March 29, 2006

Mr. Mark S. Lynch
President and CEO
New York Independent System Operator
3890 Carman Rd.
Schenectady, NY 12303

Dear Mr. Lynch:

On behalf of Select Energy I offer the following inputs to the current issues surrounding the Locational Capacity Requirements (LCR) for the Capability Year 2006-07.

On February 9th, the Operating Committee approved new LCRs of 83% and 106% for NYC and LI, respectively. We were advised that the increases were based on staff belief that the underlying results were correct.

Unfortunately, in early March the ISO staff uncovered a substantive error and approached the NYSRC about it. The NYSRC directed staff to rerun the IRM study with corrected input and from what we've been told, an extensive and exhaustive review which included General Electric was performed.

The new results are identical to those from last year and subsequently, after some procedural maneuvering, the OC approved the revised numbers on March 28th.

Select's overall view is that the updated and corrected LCR's should be used and that timing and procedural arguments should not override correct and factual analysis.

Specific comments:

1. We do not believe that we should operate a market with a known error that is within our timely ability to correct.

   The only thing preventing timely correction is simply one of procedural maneuvers – appeals etc. that will simply leave the requirements in questions and cause considerable uncertainty in the ICAP markets over what LSE's are really responsible for.

2. Most of the issues with ICAP are longer term economic ones. While having a requirement to be met is in fact important, in my lengthy experience with utility operations, I recall no supply shortage that resulted in significant or sustained loss of firm load disconnection due to inadequate capacity. Rather we have had blackouts based on transmission operational issues most recently and aptly demonstrated by First Energy's performance in 2003.

3. The MC discussion on March 29th, clarified that parties are expressing concern about their inability to delay an outcome, one that is not likely to change in their favor (based on the OC actions), to try and gain a favorable financial outcome for their own purposes..

4. We don't oppose parties arguing their case but we firmly believe that the correct values should be substituted and used going forward.

   We would support a review of procedural aspects like timelines for appeal, setting meetings et al. to address adequate opportunity for challenge vs. simple obstructionist action. We would finally note that such an issue can cut both ways.

   One reason we are now in a time crunch is that parties raised concerns about how long they had to review relevant materials before the OC meeting on March 21st. This led to a procedural challenge that was supported by the OC Chair's ruling and was not overturned by vote and caused added delay.

   In my experience in chairing BIC, we have had materials relevant to an item for action introduced as late as the day of the meeting. Further, while motions have had the required lead time applied, considerable discretion has been allowed in addressing issues via such motions that were not directly at issue to them. Select would support a review of the by-laws on this issue but will add the cautionary note that a reasonable balance must be struck regarding timing rules for submittal of supporting and relevant information or these rules may cause an explosion of special or recessed meetings.

Sincerely,

James E. Scheiderich