



THE CITY OF NEW YORK
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DEPUTY MAYOR FOR
ECONOMIC DEVELOPMENT AND REBUILDING

June 15, 2006

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

Dear Mr. Lynch:

I am writing to you concerning the results of the recent summer period capacity auction conducted by the New York Independent System Operator. It has come to my attention that the six-month period strip capacity prices for the Zone J New York City market cleared at \$12.35 per kW/hr, a number higher than expected in many quarters, and an increase of nearly 6% over the comparable summer auction price of \$11.68 per kW/hr seen in 2005.

This development is both troubling and somewhat baffling. The City's electricity generation capacity has risen markedly in the past year, and at least in the short run, is increasing considerably faster than the load growth in Zone J. In the normal course, we would expect capacity additions to bring prices down, assuming competitive market forces are operating. Instead, the opposite trend is occurring. While a definitive trend in the NYISO monthly auctions has yet to appear, I am told that the six-month and monthly auction results have been closely correlated in the past.

The City of New York has been generally supportive of deregulation in our capacity and energy markets, and of the management of the wholesale markets by the NYISO. However, when we have new large-scale market entrants in the generation capacity markets such as the new NYPA Poletti combined cycle project accompanied by significant increases in prices, questions are understandably raised by such counter-intuitive results. Public confidence and support for a deregulated market can be eroded if ratepayers are asked to bear higher prices for capacity while seeing major power plants coming on line. New York City residents and businesses already face very high energy prices; compounding this by asking them to bear inexplicably higher capacity costs is very troubling.

On behalf of the City of New York, I ask that the NYISO and its market monitoring personnel examine the seemingly anomalous capacity auction results and share the findings of such examination with the public. I would very much appreciate your prompt consideration of this matter, and look forward to your response.

Very truly yours,


Daniel L. Doctoroff

cc: William Flynn, Chairman, NYSPSC
Joseph T. Kelliher, Chairman, FERC
Gil C. Quiniones, NYCEDC Energy