

ATTACHMENT E

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

These Temporary Extraordinary Procedures became effective on November 18, 1999 when the New York Independent System Operator, Inc. (“New York ISO” or “ISO”) commenced 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 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

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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.

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 later than 5:00 p.m. on the calendar day following the day in which the hour occurs 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 date on which notice is posted, 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

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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.

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. 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.

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.

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D. Termination of these Temporary Extraordinary Procedures

These Extraordinary Procedures shall terminate on April 30, 2001, unless they have been re-approved as filed or as amended by the Management Committee and the Federal Energy Regulatory Commission ("FERC").

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FERC Electric Tariff
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Original Sheet Nos. 449 through 455

Sheet Nos. 449 through 455 are reserved for future use.

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