

ATTACHMENT III

Systems' Energy Management Systems ("EMS"). This included all off the Automatic Generation Control ("AGC") data exchange protocols to meet the NYPP AGC functional objectives.

4. This affidavit will briefly describe: (i) the AGC function as it was implemented under the NYPP; (ii) the NYISO bid based Regulation market objectives; (iii) the need to adopt an interim NYISO AGC process when it became apparent that it would not be technically feasible to meet the objectives for a Regulation Market at the time that the NYISO commenced operations; (iv) the transition to the NYISO's end state AGC; and, (v) the adoption of the NYISO's revised Regulation market rules which prospectively eliminated Regulation penalties effective on July 25, 2001. The purpose of this affidavit is to provide additional background information about the transition from the NYPP's AGC arrangements to the NYISO's, and to explain why NYISO did not assess certain performance charges during the period prior to the implementation of its revised Regulation market rules.

5. The NYPP AGC function was a two-tier process whereby the NYPP would calculate a New York Area Control Error and develop Member System shares of the error to be transferred electronically to the member systems EMS as a Satellite Control Error ("SCE"). Each Member System had, as part of its EMS software an AGC package developed uniquely to meet the individual Member System needs for controlling system interchange in a secure manner. Though the NYPP could see all dispatchable units, the actual base points developed by the eight unique AGC systems to respond to the SCEs were based on locally defined criteria as implemented in each Member System's software.

6. The Member Systems' and NYPP Staff originally envisioned that the NYISO would employ an AGC system that would enable the NYISO to send AGC base point and SCD base point signals directly to regulating and non-regulating units respectively. However, during the final design phase of the software that would be required to meet the objectives of a market based system it became apparent that the process for computing SCEs would not meet the NYISO's bid based objectives and that it would not be possible for the Member Systems to accurately relay NYISO-calculated base point signals to Generators. Because of this, the Member Systems and the NYISO staff agreed that it would be appropriate to adopt an interim AGC process. The interim AGC arrangement was also a two-tier process whereby the NYISO would calculate the New York Area Control Area Error and determine Member System shares (*i.e.*, SCEs). The difference between the NYPP and interim ISO AGC models was that in the latter model the calculation of SCEs was based upon the number of MWs of regulation service that were selected on units located in each Transmission District that bid and were selected to provide Regulation service. This allowed the NYISO to calculate and electronically forward Regulation base points to the Member Systems on a six second basis.

7. An important advantage of the interim AGC model was that it did not require each of the Member Systems to rush to implement the ability to pass through six second basepoints directly, bypassing their internal AGC programs contemporaneous with the NYISO's start up period. Requiring all of the Member Systems to undertake the complex task of implementing a new AGC system at that critical time would have created a number of risks in the new NYISO markets. The Member Systems continue to maintain their AGC systems for use during Back-up Dispatch in the event that the NYISO has to transfer system control to them during an emergency.

8. It was also agreed that the process of phasing in a method for bypassing the individual Member System AGC control processes for non-emergency system control would occur over the first year of NYISO operations while the NYISO developed its “end state” AGC systems. These systems were to take into consideration the key operational objectives that were present in the Member Systems’ existing AGC programs and to permit the NYISO to send base point signal directly to regulating units.

9. Under the interim AGC process, the Member Systems employed a variety of communication methods to provide Regulation Suppliers with six second basepoint information. Several of the Member Systems’ AGC programs were being triggered by the NYISO’s SCE calculations while the base points signals sent to regulating units were based upon local criteria. Others translated the six second NYISO signal into “raise/lower” pulses and sent the pulses to the Suppliers while providing the actual basepoint value via the web or in a data file. As a result, the NYISO could not confirm that the AGC base points sent to regulating units matched the base points calculated by the NYISO. For this reason, the NYISO had insufficient information to accurately track the performance of individual regulating units or to impose penalties on them fairly.

