

Proposed Revisions to Demand
Curve Market Rules when
Minimum Requirements
have not been Met

Presented to the
Business Issues Committee

by

Consolidate Edison Co. of New York

April 2, 2003

Background - Capacity Rule Changes Caused by the Demand Curve

1. All participants are required to accept Demand Curve auction results.
 - When Capacity markets are long, all loads purchase excess quantities and accept the price cleared from the Demand Curve.
 - Suppliers that financially and physically withhold from the Demand Curve auction can sell capacity, subject to market monitoring review.
2. Proponents of the Demand Curve stated it was designed to attract new entry
 - Cost study administered by the NYISO is designed to determine the localized levelized embedded cost of a gas turbine and associated Energy and Ancillary services revenues, which is then used to set the price level of the demand curve.
 - Study conducted to reset prices every three years.

Background - Current DC Tariff Rules Filed at FERC

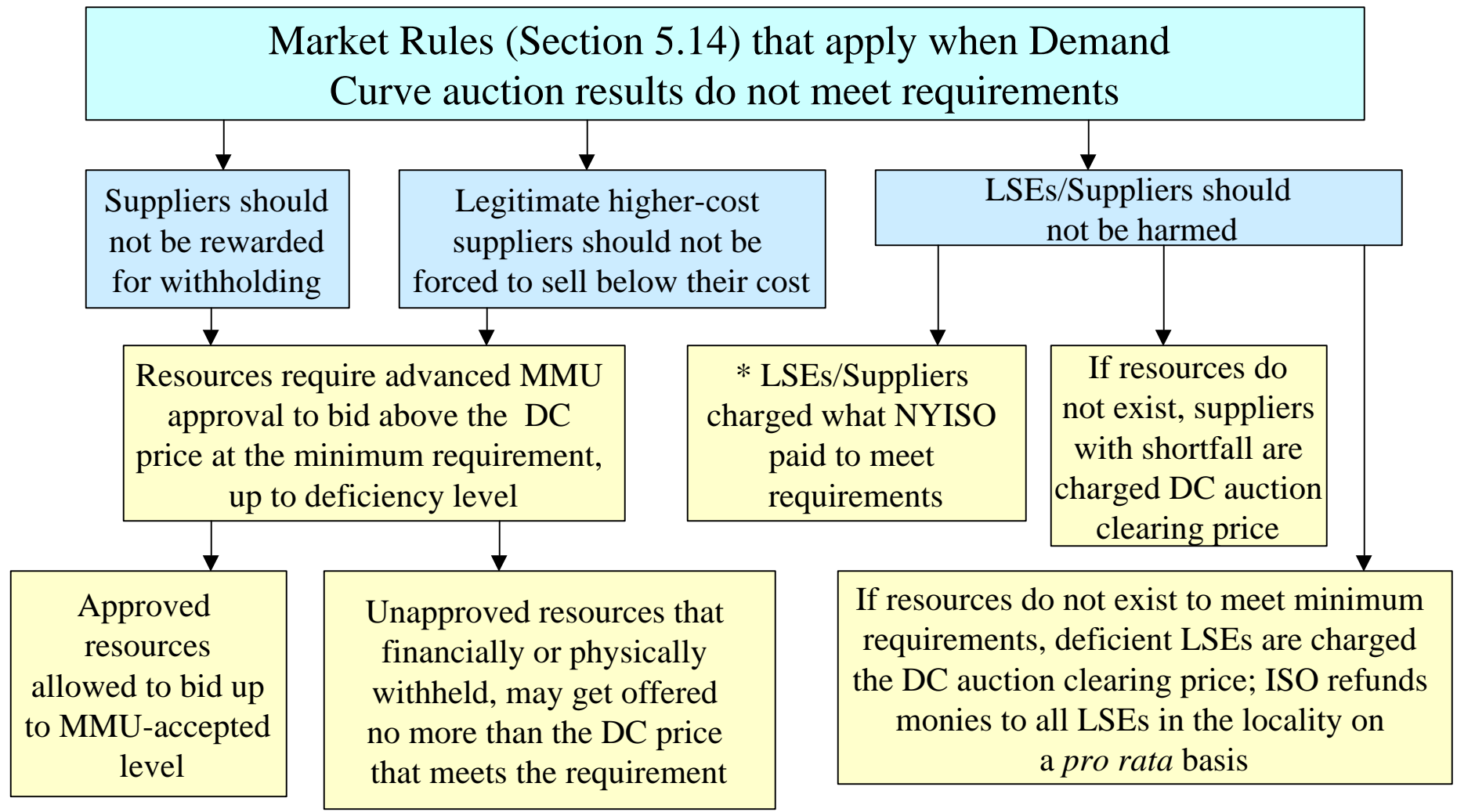
When DC auction does not clear the minimum requirement.

1. All deficient LSEs are automatically charged a supplemental supply fee (1.5 times new GT) for all capacity below the requirement.
2. ISO will use supplemental charge to purchase capacity to meet minimum requirements from all existing qualified suppliers, including those that withheld, and pay up to the supplemental supply fee.
3. When the ISO pays less than the supplemental supply fee, it will refund all remaining monies to all NYCA LSE's through Schedule One.

Concerns of Current DC Tariff Rules Filed at FERC

1. Insufficient time for MMU to evaluate and respond to Suppliers that financially withheld capacity from the DC auction, when auction clears below the minimum. These Suppliers could be rewarded with higher than DC prices when market clears below minimum requirements
2. Supplier concerns are mirrored by the NYISO Independent Market Advisor, Dr. David B. Patton in the Supplemental Supply Fee section (42 – 45) of his Affidavit to the Tariff Provision.
3. Loads, which do not bid into the DC auction, should not be harmed by the effects of supplier withholding.
4. Refunds from over-collections in one location should be returned to LSEs in that location.

Proposed Revisions to Filed DC Tariff



* LSEs charged to meet minimum requirements; Suppliers charged to cure their shortfalls.

Proposed Motion for BIC

The Business Issues Committee (BIC) hereby requests that the Management Committee approve revisions to the appropriate sections of the NYISO tariff necessary to conform it to the presentation made at the April 2, 2003 BIC meeting. These revisions clarify the applicable rules under the Demand Curve when the results of the Spot Market Auction do not meet the NYCA Minimum Installed Capacity Requirements or its Locational Minimum Installed Requirements, and when there are Installed Capacity Supplier shortfalls.