

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, DC 20426

OFFICE OF THE CHAIRMAN

August 24, 2006

The Honorable Paul D. Tonko
Chairman
Committee on Energy
New York State Assembly
Legislative Office Building, Room 715
Albany, NY 12248

Dear Mr. Chairman:

Thank you for your July 27, 2006 email in which you express concern that the New York City wholesale electric generation markets are subject to the exercise of market power to the detriment of New York ratepayers.

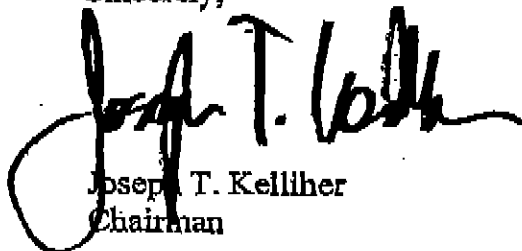
I first want to assure you that the Commission takes such concerns very seriously as our primary mission is the protection of ratepayers against the abuse of market power and the manipulation of energy markets. We do that in the first instance by ensuring just and reasonable rates and terms and conditions of service of companies engaged in the wholesale sales and transmission of electric energy. We also vigilantly monitor the energy markets. In this regard, as you may know, Congress greatly enhanced the Commission's enforcement authority in the Energy Policy Act of 2005 and the Congress acted quickly to implement anti-manipulation rules. The Commission now has penalty authority over violations of federal law where it had none before, and the penalties can amount to \$1 million a day per violation for the duration of the violation. The Commission has refocused its resources accordingly, and is committed to strong oversight of the energy markets.

The Commission is equally concerned that our nation has adequate generation and transmission facilities to ensure a reliable supply of electric energy at reasonable prices. To that end, the Commission recently promulgated rules to provide incentives for investment in transmission infrastructure. The Commission has also approved rules, such as those governing the New York Independent System Operator (NYISO) installed capacity auction and related mitigation measures, which are intended to encourage sufficient electricity supply. The experience of New York City this summer shows the need for adequate investment in the electricity system.

The Commission will act promptly in response to a sufficient showing that there is an abuse of market power or manipulation of the markets to the detriment of the ratepayers within the NYISO, or a violation of the NYISO tariff. At this point, neither your correspondence nor any other communication received by the Commission provides a sufficient basis for the Commission to initiate action. As you may be aware, there is currently a stakeholder process that is examining the effectiveness of NYISO's capacity market rules.

As a final matter, I would like to encourage you to participate as appropriate in the stakeholder process, and I also invite you to visit the Commission to get a closer view of the efforts we undertake daily to monitor the electric energy markets. Please feel free to contact Susan Court, Director of the Office of Enforcement, at susan.court@ferc.gov, for this purpose.

Sincerely,

A handwritten signature in black ink, appearing to read "Joseph T. Kelliher". The signature is written in a cursive style with a large initial "J".

Joseph T. Kelliher
Chairman