, Inc.
c/o William J. Museler
President and CEO
New York Independent System Operator, Inc.
3890 Carman Road
Schnectady, New York, 12303

Re: LIPA Motion in Opposition to NYSEG Appeal and Request for Stay of
Management Committee's June 6, 2001 Decision Approving the Stage II
ICAP Tariff

Dear Chairman Grossi:

LIPA respectfully submits this letter as a Motion in Opposition to New York State Electric & Gas Corporation's ("NYSEG") Appeal of the New York Independent System Operator, Inc's ("NYISO") Management Committee's June 6, 2001 decision ("June 6 Decision") approving the Stage II installed capacity ("ICAP") Tariff. Although LIPA has joined with, and supports NYSEG's initiatives to promote the adoption of best practices among the three Northeastern Independent System Operators and thereby reduce seams issues, LIPA disagrees that the June 6 Decision implicates those issues.

LIPA urges that the NYSEG Appeal be denied. LIPA has been an active participant in the committee process that has developed the Stage II ICAP tariff that implements a methodology for Unforced Capacity ("UCAP") and a One-month Obligation Procurement Period ("OPP"). Contrary to NYSEG's arguments, LIPA has been an advocate of a one-month OPP because it will reduce interregional seams issues and promote a more efficient capacity market. In that regard, LIPA supports the recitation of the painstaking process and review of the relative ICAP rules in the NYISO and the PJM markets contained in the June 22, 2001 Motion of Enron Power Marketing, Inc. submitted in opposition to the NYSEG Appeal.

A. The NYISO Change From a Six Month to One-Month ICAP Obligation Procurement Period Neither Creates Nor Aggravates A Seams Issue With PJM

LIPA believes that the implementation of both UCAP and a one-month OPP are steps forward to greater, not less, integration of ICAP markets among the NYISO, PJM and New England. New York's current six-month OPP for ICAP is not consistent with New England's or PJM's (old or new) capacity procurement periods. The change in PJM's ICAP OPP recently approved by FERC, and relied upon heavily by NYSEG is interim, not permanent in nature, and not synchronous with the existing ICAP OPP in the NYISO, much less the OPP approved in the June 6 decision. PJM is moving from a daily market to an interim market composed of three seasons: 1) June through September, 2) October through December and 3) January through May. FERC did not accept this solution as permanent; it directed PJM to file a revised seasonal approach or an alternative proposal in a year. PJM has established a process to review its capacity market. PJM's rules thus present a moving target, not a fixed and final status towards which the NYISO should gravitate. Indeed, a monthly market in New York actually offers more flexibility for PJM generators to participate in New York's market than would be possible under the current six-month OPP.

NYISO's ICAP Working group has committed to review its capacity market in the coming months. The parallel commitments of the NYISO and PJM to continue to review the effect of the changes in their respective ICAP rules actually presents an opportunity to jointly eliminate seams issues. The June 6 Decision, therefore, will not aggravate the situation.

B. Reducing The OPP To One Month Should Have No Impact On Reliability And Should Create A More Efficient Capacity Market.

Contrary to NYSEG's assertion, the change from a six month to a one month OPP should not reduce reliability. First, it is important to recognize that even after the change, New York Load Serving Entities ("LSEs") will continue to have an annual capacity requirement to meet their loads. The variation in that requirement from year to year will reflect only load growth or load shifts, *i.e.* the shifting of retail customers between LSE's as retail competition takes hold. All LSEs will have the same incentive to procure capacity to cover their annual ICAP requirement and will still face stiff deficiency penalties for failure to do so.

