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Via Electronic Mail

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Re: Operating Committee's Revision of Minimum Locational Capacity Requirements

Executive Summary

KeySpan-Ravenswood, LLC ("KeySpan") objects to the New York Independent System Operator ("NYISO") suspension of the appeal process and notice periods set

forth in the NYISO's governance procedures applicable to the Operating Committee's ("OC") decision on March 28, 2006 to revise the minimum locational capacity requirements ("LCRs"). It is inappropriate to ignore the NYISO tariffs, agreements, and by-laws simply because it is expedient, convenient, and produces a result that purportedly benefits certain market participants, while ignoring the harm to other market participants. The NYISO tariffs, agreements, and by-laws establish the rights and obligations of market participants and need to be followed.

Accordingly, pursuant to Section 7.13 of the NYISO Agreement, KeySpan files this initial appeal to the NYISO Management Committee related to the NYISO OC decision on March 28, 2006 to revise the minimum LCR in New York City from 83% to 80%. KeySpan reserves the right to submit additional information in support of its appeal as well as the right to submit motions and amendments to the Management Committee and ultimately an appeal to the NYISO Board of Directors in accordance with the NYISO's tariff, agreements and by-laws.

This letter is also being submitted in response to the NYISO's March 28, 2006 electronic mail requesting substantive comments.

Revised Governance Process

KeySpan objects to the NYISO's suspension of its appeal process and supports the position of the Independent Power Producers of New York ("IPPNY") being filed on this issue. Two business days does not provide market participants "ample opportunity" to prepare and file substantive comments. Contrary to the NYISO statements in its March 28, 2006 electronic mail, KeySpan does not agree that there was a "clearly required correction" nor that "[n]o substantive disagreement to the correction was raised." KeySpan raised issues with the purported correction and substantive issues with the results at the March 28, 2006, OC Meeting. Moreover, the procedural revisions proposed by the NYISO deny market participants the opportunity to propose alternatives and amendments as well as the opportunity to collaborate and discuss these alternatives and amendments with the NYISO and market participants.

The Board's action violates the NYISO Agreement and the OC and Management Committee ("MC") by-laws. The MC and OC by-laws provide market participants ten business days to file appeals of actions of the OC and MC to the MC and NYISO Board, respectively.[1] The OC by-laws also provide that OC actions shall not become effective until 30 days after OC has acted, or, if no appeals of the action have been timely filed, one business day after the time for a timely appeal has passed.[2] This alone prevents the NYISO from implementing the revised locational requirements in accordance with its proposed timeline unless the Federal Energy Regulatory Commission approves it or provides tariff relief prior to the auction.

[1] By-Laws of the Management Committee, Section 15.02; By-Laws of the Operating Committee, Section 13.01.
[2] By-Laws of the Operating Committee, Section 4.13.

The NYISO has not provided any evidence that an emergency exists that requires it to circumvent the NYISO Agreement and the OC and MC by-laws. The proposed LCR revisions are not required to assure system reliability is maintained. In fact, the proposed revisions *reduce* the LCRs and *reduce* reliability. The currently approved LCRs, which are greater than those being pushed by the NYISO, will surely maintain system reliability and accordingly nothing needs to be done immediately to maintain system reliability. However, the reduction proposed by the NYISO will in fact reduce demand, reduce prices and possibly jeopardize reliability.

The NYISO in seeking "finality" on the LCR issue makes the assumption that the decision of the NYISO Board of Directors will in fact be the final word on the issue. This is certainly a convenient assumption, but considering the numerous issues that are still being litigated dating back as far as early 2000, finality is only a possibility if the NYISO conducts its full appeal process and seeks agreement among market participants. In the alternative, if what the NYISO means in its use of the word finality is that it will ensure the LCRs are reduced prior to the start of the Summer 2006 Capability Period, then there is simply no reason to even conduct the flawed, abbreviated appeal process. The NYISO might as well simply state its intentions and make its filing at FERC revising the LCRs and totally bypass the appeal process.

