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PUBLIC SERVICE COMMISSION REPORT REQUIRES FURTHER ANALYSIS New York Independent System Operator Responds to PSC Market Examination

December 15, 2000, Guilderland, NY...The New York Independent System Operator (NYISO), the entity charged with administering the newly deregulated wholesale electricity markets and operating the State's bulk power grid, reacted preliminarily today to the findings of a New York State Public Service Commission (PSC) report concerning the operation of the New York electric markets. The PSC initiated the examination after the New York electric markets experienced price spikes during some periods last summer.

The NYISO pointed out that the most important factors affecting electricity prices in New York are the increase in fuel prices, the need for the approval of more generating capacity, and the inability of electric consumers to respond to price increases. "It is critical that we not lose sight of these issues" stated William J. Museler, President and CEO of the NYISO.

With regard to the proposed bid caps, the NYISO urged caution lest the caps discourage the very power generation investments that are needed to moderate prices and ensure reliability. The NYISO also expressed serious concerns over drawing conclusions about the New York markets and imposing remedies based upon the recent experience in California. "California's electricity market is designed and operates in a materially different way from New York's market. While we have had some start-up problems, New York has not seen the kind of operational issues, market behavior or financial outcomes experienced in California. Therefore, we need to be very careful not to draw generalized conclusions and impose quick fixes that may inadvertently eliminate the economic signals necessary for New York's markets to flourish" Museler said.

The NYISO provided the PSC staff with market data and other input during the course of the PSC's investigation. While the NYISO agrees with a number of the PSC's findings, it is reviewing, for the first time, many of the PSC's conclusions and recommendations, notably the \$150 bid cap proposal which represents a significant departure from the current design of both the New York market and its neighboring markets – PJM and ISO-New England

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“We will be reviewing the report with our Market Participants, the NYISO’s Market Advisor and the Federal Energy Regulatory Commission, to identify issues raised by the PSC which can be readily addressed, or alternatively make clear why some of the recommendations may not be the optimum response to market conditions. The NYISO, its Board of Directors and its Market Participants have a number of key initiatives underway to correct market anomalies and ensure that markets operate efficiently going forward. We are developing a market mechanism that will protect against price spikes in periods when competition does not exist as well as demand side, price-sensitive response mechanisms. These changes should make for a more efficient market and provide consumers with greater protection against market anomalies, but should not interfere with valid market signals that will attract new generation” Museler stated.

“We appreciate the PSC’s on-going support and input and will continue our cooperative relationship” stated Museler. The NYISO may provide further comments on the report once it has completed its review and analysis of the PSC’s conclusions and recommendations.