

June 26, 2002

VIA AIRBORNE EXPRESS

Richard J. Grossi
Chairman
New York Independent System Operator
3890 Carman Road
Schenectady, NY 12303

c/o William J. Museler
President and Chief Executive Officer
New York Independent System Operator
3890 Carman Road
Schenectady, NY 12303

**Re: Notice of Appeal of the Management Committee's Decision With
Respect to the Credit Policy Proposal**

Dear Chairman Grossi:

Pursuant to the "Procedural Rules for Appeals to the ISO Board," Consolidated Edison Company of New York, Inc. respectfully submits three copies of its appeal of the Management Committee's decision at its of the Management Committee's decision at its June 13, 2002 meeting to approve the Credit Policy Proposal (the "Proposal"). The Proposal was listed on the agenda as item number 4.

A copy of this appeal has been electronically transmitted to Kristen Kranz who has agreed to serve it on the members of the Management Committee. Thank you.

Sincerely,

Neil H. Butterklee
Attorney for Consolidated Edison Company
of New York, Inc.
(212) 460-1089

cc: Kristen Kranz (via e-mail)
Mollie Lampi, Esq. (via e-mail)
Ira Frielicher, Esq. (via e-mail)

**NOTICE OF APPEAL OF
CONSOLIDATED EDISON COMPANY OF NEW YORK, INC
OF THE MANAGEMENT COMMITTEE'S DECISION WITH RESPECT TO
THE CREDIT POLICY PROPOSAL**

I. SUMMARY OF ARGUMENT

In accordance with Article 5 of the ISO Agreement and Section 1.02 of the NYISO's "Procedural Rules for Appeals to the ISO Board," Consolidated Edison Company of New York, Inc. ("Con Edison" or the "Company") hereby files this notice of appeal of the Management Committee's decision at its June 13, 2002 meeting to approve the Credit Policy Proposal (the "Proposal"). The Proposal was listed as item number 4.

Con Edison strongly objects to the portion of the Proposal that would limit a market participant's maximum unsecured monthly credit to 20% of the total NYISO market's highest monthly volume during the past 12 months (the "20% Limitation"). This 20% Limitation, which would be applicable only to Con Edison at least for the foreseeable future, would decrease Con Edison's credit limit for each billing cycle by 46%, from approximately \$550 million to approximately \$295 million, resulting in unjustified significant increased costs to Con Edison's consumers at a time when Con Edison is faced with hundreds of millions of dollars in increased costs for system infrastructure reliability.

Moreover, unlike the part of the Proposal that bases a market participant's credit limit on its tangible net worth, which resulted from extensive analyses and debate, the 20% Limitation did not undergo any meaningful analysis. As a result, the 20% Limitation and its application is arbitrary and unjustified in several respects.

Accordingly, Con Edison respectfully requests that the NYISO Board remove the Proposal's 20% Limitation or, if anything, adopt Con Edison's alternative proposal under which the maximum unsecured monthly credit for a single entity would vary based on credit rating, from 30% for A+ or higher rated companies to a low of 5% for BBB- rated companies.

II. BACKGROUND

On June 13, 2002, the Management Committee approved the Proposal, which established a credit policy for the NYISO marketplace. In general, the Proposal establishes monthly credit limits for each market participant based on a percentage of their tangible net worth (the "Net Worth Limitation"). This percentage varies from 1.5 percent to 7.5 percent based on a market participant's investment grade credit rating. Thus, under the Net Worth Limitation, a market participant with a rating A+ or higher will have its credit capped at 7.5 percent of tangible net worth while a market participant with a BBB- rating will have its monthly credit line capped at 1.5 percent.

In addition to this overall cap on unsecured credit, the Management Committee approved an overall risk tolerance limit that caps the maximum unsecured monthly credit for a single party to 20% of the NYISO market's highest monthly volume during the past 12 months. For the foreseeable future, the only market participant who is capped by the 20% Limitation, as opposed to the tangible Net Worth Limitation, is Con Edison.¹

¹ Significantly, Standard and Poors recently gave Con Edison an A+ bond rating.

III. ARGUMENT

The 20% Limitation is unjustified and arbitrary and would single out Con Edison's consumers for significant and unnecessary collateral costs at a time when they face enormous expenditures for infrastructure enhancements necessary to maintain system reliability.

Specifically, by limiting a market participant's maximum unsecured monthly credit to 20% of the highest monthly market volume during the past 12 months, the Management Committee has decreased Con Edison's credit limit for each billing cycle by 46 %, from approximately \$550 million to approximately \$295 million, despite its A+ rating. It is hard to believe that the Net Worth Limitation standard presented for adoption, based on extended analyses and effort, could have been "off" by such an order of magnitude as suggested by the 20% Limitation standard, adopted at the last minute with scant analysis or justification.

