

NYIS0002S Certification Letter FINAL 20070612.doc

June 12, 2007

Mr. Mark S. Lynch
President and Chief Executive Officer
New York Independent System Operator, Inc.
10 Krey Blvd.
Rensselaer NY 12144

Dear Mr. Lynch:

Certification of Settlement System Replacement (SSR) Rules Engine Compliance

Introduction

PA Consulting Group, Inc. ("PA") has been asked by the New York Independent System Operator, Inc. ("NYISO") to confirm and certify that the NYISO's SSR Rules Engine software calculates settlements for Energy¹ and Ancillary Services in the Day Ahead Market and the Real Time Market administered by the NYISO, and related settlements for transmission transactions, in compliance with the relevant portions of the NYISO's tariffs and Use Case documentation. These portions of tariffs and Use Cases are collectively referred to in this letter as the "Market Rules."

Scope of the Evaluation and Certification

This certification represents our best determination based on our experience and expertise. It is not and cannot be in the form of an absolute guarantee. Our certification assumes that the NYISO will continue to operate its software with care, as configured, with parameters in the range of those provided to us for testing, in the manner intended, and with data that conform to the requirements of the Market Rules and fall within their range of expected values. Over time, actual results that are consistently in compliance with the Market Rules will continue to confirm that the NYISO's software operates in strict accordance with those Market Rules.

This certification covers the NYISO software that calculates settlements, under the Market Services Tariff and Open Access Transmission Tariff, for Energy and Ancillary Services in the Day-Ahead Market and the Real-Time Market administered by the NYISO, and related settlements for transmission transactions. The software is referred to as the "SSR Rules Engine."

¹ Capitalized terms that are not otherwise defined in this certification letter have the meaning set forth in the NYISO's tariffs.

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Our evaluation did not cover, and this certification does not cover, the following:

- The interface software and database which calculate, read, transfer and store the data used by the SSR Rules Engine;
- The Performance Tracking System (PTS) and other sources of data used by SSR;
- Manual processes or procedures of the NYISO used for settlements not processed by the automated system.

Nature of the Tests Conducted

The processing of the SSR Rules Engine was described in a series of Use Case documents. Those documents were developed based on the prior functionality of the Billing & Settlements system. In order to confirm that the specifications of the SSR Rules Engine accurately reflected the Tariff, PA mapped those specifications (the SSR Use Cases) back to the relevant Tariff documents.

PA then ran a series of tests in order to confirm that the calculations of the SSR Rules Engine performed accurately. The tests were executed with NYISO's "Test Harness," which is the software used by NYISO and PA to facilitate testing of the SSR Rules Engine. The test data employed was developed from an extract of historical settlement information. That extract was augmented as necessary to ensure that the logic of the SSR Rules Engine was completely exercised.

During our testing, we identified two results that were not in accordance with the Market Rules. One of those variances was resolved. The second, while still outstanding, will not impact settlements for several years. They were as follows:

- There was a calculation error in the settlement algorithm for balancing market replacement energy settlement for transactions under the OATT. It did not match the Use Case specification document which was correct. The SSR Rules Engine code was revised to correct this error, resulting in the correct calculation of the settlement algorithm.
- The Use Case specification document for settling the penalty for persistent undergeneration by power suppliers (Use Case 108) specifies that overgeneration will also be penalized starting 1/1/2010. This is not supported by the Tariff. The Use Case notes that this is a former rule, which is left in the code just in case NYISO restores it; however, NYISO will have to take action to modify the system (changing the effective date) if it is not to penalize overgeneration. Although the code currently varies from the Market Rules, the variation will not affect settlement of activities prior to 2010.

Certification

As a result of our examination of the Market Rules and our testing of the SSR Rules Engine, we are able to provide the following certification with respect to the SSR Rules Engine and its formulation:

Subject to the limitations and qualifications expressed in the "Scope of the Evaluation and Certification" section, we have determined that the NYISO SSR Rules Engine version 1.0 to be deployed on June 12, 2007 performs all functions, and correctly calculates settlements for Energy and Ancillary Services in the Day-Ahead Market and the Real-Time

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- 3 -

Market administered by the NYISO, in compliance with the Market Rules in effect on May 20, 2007, including the modification to Appendix C to be filed with FERC on June 13, 2007.

Distribution of Certification Letter to Third Parties

The NYISO intends to distribute this certification letter to its Market Participants and other persons (each a "Third Party"). PA makes no warranty of any kind regarding our certification to any Third Party. PA disclaims any liability for any damages incurred by any Third Party as a result of that Third Party's use of or reliance on our certification.

Yours truly,

A handwritten signature in black ink that reads "Gregory F. Edeson".

Gregory F. Edeson
Member of Management