

The intent of this posting is to describe the monthly Schedule 1 rates that should be charged transmission customers under the Open Access Transmission Tariff [OATT] and Market Administration and Control Area Services Tariff [MST]. The charge for October 2001 will be \$0.90 per megawatthour and will be collected, in total, under the Open Access Transmission Tariff, as in previous months.

The NYISO Board of Directors retained PricewaterhouseCoopers [PwC] to provide an independent assessment of the reasonableness of accumulating a \$100 million contingency fund at this time. Based upon their analysis, PwC concluded that the accumulation of a \$100 million contingency fund, at this time, comprised of \$50 million in a revolving credit facility and \$50 million in a cash reserve, is reasonable and prudent.

In December 2000, the NYISO Board of Directors directed NYISO staff to work with the Management Committee to review the appropriateness of the NYISO's creditworthiness policies. The Board initiated this review in light of a number of recent events, including: (1) NYSEG's October 2000 partial non-payment of its invoice; (2) the completion of the first year of NYISO operations, during which \$5 billion cleared through the New York Markets; (3) the discovery during the first year of operations of potential weaknesses in the NYISO's creditworthiness policies; and (4) the crisis in California's energy markets.

The development of appropriate creditworthiness policies to be applied by entities administering the rapidly changing competitive wholesale electricity markets in the United States is a complex task. A working group comprised of NYISO staff and Management Committee members has been working diligently to review and revise the NYISO's creditworthiness policies for three months, but has not yet reached consensus. The working group has agreed, however, that the revised policies must address at least three issues: (1) contingency funding to maintain market liquidity; (2) collateral requirements to protect the market in the event of a payment default; and (3) enhancement of deterrents to market participants who may be considering behavior that would impair the NYISO's ability to maintain the liquidity of New York's energy markets.

NYISO staff and the Board have concluded that, pending completion of the review of NYISO creditworthiness policies, satisfying the first of these issues will require the formation of a \$50 million cash reserve, in addition to the NYISO's existing \$50 million revolving credit facility. To minimize the impact of collecting this cash reserve on rates while meeting the urgent requirements of enhancing market liquidity as early as possible, it is important to begin to increase the NYISO's cash reserve fund beginning in March 2001. The collection of this cash reserve fund is not intended to interfere with or pre-empt the deliberations of the working group currently reviewing the NYISO's creditworthiness policies, nor is the collection of this cash reserve intended to cut short the time required to reach consensus on comprehensive creditworthiness policies.

Effective March 1, 2001, the NYISO began recording contributions to the cash reserve fund from each market participant so that in the event the working group, Management Committee, and Board determine that the cash reserve should be eliminated or reduced below the accumulated cash reserve balance, the portion of each market participant's contribution to the cash reserve above the determined level may be returned.

On September 18, 2000, the NYISO filed revisions to Schedule 1 of its OATT and Schedule 1 of its MST, to comply with the Stipulation and Agreement approved by the order of the Commission in Docket No. ER99-4235-0000 et al., issued on August 30, 2000, 92 FERC ¶ 61,180. The FERC ordered an effective date of September 1, 2000 and waiver of the Commission's notice requirements. The filing reflects the method of the recovery of NYISO start-up costs incurred by the Member Systems from January 1997 through November 1999. The NYISO start-up costs will be amortized until December 2004 and recovered equally from each tariff. The monthly amortization of the start-up costs for 2001 is \$1,214,083. Customers receiving transmission services under the OATT will be charged 50% of the monthly amortized cost, or \$607,041.50, through the OATT Schedule 1 monthly per megawatthour rate. Likewise, customers receiving LBMP market services under the MST will be charged 50% of the monthly amortized cost, or \$607,041.50, through the MST Schedule 1 monthly per megawatthour rate.

The NYISO is currently performing the necessary billing code modifications to accommodate the implementation of the above referenced FERC ordered tariff revision to provide for the recovery of NYISO Start-up costs through Schedule 1 rates of the OATT and MST. The tariff revision became effective September 1, 2000, however due to the timeframe to modify and implement the required billing code, the allocation of start-up costs between the OATT & MST customers will be reflected in adjusted OATT & MST Schedule 1 rates in subsequent re-billings of all months since the effective date of the order. The NYISO will issue a posting describing the methodology to allocate NYISO costs of operations between the OATT and MST as soon as it is available.

The NYISO computed this monthly Schedule 1 rate using average monthly values derived from annual forecasts in order to provide the market with a relatively constant monthly rate; however, the NYISO reserves its right to adjust the Schedule 1 rates as provided for under the OATT & MST to address changes to NYISO costs of operations and significant expenditures not known at the time the NYISO adopted its 2001 budget. One such expenditure facing the NYISO in 2001 that is not included in the 2001 budget pertains to a FERC order regarding FERC fees. On October 26, 2000, the FERC ordered a Revision Of Annual Charges Assessed To Public Utilities via Order #641 of the Commission in Docket No. RM00-7-000 et al., 93 FERC [ 61,083. The FERC ordered that all ISO's be assessed FERC fees. The actual fee structure, however, has yet to be defined. Once the fee structure is known, the respective costs will be recovered by the NYISO through an adjustment to the appropriate tariff(s)' Schedule 1 rate(s).

A. Forecasted Monthly LBMP Market Energy	11,493,418 MWh
B. Forecasted Monthly Export Bilateral Transmission Service	147,066 MWh
C. Forecasted Monthly Wheel-Through Bilateral Transmission Service	<u>258,642 MWh</u>
Total Forecasted Monthly Transmission Service	11,889,126 MWh
D. NYISO Cost of Operations	\$6,754,250
E. NYISO Start-Up Cost	\$1,214,083
F. Contribution to Working Capital	\$2,719,450

OATT NYISO Cost of Operations Allocation to Schedule 1 Rate Calculation:  
 $\{D \div (A + B + C)\}$ ; or \$0.567626 per megawatthour

OATT Start-up Cost Allocation to Schedule 1 Rate Calculation:  
 $\{E \div 2 \div (A + B + C)\}$ ; or \$0.051016 per megawatthour

Contribution to Working Capital recovered through OATT Schedule 1 Rate Calculation:  
 $\{F \div (A + B + C)\}$ ; or \$0.228542 per megawatthour

NYISO OATT Cost component of rate:	\$0.567626 per MWh
Start-up Cost component of rate:	\$0.051016 per MWh
Contribution to Working Capital	<u>\$0.228542 per MWh</u>
OATT Schedule 1 Rate:	\$0.847184 per MWh

MST Start-up Cost Allocation to Schedule 1 Rate Calculation:  
 $\{(E \div 2) \div A\}$ ; or \$0.052816 per megawatthour

OATT Schedule 1 Rate:	\$0.847184 per MWh
MST Schedule 1 Rate:	<u>\$0.052816 per MWh</u>
Combined Schedule 1 Rate:	\$0.900000 per MWh