

July 31, 2002

**Via Electronic Mail and Overnight Courier**

Honorable Richard J. Grossi  
Chairman, NYISO Board of Directors  
c/o William J. Museler  
President and Chief Executive Officer  
New York Independent System Operator  
3890 Carman Road  
Schenectady, NY 12303

**Re: Motion in Support of Select Energy's Appeal**

Dear Chairman Grossi:

Pursuant to the Procedural Rules for Appeals to the NYISO Board and Notice of Appeal issued on July 25, 2002, Coral Power, L.L.C. ("Coral") respectfully submits three copies of the attached Motion in Support of Select Energy's Notice of Appeal to the Board of Directors from the Management Committee's decision at its July 11, 2002 Meeting. Coral has e-mailed a copy of this Motion in Support to Kristen Kranz at the NYISO, and have requested that, upon receipt, that it be sent to each member of the Management Committee via electronic mail.

Respectfully submitted,

Marcus A. Overdyk  
Vice President  
Coral Power, L.L.C.

cc: Kristen Kranz (via E-Mail)  
Rob Fernandez (via E-Mail)  
Mollie Lampi (via E-Mail)

**MOTION OF CORAL POWER, L.L.C.  
IN SUPPORT OF THE APPEAL BY SELECT ENERGY, INC.  
OF THE MANAGEMENT COMMITTEE'S JULY 11, 2002 DECISION  
TO TEMPORARILY SUSPEND THE DAY-AHEAD MODELING CHANGE**

Pursuant to Sections 1.03 and 4.01 of the "Procedural Rules for Appeals to the ISO Board" and the Notice of Appeal issued on July 25, 2002, Coral Power, L.L.C. ("Coral") respectfully submits its Motion in Support of the Appeal by Select Energy, Inc. ("Select") of the Management Committee's July 11, 2002 decision to deny the motion to defer the In-City Day-Ahead Modeling Change ("DAM Modeling Change") until April 30, 2003. In support thereof, Coral states as follows:

**1. The NYISO Improperly Administered the March 2002 TCC Auction.**

The NYISO administers two forward markets, Unforced Capacity and Transmission Congestion Contracts; and has the responsibility of administering those in a prudent manner. On June 19, 2002 when the NYISO instituted its DAM Modeling Change, it failed to properly govern the TCC market. The addition of new In-City load-pockets to the NYISO's Day-Ahead modeling greatly affected the TCCs that successful bidders purchased in the March 2002 auction. Coral believes that this result was not intentional, but in any case, was extremely inequitable to the TCC Holders.

The affects of the DAM Modeling Change were completely unknown by the bidders in the NYISO's March TCC auction. Although the NYISO, and a few attendees at a January 4, 2002 AMP subcommittee meeting, knew of the change, it was not widely disclosed by the NYISO and the NYISO apparently did nothing to make market participants aware of the issue in the two months prior to the auction; even though bidders in the TCC auction had every reason to expect that the NYISO would make them aware of factors that could significantly affect the

value of TCCs. The NYISO in its online training manual for TCCs (page 49)<sup>1</sup> indicates that two weeks prior to a TCC auction, the NYISO will post several specific types of information regarding auction mechanics in order for market participants to value the TCCs to be auctioned. Including “Accumulated LBMP Congestion”<sup>2</sup> and “Special Rules and Conditions.” No rules or conditions related to the DAM Modeling Change were posted before the March auction, even though the NYISO was aware that the modeling change would impact TCCs.

The NYISO’s silence is especially troubling in light of its past practice of notifying market participants about the impact of revisions to other market rules and procedures. For example, when the ICAP market was changed to a UCAP market, the NYISO spent over 18 months working with market participants to make sure that all were aware of the changes and even boasted this fact in a FERC filing that “[t]he changes proposed here represent the outcome of a comprehensive NYISO committee process to develop a broad consensus of the many details...”<sup>3</sup> The NYISO acted in a responsible manner with the UCAP auction; it informed market participants of the changes and impacts, made a FERC filing, received FERC authorization, and then held the auction. In the case of the March 2002 TCC Auction, the NYISO kept market participants in the dark regarding the impact of the DAM Modeling Change, held an auction, and four months later, changed the system. The results of the DAM Modeling Change indicate that the financial impact to the market place is substantially greater than the change from ICAP to UCAP. Additionally, it should be noted, that as of this date, the NYISO still has not provided any information for market participants to gauge the magnitude of this change.

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<sup>1</sup> The NYISO Online Training manual is available on the NYISO website located at: <http://www.nyiso.com/services/training/nymoc/tccs22.pdf>.

<sup>2</sup> The manual, on page 23, refers to this as “Historical Congestion levels.”

<sup>3</sup> *New York Independent System Operator, Inc. Request to Implement a Stage II ICAP Market with an Unforced Capacity Methodology and One-Month Obligation Procurement Period, and Request for an Expedited, 10 Business Day Period for Filing on the Issue of the Translation of the \$105 Price Cap for In-City Mitigated Units*, (Docket No. ER01-2536-000)

2. **Delaying the Day-Ahead Modeling Change will not adversely affect the Real Time Market.**

As Select states, the change to the Day-Ahead market was not required to implement market power mitigation measures or required to reduce Out-of-Merit calls (“OOM”). Prior to the DAM Modeling Change made by the NYISO on June 19, 2002, the NYISO implemented a modification on June 3, 2002 to the Real-Time market to capture in-city congestion and reduce the number of unit OOM calls (“RT Modeling Change”). By implementing the RT Modeling Change, as reported at the July 25, 2002 Operating Committee, there has been over an 80% reduction in NYC Steam and GT OOM Requests.<sup>4</sup> The DAM Modeling Change was not necessary to successfully reduce OOMs but was instituted solely “for price consistency”<sup>5</sup> between the Day-Ahead and Real-Time market. Furthermore, the DAM Modeling Change was never approved by the Management Committee or required by FERC.

### CONCLUSION

Coral fully understands that there are risks involved for the participants in the TCC auction process. Participants attempt to consider what changes to the generation and transmission system are contemplated and adjust their auction bids accordingly. It is important that the NYISO administer the TCC auctions in a manner that encourages numerous parties to make investment in these assets. For the NYISO to make a substantial change to the way in which these assets are valued after the auctions are held; without providing any information as to the impact of these changes, is unacceptable. Moreover, active and robust participation in future TCC auctions is at risk if bidders cannot rely on the NYISO to refrain from changing the rules midstream.

With this DAM Modeling Change, there have been unexpected “winners” and unexpected “losers.” The TCC Market should not be a lottery, but a market where participants

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<sup>4</sup> These reductions compared June 2002 to June 2001 OOM Requests.

<sup>5</sup> Select Presentation at the July 11, 2002 Management Committee Meeting.

make educated and informed decisions based on information provided to them by the NYISO. Whether a bidder wins or loses from this change is irrelevant. The NYISO had a fundamental obligation to inform market participants of the DAM Modeling Change before the March 2002 Auction and consider its impact on existing TCC holders. Select proposes a reasonable remedy to this matter. Coral urges the Board to adopt Select's recommendation to temporarily rescind the DAM Modeling Change.

Respectfully submitted,  
CORAL POWER, L.L.C.

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Dated: July 31, 2002