July 3, 2002

VIA FEDERAL EXPRESS

Honorable Richard J. Grossi
Chairman, NYISO Board of Directors
c/o William J. Museler
Chief Executive Officer
New York Independent System Operator, Inc.
3890 Carmen Road
Schenectady, NY 12303

Dear Chairman Grossi:

Pursuant to the Procedural Rules for Appeals to the ISO Board and Notice of Appeal filed by Con Edison on June 26, 2002, PSEG Power New York, Inc. respectfully submits three original copies of the attached Motion in Opposition To Notice of Appeal of Consolidated Edison Company of New York, Inc. to the Board Of Directors from the Management Committee's Decision at its June 13, 2002 Meeting. We have e-mailed a copy of this Motion in Opposition to Kristen Kranz at the NYISO, and have requested that, upon receipt, she serve it upon each member of the Management Committee via e-mail.

Respectfully submitted,

Howard

Howard A. Fromer
Director, Market policy

cc: Kristen Kranz

MOTION OF PSEG POWER NEW YORK INC.
IN OPPOSITION TO 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 STATEMENT

Pursuant to Sections 5.07 and 7.03 of the ISO Agreement and the Procedural Rules of the ISO Board, PSEG Power New York Inc. ("PSEG") hereby files this Motion in Opposition to the Notice of Appeal (the "Appeal") filed on June 26, 2002 by Consolidated Edison Company of New York, Inc. ("Con Edison"). Con Edison appeals the June 13, 2002 decision of the ISO Management Committee approving the Credit Policy Proposal (the "Proposal") that had previously been approved by the Business Issues Committee ("BIC") at its May 22, 2002 meeting. Con Edison objects to the Proposal because it would, among other things, limit any single market participant's unsecured monthly line of credit with the NYISO to no more than 20% of the highest monthly market volume (including gross energy, ICAP and TCC auction revenue receivables) in the previous 12 months.

PSEG has been an active member of the Credit Policy Working Group that spent more than a year developing a revised comprehensive credit policy for consideration by the Management Committee. Throughout that effort, and guided by recent history that witnessed the unprecedented failure of both the largest regulated utility and power marketer in the nation, PSEG has advocated for rules that treated all similarly rated companies in a comparable manner and that reasonably limited the market's exposure to the risks of any single market participant failure by imposing a limit on the amount of unsecured credit that could be obtained by any single market participant. PSEG believes that the revised Credit Policy approved by the Management Committee on June 13, 2002, achieves both goals.

PSEG opposes Con Edison's appeal because the 20% cap approved by both the BIC and the Management Committee as part of the comprehensive Proposal represents a reasonable decision by New York's market participants on how best to manage credit risks that, under the approved Policy, will now be shared by all market participants[1]. This reasonable response to concerns about excessive market risk should not be disturbed by the Board, particularly where, as here, the challenged 20% cap is consistent with established commercial practices in the power sector and is also contained as an element of the revised credit policy rules approved in December 2001 by NEPOOL.

II.

ARGUMENT

The 20% Market Concentration Cap Contained in the Revised Credit Policy is Consistent with Well-Established Commercial Practices in the Power Sector. It Is also Consistent with an Even More Stringent Cap Included in NEPOOL'S recently Revised Credit Policy

It is common practice in the power sector to manage risk by, among other things, establishing a market concentration cap that limits the amount of unsecured credit provided to any single counter-party. And while companies may choose different cap levels, PSEG believes that limiting a single market participant's exposure to 20% of the total credit is fairly common and certainly not arbitrary, as argued by Con Edison. Indeed, during the Management Committee debate on the Credit Policy, ISO staff specifically commented that 20% was a commonly applied market concentration level.

Not only is the 20% market concentration cap consistent with industry practice, but it is also consistent with NEPOOL's Credit Policy, which contains an even more limited 20% cap.

[1] Under the existing credit policy, any defaults are recovered from load pursuant to Schedule 1 charges. The revised Credit Policy approved by the Management Committee contains a loss sharing formula that would, for the first time, assign a portion of any such losses to suppliers. As a result, suppliers will now have to factor such risks into their bids as a cost of doing business. Obviously, the greater the risks of loss to the market, the greater the risk premiums that will have to be factored into a supplier's bids.

Under the Credit Policy recently adopted by NEPOOL[2], which was discussed at great length during both the BIC and Management Committee debates, and which Con Edison fails to even mention in its Appeal, no market participant can ever have an unsecured line that exceeds 20% of ISO-NE's receivables. Our understanding is that ISO-NE calculates this cap on a daily basis. In contrast, under the more lenient Proposal adopted by the Management Committee, the 20% cap is measured against the highest monthly volume in all ISO markets over the prior 12 months. As a result, an entity with consistently large monthly volumes may obtain an unsecured line based on high summer ISO revenues that would allow that entity to exceed the 20% cap in winter months when total ISO revenues are much lower.

Con Edison also fails to acknowledge that mechanisms exist to limit or avoid the need to post any required collateral. As noted in the ISO Staff presentation to the Management Committee (page 9), a party concerned about exceeding its unsecured line of credit can choose to pay down or pre-pay their obligations to the ISO.

[2] See Attachment L to NEPOOL's Tariff, as modified by NEPOOL December 20, 2001. Section II.B.2.a of Attachment L, entitled Credit Limit for Rated Non-Municipal Participants, provides that "the Credit Limit of each Rated Non-Municipal Participant shall at any time be equal to the lesser of: (i) the applicable percentage of such Rated Non-Municipal Participant's Tangible Net Worth (as hereinafter defined) as listed in the following table, (ii) $125 million, or (iii) 20 percent (20%) of the total amount due and owing at such time to the System Operator, the Participants and the Non-Participant Transmission Customers by all Participants and Non-Participant Transmission Customers." (Emphasis in original.)

III. CONCLUSION

PSEG respectfully requests that the Board of Directors uphold the decision made by the Management Committee to approve the Revised Credit Policy.

Respectfully submitted,

Howard

Howard A. Fromer
Director, Market Policy

Dated: July 3, 2002