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May 29, 2003

Mr. John W. Boston, Chairman
c/o William J. Museler, President and Chief Executive Officer
New York Independent System Operator
3890 Carman Road
Schenectady, NY 12303

Re: New York Power Authority's Notice of Appeal and Request for Clarification With Respect to the Management Committee's Decision to Approve the Settlement Process for TCCs

Dear Chairman Boston:

On May 21, 2003, the NYISO served notice of the "Notice of Appeal and Request for Clarification With Respect to the Management Committee's Decision to Approve the Settlement Process for TCCs" submitted to the NYISO Board of Directors by the New York Power Authority ("NYPA"). This appeal seeks a clarification from the NYISO Board of Directors regarding the appropriate interpretation of language describing the allocation of congestion rent shortfalls. As described in the NYPA appeal, NYISO staff has made conflicting statements regarding the interpretation of the term in the congestion rent shortfall proposal which states that:

Once the congestion rent shortfall has been calculated for each binding constraint, it will be allocated to the TO's with facilities out of service.

As described by the NYPA appeal, at a recent Special Management Committee meeting, NYISO staff announced an interpretation of this language which would have the effect of assigning the congestion rent shortfall to the transmission owner whose facility is out of service—even when the facility's outage is caused by events or circumstances on another entity's facilities. Under this scenario, even though the transmitting utility's facilities were capable of being in service, the fact that conditions outside of the transmitting utility's system necessitated the removal of its lines from service will subject that transmission owner to an allocation of congestion rent shortfall.

The recently announced NYISO staff interpretation fundamentally contradicts the principle of cost causation. As amply pointed out in NYPA's appeal, the NYISO's recent April 28, 2003, decision on appeals to the Supplemental Congestion Reduction Proposal clearly held that cost causation principles are an appropriate mechanism for allocating the congestion rent shortfalls. Further, the NYISO Board has viewed cost causation, in this context, to focus on the "owners of the transmission facilities that create the problem in the first place." Accordingly, LIPA supports NYPA's request for clarification of the cost allocation principle to ensure that the entity causing the outage of a transmission facility and subsequent under-funding of TCCs be assessed the costs of such shortfall.

Respectfully submitted,

/s/ Joseph B. Nelson
Joseph B. Nelson
Counsel to LIPA