

August 9, 2002

Mr. Richard J. Grossi  
Chairman  
New York Independent System Operator  
3890 Carman Road  
Schenectady, NY 12303

Dear Chairman Grossi:

I am writing on behalf of members of the Transmission Owners Committee (TOC)<sup>1</sup> to urge the NYISO board to refrain from filing with the Federal Energy Regulatory Commission (FERC) a request for a declaratory ruling with respect to the formation of a Northeast RTO (NERTO) until FERC's recently issued Notice of Proposed Rulemaking (NOPR) on Standard Market Design (SMD) has been finalized, which is expected in less than six months.

On June 18, 2002, the NYISO board informed market participants that it had voted to file a request with FERC for a declaratory ruling with respect to the formation of a NERTO, in the form approved by the Joint Oversight Committee. At the same time, however, the board indicated that, at the request of FERC Chairman Wood, it would refrain from making this filing until the FERC had issued its SMD NOPR. The TOC respectfully submits that it would be prudent to continue to defer the NERTO filing for the relatively brief period necessary to allow the SMD process to be completed.

As you know, the recently issued SMD NOPR is extensive, consisting of more than 600 pages, and provides a detailed description of numerous aspects of a proposed standard market design for electricity markets throughout the United States. Interested parties have 75 days to review and comment on the NOPR, and FERC has indicated that it will conduct an extensive outreach effort, including holding a number of conferences to discuss the proposed SMD.

The SMD process is extremely important both to the NYISO and market participants. The SMD finally adopted by FERC will have a profound effect on the electricity markets in New York and the entire Northeast region. The NYISO and market participants have a common interest in ensuring that the SMD finally adopted will, to the maximum extent possible, foster competitive and well-functioning electricity markets; provide appropriate incentives for necessary investments in generation, transmission and demand-side resources; protect consumers from the exercise of market power; and provide an efficient regional planning process. Effective participation in the SMD process will require a significant commitment of time and resources by

---

<sup>1</sup> The following members of the TOC join in this request: Central Hudson Gas & Electric Corporation, Consolidated Edison Company of New York, Inc., LIPA, New York Power Authority, and Orange and Rockland Utilities, Inc.

the NYISO and market participants. The submission of a NERTO filing while the FERC NOPR is still pending will necessarily result in a diversion of attention and resources from the crucial SMD process.

More important, many of the issues that relate to the formation of a NERTO are under consideration in the SMD process. An evaluation of the NERTO proposal by FERC will necessarily be more difficult and involve greater uncertainty prior to the resolution of those issues. In addition, a NERTO filing at this time will almost certainly result in extensive, costly and divisive litigation. Once the SMD has been completed, however, many of the issues that would be litigated in a NERTO proceeding should be resolved. With a clearly defined SMD, interested parties, and FERC, would be in a much better position to assess the potential benefits of forming a NERTO. In that context, the potential for development of a consensus among the NYISO board, market participants and state regulators with respect to the NERTO may be enhanced.

While we appreciate the time and effort that has gone into the development of the NERTO proposal, we respectfully suggest that the most prudent course of action under the current circumstances is to defer submission of the NERTO proposal. This would allow both the NYISO and all interested parties to focus their time and resources on the many important issues that will be resolved in the SMD process. In addition, once the SMD has been finalized, FERC and all interested parties would be in a much better position to address the NERTO proposal.

For the foregoing reasons, the TOC members respectfully request that the NYISO board refrain from filing the NERTO proposal until FERC's SMD proceeding has been completed.

Your consideration of this request is appreciated.

Sincerely

Carl E. Meyer  
Chairman  
Transmission Owners Committee

cc: Members of the NYISO Board of Directors  
Members of the ISO-New England Board of Directors