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NY INDEPENDENT SYSTEM OPERATOR FILES PROGRESS REPORT WITH FERC;

NYISO Responds to Federal Energy Regulatory Commission Directives on Range of Issues

September 5, 2000, Albany, New York...The New York Independent System Operator filed an answer to five Federal Energy Regulatory Commission (FERC) directives on September 1. The FERC had previously directed in various rulings that the NYISO report progress on:

1. Revisions to the 10-Minute Operating Reserves Markets;
2. Enhanced Cost information to Market Participants;
3. Report on Price Corrections;
4. Compliance with the FERC's Bid Cap Order; and
5. Corrections of software flaws affecting export transactions and other market enhancements.

The comprehensive filing describes in detail what has been accomplished in each area to date and ongoing activity to further strengthen market performance. "The NYISO remains confident that its market design is fundamentally sound and will be the foundation upon which a fully successful competitive marketplace will be based," noted William J. Museler, NYISO President and CEO. "More work remains to be done, but substantial progress has already been made, and more can be expected in the near future" Museler added.

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Highlights of each of the areas reported upon are:

1. 10-Minute Reserve Markets.

- Caps put in place earlier in the year for 10 Minute Non-spinning reserves are recommended for removal over a short period in conjunction with other market improvements. In addition, mandatory bidding will be extended for six months.
- Studies are underway to identify mechanisms that will permit greater use of upstate resources as a source of reserves.
- Certain generating units not previously available to provide reserve capability have been re-configured to do so and others are currently being modeled to do so.
- While market participants are currently able to self-supply reserves through financial means, additional self-supply procedures are being developed.
- Development of Locational Reserve Pricing is underway, with testing to commence and the system to be in place by November 1.
- Lost opportunity costs will be paid to suppliers of 10-Minute Non-Spinning Reserves.
- Additional long-term measures dealing with the inclusion of dispatchable load to provide reserves, establishing multi-settlement reserves markets and creation of a larger, Northeastern reserves market are also under development or active consideration.

2. Enhanced Cost Information to Market Participants.

- The NYISO has worked with market participants in its Billing and Accounting Working Group (BAWG) to develop a revised information presentation. New specifications and format for the NYISO's daily and month-to-date cash and MWh reconciliations and its hourly ancillary services charges postings have been developed and will go to the BAWG and the Business Issues Committee for approval, with implementation to be completed in November.

3. Report on Price Corrections.

- A detailed report on price corrections was submitted to the FERC, and the rapidly declining percentage of corrections to Real-Time market prices was noted.

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The NYISO's Day-Ahead Market, where approximately 95% of the NYISO-administered trading occurs, has had only one price correction since the market's inception.

4. Compliance with the FERC's Bid Cap Order.

- The NYISO provided an overview of its ongoing efforts to promote a demand side response in the New York markets. An effective demand response will be instrumental in bringing additional discipline to the market and is intended to obviate the need for bid caps in the future.

The NYISO has also achieved substantial progress in resolving other issues, including:

- Increasing imports to the New York Control Area;
- Improving dispatch of fixed block generation;
- Improving communication with Market Participants regarding transaction curtailments and answering participant inquires; and
- Improving billing accuracy.

5. Correction of software flaws affecting export transactions and other market enhancements.

- A software adjustment implemented August 4 is working as intended to correct the condition that had erroneously caused exports to be curtailed when system reliability was not at issue.

In its filing, the NYISO noted that systems are maturing and that improvements are ongoing. Both the NYISO and its Market Participants have gained a better understanding of how the system works and where modifications must be made. The New York Independent System Operator commenced operation of the greatest number of and most sophisticated wholesale electric markets in the nation less than one year ago, and has cleared more than \$3 billion in transactions.