10. The Member Systems agreed with the NYISO that for as long as the interim AGC process was in effect the performance of regulating units should be tracked based upon how well the NYISO met NERC Control Performance criteria. It was also agreed that the use of those criteria would be supplemented by considering how well each Member System performed with respect to its individual SCE.

11. The Member Systems also agreed to modify their control systems for on-dispatch units and to pass the base point signals sent by the NYISO through to on-dispatch units every five minutes. These modifications were completed by all of the Member

Systems by December 31, 1999 and the NYISO began to impose performance charges on non-regulation Suppliers, with the exceptions noted below, on January 1, 2000.

12. After experiencing some initial control problems in its first months of operation, the NYISO began to reap the benefits of the move to a market based Regulation system. The NYISO's control performance quickly began to improve and by February 2000 the New York Control Area satisfied the NERC control performance criteria for the first time since May 1999 (when it was under NYPP administration). This improvement continued and by the time that the NYISO was ready to implement its end state AGC process in December 2000 the NYISO's average NERC Control Performance Standard exceeded the NERC criteria 100% of the time. These improvements exceeded the expectations of the NYISO's founders. This improvement occurred while the Member Systems were still operating their individual AGC programs based on NYISO SCE signals.

13. The NYISO informally polled the Member Systems in September, 2000 as to their ability to directly pass a six second basepoint through to Generators providing Regulation service. While several Member Systems reported successful implementation of this capability, two Member Systems continued to rely on the NYISO's SCE to trigger their AGC systems, and two others confirmed they were translating the NYISO basepoints into raise/lower pulses based on a Generator's actual output at that moment and sending the basepoint value via the web or other data file.

14. It would therefore have been inequitable to implement performance charges for Regulation Suppliers on a Generator-by-Generator or Member System-by-Member System basis as six second pass-through capability was implemented.

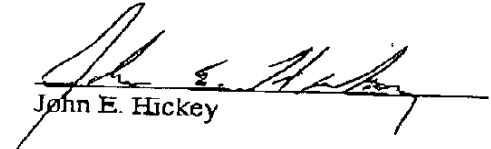
15. At the October 19, 2000 meeting of the NYISO Business Issues Committee ("BIC") NYISO staff and market participants discussed the possibility of beginning to

impose Regulation penalties on Suppliers once the end-state AGC systems were in place. After discussion it was agreed that insufficient information was available to confirm that all Regulation Suppliers were receiving, or would receive, directly the Regulation base points determined by the NYISO AGC programs. The BIC asked the NYISO to obtain written statements from the Member Systems confirming that they could reliably forward NYISO AGC base point signals to regulating units so that Generators would not be incorrectly penalized. It was reported by the chairman of the Billing and Accounting Working Group at the December 12, 2000 BIC meeting that the requested confirmation had not yet been received from most the Member Systems. The NYISO therefore decided not to begin to assess Regulation penalties until all of the confirmations were received.

16. Parallel to these events the NYISO and Market Participants were developing alternative Regulation market performance measurement and payment criteria. The primary objective of this initiative was to encourage increased participation in the Regulation market by transforming the Regulation market from a penalty-based system to an incentive based system that compensated Regulation Suppliers which performed efficiently. This system, which eliminated Regulation performance charges on a prospective basis, was approved by the Commission effective July 25, 2001. The Commission's acceptance of this filing rendered the question of when to begin imposing Regulation penalties moot.

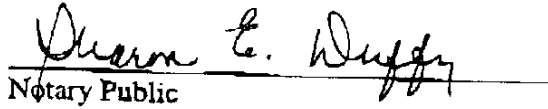
ATTESTATION

I am the witness identified in the foregoing affidavit. I have read the affidavit and am familiar with its contents. The facts set forth therein are true to the best of my knowledge, information, and belief.


John E. Hickey

July 12, 2002

Subscribed and sworn to before me
this 12th day of July, 2002


Notary Public

My commission expires: 2/28/03

SHARON E. DUFFY
Notary Public, State Of New York
No. 01DU4515652
Qualified in Schenectady County
Commission Expires February 28, 2003