However, if the NYISO is really interested in achieving finality on this issue, it should proceed with its required appeal procedures and work with all its market participants towards a collaborative solution, rather than attempting to force its views on market participants.

Appeal of the March 28, 2006 Operating Committee Decision

Appellant: KeySpan-Ravenswood, LLC

Action Appealed: Motion 89.01 Locational ICAP Requirements – 2006-2007 Capability: Motion to approve the locational ICAP Requirements for the 2006-2007 Capability Year as provided in a revised Locational Installed Capacity Requirements Study for the 2006 – 2007 Capability Year.

The Locational Requirement in New York City Should Be Maintained At 83%

The New York City Locational Requirement should be maintained at 83%. A revision to 80% should not be made at this time because the analysis was conducted in a compressed timeframe, historical system conditions indicate a greater locational requirement may be needed to maintain reliability under actual system operations and recent system changes put upward pressure on the locational requirement. In the alternative, if the New York City Locational Requirement is revised downward to 80%, additional market modifications must be made at the same time to ensure suppliers that support reliability are properly compensated.

Since the March 10, 2006 meeting of the NYSRC Executive Committee, NYISO Staff has been focused on making certain revisions to the MARS input files ("MIF"). As a result the NYISO Staff developed revised IRM/LCR curves using these revised MARS input files. NYISO Staff recommended adoption of lower minimum New York City Locational Requirements based on these curves. These recommendations were made even though NYISO Staff previously concluded that it was logical for the minimum New York City Locational Requirement to increase to 83% based on increased load and limited transmission transfer capability. On March 28, 2006 the OC voted in support of this recommendation to reduce the New York City LCR from 83% to 80%.

Although it was entirely appropriate that the NYISO Planning Staff review and revise the MARS input files in the forthright manner it has demonstrated, KeySpan thinks that this effort has focused too narrowly on a single issue in a overly compressed time frame. Certain critical perspectives in determining the appropriate New York City minimum LCR's are being overlooked and NYISO Staff and NYISO market participants are placing too great a reliance on the result of a complicated calculation procedure without assurance that the procedure itself is producing reasonable results.

This is the first year the NYISO calculated the IRM and LCRs with the revised methodology. The IRM report approved by the NYS Reliability Council Executive Committee on January 31, 2006 was developed by ICS and the NYISO Planning Staff in a cycle of over six months, which included the initial development and deployment of the "unified" method, and an appropriate "anchoring" point, and finally the late revision of the effort to accommodate the LIPA's election of UDR on the Cross Sound Cable. Great care was taken over a long period of time to assure the process was conducted properly.

NYISO Staff also considered it important to review the calculated results with a critical eye to ensure the results made sense and that the NYISO and NYSRC could confidently state that the new methodology was producing a result that would ensure reliability. Acceptance of the calculated result from this new methodology without some engineering judgment and analysis was never contemplated. Accordingly, when the calculated results were produced, the NYISO and NYSRC made it a point to understand and justify them.

As such, when the original analysis produced an 83% requirement for New York City, the NYISO Staff applied engineering judgment to determine if such a result made sense. Ultimately, NYISO Staff determined that the result was appropriate and in fact NYISO Staff indicated a requirement in excess of 80% was even expected. The fact that the analysis was conducted again with revised MIF data does not change the prior engineering judgment that 83% was reasonable or that an increase was expected.

Specifically, while the focus on the MIF was important, it is not the only important perspective. In the locational installed capacity requirements study approved by the OC on February 9, 2006, the NYISO properly pointed to factors in the 2006-07 study, which were influential in raising the Zone J LCR from 80% to 83%. These included increased load, the reduction in transfer limits on the UPNY/SENY interface,

and introduction of dynamic (generation availability dependent) ratings on several key interfaces. These factors did not change with the revisions in the MIF. So a critical perspective in developing the recommended LCR is looking back, recognizing that the Zone J LCR has been 80% since day one of the NYISO, that the transmission interfaces are largely unchanged, with the exception of the series reactors, that loads in Zone J and in the lower Hudson Valley are significantly higher, and asking if this result is entirely consistent with those realities.

