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April 8, 2005

VIA e-mail

Mr. Jim Scheiderich  
Chairman  
Business Issues Committee  
New York Independent System Operator  
3890 Carman Road  
Schenectady, NY 12303

Re: Strategic Energy Netting Bilaterals Settlement Project

Dear Jim:

Two recent orders by the Federal Energy Regulatory Commission (“FERC”) prompt me to request that the Project Prioritization Team (“PPT”) accelerate the development of the Net Settlement Project (“Project”). One order urges a speedier implementation schedule for the Project while the other order frees some resources that New York Independent System Operator (“NYISO”) may devote towards completing substantial work on the Project this year.

To recap, the Project will allow load-serving entities (“LSE”) in the NYISO market the ability to net bilateral contracts against real-time load obligation, thereby reducing credit costs. On December 3, 2003, market participants at the NYISO Business Issues Committee (“BIC”) passed with minimal opposition a motion offered by Strategic Energy that directs the NYISO to develop a Concept of Operations for implementation of the Project. NYISO last year outlined the Project in two compliance filings to the FERC.<sup>1</sup> The FERC last week in response to the second filing “urge[s] NYISO to implement this project as soon as possible” and file a status report detailing its progress within 120 days of the order.<sup>2</sup>

The Project’s history at the NYISO began in 1998, and moved to the status of a scheduled project only last fall.<sup>3</sup> Most notable in the timeline, despite support from all market participants but a few and the New York Public Service Commission at the December 2003 BIC

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<sup>1</sup> Compliance Filing of New York Independent System Operator, Inc. in Docket Nos. ER03-552-008 (March 29, 2004) and ER03-984-006 et al. (November 30, 2004).

<sup>2</sup> See New York Independent System Operator, Inc., Letter order accepting New York Independent System Operator Inc's status report on its work with the stakeholders, 110 FERC ¶61,309 (2005).

<sup>3</sup> See attachment providing a brief history of this issue.

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meeting, the NYISO for the subsequent year delayed scheduling the project, and instead offered to revisit the issue sometime in the future. At the NYISO PPT meeting on November 4, 2004, that committee, at Strategic Energy's request, finally moved the Project from "the non-priority list where no work was planned in 2005 to the non-priority list where some work may be undertaken in 2005 if possible using baseline resources." Under the NYISO's current schedule, however, completion of the project lies years away as evidenced by the fact the NYISO has not made a firm commitment to deploying resources this year.

Strategic Energy requests that the PPT accelerate the implementation schedule for this project to comply with the desires of the market participants and the FERC. In addition to us at Strategic and Select, fellow retailers such as Constellation NewEnergy and the Small Customer Marketing Coalition have indicated to me they, too, back accelerating work on the project. At the November, 2004, PPT meeting, you noted that if the FERC approves the Management Committee's December, 2004, action to defer the development schedule for implementing a physical self supply option, NYISO should devote sufficient resources in 2005 to the Project to detail the requirements involved in implementing it. The FERC's recent approval of the NYISO Management Committee motion to delay the schedule for implementing a physical self supply option has freed resources for the Project in 2005.<sup>4</sup> I hope that the PPT will allocate some of these resources to ensure significant progress towards its implementation by the end of this year.

Please contact me at before next week's PPT if you have any questions. I will also join the PPT meeting by telephone should you have any questions during the meeting.

Sincerely,

Francis E. Pullaro

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<sup>4</sup> See New York Independent System Operator, Inc., Order Conditionally Accepting Compliance Filing and Granting Motion for Deferred Implementation of a Self-Supply Option for Operating Reserves, 110 FERC ¶ 61,287 (2005).