

May 10, 2005

VIA HAND DELIVERY

Ms. Anna Cochrane, Director
Division of Tariffs and Market Development - East
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC

Re: New York Independent System Operator, Inc., Docket No. ER05-428-000

Dear Ms. Cochrane:

Following the technical conference held March 21, 2005 in this proceeding (“the Technical Conference”), the Federal Energy Regulatory Commission (“the Commission”) issued an order accepting, with modifications, the Installed Capacity (“ICAP”) Demand Curves for Capability Years 2005/2006, 2006/2007, and 2007/2008 (“April 21 Order”)¹ proposed by the New York Independent System Operator, Inc. (“the NYISO”). The NYISO appreciates the Commission’s expeditious approval of the Demand Curves and removal of the refund obligations. As discussed during the Technical Conference, the Demand Curves will substantially improve the New York capacity markets, and the Commission’s timely actions will afford certainty for buyers and sellers in the ICAP auctions as the Summer 2005 Capability Period proceeds. We are also grateful for the significant effort and time you and your colleagues on the Commission staff invested in evaluating the record and helping the Commission resolve the difficult issues and voluminous data in that record.

We have become aware that certain market participants are concerned about the recently reported differentials between the summer and winter capacities of generators located in New York, based on the information in the NYISO’s 2005 “Load and Capacity Data Report,” commonly referred to as the “Gold Book,” which was published on April 15. The summer/winter differential is one of the many factors considered in establishing the ICAP Demand Curves, and many of these factors change over time. In retrospect, since preliminary 2005 Gold Book data was posted on our website in early March, at which time the Demand Curve Docket was still open, and since the NYISO has an overriding interest in maintaining a fair, transparent and accurate process for establishing the three year ICAP Demand Curves, we are writing to inform the Commission and staff that the NYISO is aware of the concerns arising from the Gold Book data, and of the NYISO’s plans to address them.

The additional capacity available from generators in New York in the winter as compared to the summer (as a result of lower ambient temperatures) is one of the factors considered in translating the ICAP Demand Curves based on the annual revenue requirements of new generation into monthly values for use in the monthly spot market auctions. These differentials for generators in New York are published annually in the Gold Book. The 2004 Gold Book was the basis used throughout the stakeholder process to formulate the summer/winter differentials for the Demand Curves in the filing that was discussed at the Technical Conference and is the subject of the Commission’s April 21 Order. In accordance with the current schedule for the annual compilation of the Gold Book, the 2005 NYISO Gold Book was finalized

¹ *New York Independent System Operator, Inc.*, 111 FERC ¶ 61,117 (2005).

and published on April 15, 2005. Some of the preliminary data that went into the 2005 Gold Book was posted on the NYISO's website in early March, in response to a request from a market participant. The summer/winter differential in the 2004 Gold Book for the New York Control area ("NYCA") is approximately 1,400 MW, and in the 2005 Gold Book is approximately 2,100 MW. An increase is also seen in the New York City locality (from approximately 560 MW to 720 MW) but the summer/winter differential in Long Island remained relatively stable (from approximately 320 MW to 330 MW).

In addition to reflecting the summer/winter differential, the recently-approved NYCA Demand Curve includes a winter revenue benefit adjustment. This adjustment recognizes the level of capacity imports, which further affects the available winter capacity, and was also set to effectively increase the 2004 Gold Book differential to 1700 MW to recognize expected capacity additions in New York. In general, under the NYISO's tariff the ICAP Demand Curves are to be established for three year periods to provide market certainty, even though many of the underlying factors may change on an on-going basis.

The apparent magnitude of the difference between the 2004 and 2005 Gold Book data has led some market participants to question whether the Demand Curves should be adjusted again to reflect the 2005 Gold Book data, since preliminary data was available prior to closure of the Demand Curve Docket. Because of these concerns, the NYISO will establish a process to discuss with market participants the causes and significance of the new Gold Book winter/summer differential data, and whether and to what extent the new information reported in the 2005 Gold Book may affect the Demand Curves recently approved by the Commission. This dialogue will take into account the established procedures for determining the Demand Curves prior to the publication of the 2005 Gold Book, the numerous other factors that are balanced in the Demand Curve determination and the value of certainty once Demand Curves have been established for a three-year period.

We will report to the Commission the results of this stakeholder process, and make any filings with respect to the Demand Curves that may be appropriate. In the meantime, the existing Demand Curves, as established on the basis of the information reviewed in the prior stakeholder process and approved by the Commission, should remain in place.

Very truly yours,

Belinda A. Thornton

Belinda Thornton,
Assistant Vice President -
Corporate Product Management

cc: Chairman Pat Wood
Commissioner Nora Brownell
Commissioner Joseph Kelliher
Commissioner Suedeen Kelly
Mr. Daniel L. Larcamp
Mr. David Kathan
Parties on the Service List, Docket No. ER05-428-000