While we must be mindful that the tools and input data used to determine the Zone J LCR have evolved over the years, are we to believe in retrospect, for example, that, based on these most recent results, an LCR of less than 80% would have been acceptable in the past? Or are we to believe that the changes described in the report adopted February 9 have had no impact? History indicates 80% was barely sufficient and changes noted in the report continue to be valid.

Accordingly, it is inappropriate to brush aside six months of work and carelessly reduce the New York City LCR to 80%. The fact that certain input data has recently been revised and new results calculated in an expedited fashion should not supplant six months of prior work and analysis. Any revisions should only be made after a critical review of the process is conducted and a lessons learned analysis is concluded.

As noted above, the IRM report approved by the NYS Reliability Council Executive Committee on January 31, 2006 was developed by ICS after six months of careful consideration of many issues. In retrospect, that effort utilized a MIF with less than optimal data. While it may be difficult to specifically argue at this time that the methodology choices made by ICS were directly impacted by the original MIF data, it is clear that the revisions undertaken since March 10, 2006 stand in stark contrast to the time and oversight involved in the initial, more comprehensive effort, notwithstanding GE's recent independent review of the MIF.

Additional sensitivity cases reflect an upward trend in the directionality of the minimum NYC LCR. The sensitivity of IRM to EDRP and SCR was determined in the IRM report. This was done because the effectiveness of SCRs in Zone J on July 27, 2005, was dramatically lower than historical levels. Based on the actual performance of these resources on July 27th, KeySpan requested that an SCR effectiveness 20% lower than the base case also be modeled.[3] This sensitivity indicates an increase of 0.3% in Zone J LCR and supports the upward directionality or trend.

The revised LCRs approved by the OC would reduce the amount of capacity load serving entities in New York City would need to procure at a time when the NYISO, NYPA, NYPSC, NYC and their respective experts are calling for additional development of resources in these locations. These contrary actions are at best confusing to the market because on the one hand suppliers are encouraged to develop resources and then on the

[3] Zone J performance was 54% of registered levels. Because NYISO has indicated that approximately 20 MW of SCR's were not called, KeySpan corrected for this at the full 20 MW level and added an additional 10 percent for a suggested sensitivity level of 72%, rather than the 92% modeled in MARS.

other hand they are faced with reduced demand and market prices. First, the NYISO signals a need for supply. Then once supply has entered, demand is reduced by "correcting" a single market input thereby reducing demand and market prices. The LCRs approved by the OC in February and currently in effect for the 2006/2007 Capability Year actually enhance reliability by ensuring additional capacity will be available this summer and the market signal is consistent with the public outcry for additional supply.

If the NYISO, market participants and FERC ultimately decide that 80% is the "correct" LCR for New York City, then that decision carries with it potential financial benefits or consequences. If 80% is correct and additional resources are not required to maintain reliability during actual market operations, then consumers will have saved money. However, if 80% is incorrect and additional resources are required to maintain reliability during actual market operations, then additional reliability payments need to be made to suppliers that support reliability. These suppliers are entitled to a reliability payment to the extent the market price paid to such a supplier was below its cost. This could be part of a separate reliability payment or incorporated into energy reference prices and/or start-up costs. This needs to be considered in the NYISO process on the same expedited basis the proposed LCR revisions are being considered.

Conclusion

KeySpan thinks that is not appropriate for the NYISO to simply adopt the minimum LCR produced by the revised MIF data, without consideration of these additional perspectives. Consideration of these perspectives, together with the sensitivity related to SCR performance, should have led to addition of some margin to the calculated values, if not retention of the originally approved New York City LCR of 83%. Finally, if the NYC LCR is revised to 80%, additional market revisions need to be made to ensure reliability services are not obtained for free or below a suppliers cost.

Respectfully Submitted,

/s/ James M. D'Andrea, Esq.
KeySpan-Ravenswood, LLC