Given that background, a monthly OPP will provide at least 2 significant benefits for LSEs, as compared with the existing six month OPP. First, LSEs that face the need for new capacity to meet growing loads are disadvantaged by the current six-month OPP. An LSE that contracts with a new generator loses the benefit of generation that comes on-

Richard J. Grossi,
Chairman, Board of Directors
New York Independent System Operator, Inc.
June 26, 2001
Page 3 of 4

line after the start of a six month OPP under the current rules because the capacity is not counted until it is certified after DMNC testing. For example, if a new unit (or an increase in capacity of an existing unit) is in service on June 1st, an LSE would not be able to certify that generation toward its summer capacity requirement since the six-month certification deadline is in April. If the LSE does not meet the April certification deadline, it would be required to procure any available capacity in the deficiency auction for every month of the six month OPP (May-October) even if its requirements will be covered in actuality after June. The change to a monthly OPP will allow an LSE to certify, and obtain credit for, new capacity in the month following its availability, rather than at the end of the current six-month period. This will provide an additional incentive to bring the new capacity online as soon as feasible.

The NYISO indirectly acknowledged the inefficiency of the current rules in the current summer capability period through the issuance of an ECA that essentially created a monthly capacity market for New York City and Long Island. The ECA allowed LSE's in New York City and Long Island, that would have otherwise been deficient, to account for new capacity when it was available. The Stage II ICAP Tariff approved on June 6, 2001 by the Management Committee will provide the same benefit on an official basis.

Second, the move to a monthly OPP will benefit LSEs by permitting recognition of changes in the amount of load requiring ICAP. Under today's requirements, LSEs must procure capacity for all of their current customers based on their historic coincident peak load plus a regional growth factor. Currently, Transmission Owners serve the bulk of the retail load. Over time, as retail access programs grow, customers are expected to migrate among LSEs and change the respective LSE ICAP obligations commensurately. It makes no sense to force an LSE to procure capacity six months in the future for customers that it estimates will shift to other LSEs during that time period. A shift to a monthly market will still allow an LSE to procure bilaterally and through the NYISO auctions, capacity to meet the bulk of its load. At the same time, a monthly OPP will allow the LSE to not over-procure for retail load that it estimates will shift to other LSEs during the capability period.

The report commissioned by the NYISO entitled Shortening the NYISO's Installed Capacity Procurement Period: Assessment of Reliability Impacts, dated May 24, 2000 ("Report"), concluded that a change to a monthly OPP would not have a significant impact on reliability. In addition, the report found that "LSEs generally do not expect a major change in the way they meet their ICAP requirements" under a monthly OPP. It also noted that LSEs did "appreciate the ability to adjust their ICAP purchases monthly to keep up with shifts in load, and to avoid the risk of getting stuck with more ICAP than they actually need, as is sometimes the case under the current system." [Report, p.42].

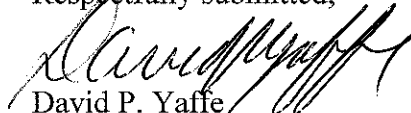
Richard J. Grossi,
Chairman, Board of Directors
New York Independent System Operator, Inc.
June 26, 2001
Page 4 of 4

C. NYSEG Has Not Demonstrated A Need for a Stay

NYSEG has requested, in the alternative, that the NYISO Board issue a stay of the June 6 Decision if the June 6 Decision is permitted to stand. NYSEG represents that "the NYISO" will suffer immediate and irreparable harm from decreased reliability." It does not suggest that NYSEG itself will suffer such irreparable harm.

As should be evident from LIPA's discussion herein as well as the description in the Enron motion of the extensive process undertaken through the NYISO governance to develop the Stage II ICAP tariff, there is no basis to conclude that "the NYISO" believes that any harm is imminent, much less immediate and irreparable. Moreover, the June 6 Decision only sets the stage for the NYISO to file the Stage II ICAP tariff with the FERC for implementation concurrent with the commencement of the winter capability period in October. NYSEG will have another opportunity to state its case before FERC decides whether the Stage II ICAP Tariff becomes effective. Thus, there is no reason for the NYISO to issue a stay.

Respectfully submitted,


David P. Yaffe
Counsel to LIPA

cc: Stanley B. Klimberg, Esq.
Roni Epstein, Esq.
Richard J. Bolbrock, Esq.
Stuart Caplan, Esq.
William Booth, Esq.
Howard Fromer