Unlike the Net Worth Limitation, which rationally provides for a party's credit limit to vary based on its credit risk, the 20% Limitation has no rational basis. No analysis was presented by the NYISO staff to demonstrate the additional value of the 20% Limitation nor its impact. Indeed, no rationale, much less a technical analysis, has been provided for capping the risk tolerance at the 20% level, rather than, for example, at the 30% or 40% level, or for adopting a single cap, rather than a matrix that varies the cap with, for example, credit ratings. Furthermore, the 20% limit across the board makes no sense, especially when all the other parameters used for the credit allowance are based on credit strength, as calculated by ratings. If a BBB- company can have an allowance up to 20% of the market, then a company with much stronger credit should be given additional

latitude, especially a regulated company subject to financial risk limitations.² That is precisely why, at the June 13, 2002 Management Committee meeting, Con Edison proposed to create a maximum unsecured monthly credit for a single entity that would vary based on credit rating, from 30% for A+ or higher rated companies to a low of 5% for BBB- rated companies. Con Edison's proposed amendment, which garnered close to 53% of the vote, more appropriately protects the state's consumers without unnecessarily burdening Con Edison's customers with unjustified higher costs. In short, the 20% Limitation lacks appropriate analysis and does not serve the public interest.

It will not be lost on anyone that Con Edison's credit is being sharply curtailed at a time when, despite its financial strength, the Company is investing heavily in its utility system, keeping up with ongoing requirements and restoring infrastructure damaged by the Trade Center attacks. That Con Edison -- as a provider-of-last resort supplier with a well-established energy-cost recovery mechanism that is spending hundreds of millions in capital to maintain the strength of the energy infrastructure -- is being singled out for the imposition of increased credit limits is, we submit, a matter that calls out for serious reconsideration.

Ironically, the 20% Limitation imposes additional credit requirements only on Con Edison and its customers irrespective of the Company's strong credit ratings.³ Moreover, as the provider of last resort, Con Edison would be required to assume a defaulting market participant's load, and bear the credit costs associated with that load, even if such costs were previously unsecured and even if the defaulting supplier was

² It should also be noted that Con Edison, as the highest market participant, will likely be burdened with the highest share of all the losses precipitated by those participants that were given unsecured credit despite low rating ratings.

³ There can be no question that the 20% Limitation standard singles out and unduly discriminates against Con Edison in violation of the Federal Power Act (16 USC § 824(d)).

financially weaker than Con Edison. It would be harder to find a better example of an arbitrary and discriminatory application of credit requirements.

IV. CONCLUSION

For the reasons set forth herein, Con Edison respectfully requests that the NYISO modify the Proposal by deleting the 20% limitation contained in section (iv) of the motion or, in the alternative, by adopting Con Edison's alternative proposal under which the maximum unsecured monthly credit for a single entity would vary based on credit rating, from 30% for A+ or higher rated companies to a low of 5% for BBB- rated companies.

Dated: June 26, 2002

Respectfully submitted,

Consolidated Edison Company
of New York, Inc.

By: _____
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Room 1815-s
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Its Attorney

June 26, 2002

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President and Chief Executive Officer
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Re: Request for Hearing Before NYISO Board Governance Committee

Dear Messrs Grossi and Museler:

Pursuant to Rule 5.02 of the "Procedural Rules for Appeals to the ISO Board," Consolidated Edison Company of New York, Inc. respectfully requests that a hearing be established before the NYISO Board Governance Committee with respect to Appellants' appeal of the Management Committee's decision at its June 13, 2002 meeting to approve the Credit Policy Proposal (the "Proposal"). The Proposal was listed on the agenda as item number 4.

Con Edison is appealing the Proposal because it places an additional arbitrary and discriminatory credit limitation that is applicable only to Con Edison while failing to appropriately address the issue that it seeks to resolve which is to limit the credit risk to the NYISO markets. Specifically, the Proposal adds a feature that limits a market participant's credit to 20% of the total NYISO market's highest monthly volume during the past 12 months (the "20% Limitation"). Under the 20% Limitation, Con Edison's credit limit for each billing cycle will decrease from approximately \$550 million to approximately \$295 million, at a significant cost to the Company's consumers. Furthermore, unlike the part of the Proposal, which bases a market participant's credit limit on its tangible net worth, the 20% Limitation did not undergo a significant amount of vetting during the committee process.

Con Edison requests this opportunity to be heard before the Governance Committee because it believes that its concerns with the Proposal can be more fully demonstrated by an in person presentation and a dialogue between the Committee and Con Edison. Thank you.

Sincerely,

Neil H. Butterklee
(212) 460-1089
Attorney for Con Edison

cc: Kristen Kranz (via e-mail)
Mollie Lampi, Esq. (via e-mail)
Ira Frielicher, Esq. (via e-mail)