

To: All Market Participants  
From: William J. Museler  
Re: SMD2 Deployment Date  
Date: November 11, 2004

A number of market participants that are publicly traded companies recently voiced concerns about the NYISO's planned December 1, 2004 deployment date for the SMD2 project. These parties believe that the December 1<sup>st</sup> deployment date, in combination with the NYISO's pending SAS 70 review of SMD2-related controls, could create difficulties in connection with their financial attestations, required under the Sarbanes-Oxley Act, for the year ending December 31, 2004. Because of the potential difficulties associated with the planned year-end start-up date, NYISO was asked to defer the implementation of SMD2.

The proposed deferral was discussed at the November 10<sup>th</sup> Management Committee meeting and all market participants were invited to submit to NYISO's management their views on delaying SMD2 start-up.

We have considered all oral and written comments submitted by market participants. In addition, we have obtained the advice of outside counsel, discussed the issue with NYISO's internal and external auditors and conferred with members of our Board of Directors. While NYISO believes that a December 1<sup>st</sup> implementation remains technically feasible, we have concluded that the publicly traded market participants have raised valid and compelling concerns about their ability to certify financial statements for the year ending December 31, 2004. Significantly, no stakeholder has expressed opposition to a delay. Further, we believe that delaying SMD2 start-up would not materially

increase the cost of this project. Therefore, we have concluded that it is prudent to defer implementation of SMD2 until February 1, 2005.

Between now and February 1<sup>st</sup>, NYISO will complete its SMD2 readiness requirements and work with market participants to address operational concerns. In particular, NYISO intends to further validate the SMD2 processes by operating the new software in parallel with the legacy system software. This parallel operation will occur between November 29, 2004 and December 10, 2004. We also will conduct additional testing, as appropriate, to mitigate risks when SMD2 goes live in February 2005.

Attached is a schedule of key activities that support the February 1<sup>st</sup> SMD2 deployment. Because of the deferral, the technical conference scheduled for November 19<sup>th</sup> will be held in January 2005. On November 19<sup>th</sup>, we will continue to hold a meeting to discuss the rescheduled SMD2 implementation and answer questions about the rescheduled start-up process.

Finally, although we cannot now predict whether this delay will affect other projects, we will endeavor to minimize disrupting existing schedules. We will have additional information in this regard at next Friday's meeting/teleconference.

On behalf of the NYISO staff and its Board of Directors, I would like to thank you all for your patience and continued cooperation on this major market improvement.

W.J. Museler