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June 1, 2000

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FERC Rules On New York Electric Reserves Market Issues

Yesterday, May 31, the Federal Energy Regulatory Commission (FERC) issued an Order concerning the New York Independent System Operator (NYISO) filing, and related filings, on the 10-Minute operating reserves markets. On March 27, 2000, in the wake of substantial price fluctuation in the reserves markets, the NYISO petitioned the FERC to impose cost-based bid caps on the Spinning and Non-Spinning 10-Minute reserves markets in New York. In issuing its order, the FERC found that the conditions under which existing market-based rate authority for the non-spinning ancillary service was granted did not match the operational realities of the New York reserve markets.

The Order states that "the NYISO had shown that capacity that was previously offered to the market was no longer being offered, and that the decline in supply offers correlated with a dramatic increase in bid prices. As a result, markets are even more concentrated than indicated in the original [market-based rate] analysis, and the prime mitigating factor upon which we relied, the presence of multiple suppliers with the ability to fully satisfy the ISO's ancillary service requirements, does not exist."

The Commission noted that "taken together, we believe that the evidence presented by the NY ISO is sufficient to call into question our continued reliance on market-based rates for non-spinning reserve. "

In its Order, the FERC:

- approved bidding restrictions on 10-minute non-spinning reserves on an interim basis;
- approved an effective date of March 28 (the day after the NYISO filing) as the effective date of the 10-Minute non-spinning reserve bid cap;
- rejected bid caps for 10-Minute spinning reserves, and requires their removal effective on the date of the FERC order. The caps on 10-minute spinning reserves have been removed;
- rejected the request to re-bill for operating reserves for the period of March 1 through March 28;
- rejected the request that an Alternate Dispute Resolution (ADR) procedure be initiated that would have negotiated operating reserves prices for the period January 28 through March 28; and,

-instructed the NYISO to clarify requirements for self-supply of reserves by Market Participants.

The FERC also established dates by which the NYISO will file plans to deal with various aspects of the Order. The NYISO is currently reviewing the order to determine whether it will seek re-hearing of certain aspects of the Order and to determine next steps.

A working group of the NYISO's Business Issues Committee has been considering options for restructuring the operating reserves markets so that they may function in a workably competitive manner. The NYISO expects that this group will continue to work toward developing permanent solutions to the various problems in these markets noted in the FERC Order.

