

NEWS RELEASE



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NEW YORK INDEPENDENT SYSTEM OPERATOR ANNOUNCES PROGRAM TO PROTECT ELECTRIC MARKETS & CONSUMERS FROM UNWARRANTED PRICE ESCALATIONS

October 19, 2000 - As the end of the first year of the deregulated electric energy marketplace in New York State approaches, the Board of Directors of the New York Independent System Operator has concluded a review of the challenges, difficulties and successes of this initial period, and has developed a multi-point agenda to address issues of wide public concern.

The New York Independent System Operator (NYISO) began operations on December 1, 1999. Created jointly by government, electric power utilities and other market participants, the NYISO was formed as part of the restructuring of the electric industry of New York State. The restructuring was undertaken to introduce competition into New York's wholesale electricity markets. The NYISO's task is to oversee and manage the transition to an era of open markets – while seeking to maintain equity among competitors and assure the reliability of the State's power supply.

In its preliminary review of market performance, the NYISO Board of Directors identified inadequate generating capacity, the lack of price sensitive load and the absence of incentives for transmission expansion as the most significant threats to a robust, competitive market in New York State. Richard J. Grossi, Board Chairman, stated the Board's unanimous view that New York State's Article X generation siting process must be accelerated. "The NYISO Board is committed to competitive markets that will produce the intended benefits of deregulation, but the lengthy time required for the state approval process has undermined the market's ability to respond to the clear signals for more investment in generation. New Yorkers throughout the State must recognize that both conservation and expanded, environmentally benign, generating capacity are critical to maintain reliability and to ensure strong competition in the marketplace." The NYISO Board instructed its staff to assist environmental groups, government agencies and market participants in finding ways to expedite the siting process.

Recognizing the extreme price increases that hit consumers and businesses in California this summer, significant increases in energy costs in New York City and statewide concern over price increases, the NYISO Board determined that a number of steps should be taken to ensure that New York's energy markets function with maximum efficiency and fairness to all parties. According to Mr. Grossi, "Efficiency in our electricity markets requires that we

minimize interference with market processes. But at the same time, fairness requires that we cushion consumers against the temporary disturbances that result when an entire regulatory system is transformed.”

“To this end, we have today instructed the NYISO staff to work to develop with the market participants a market protective device to protect electric customers on occasions when electricity markets are not competitive. One such concept that has been widely discussed is an economic ‘circuit breaker’, but the Board did not restrict the staff to that specific concept. We must emphasize to both the staff and the market participants the urgency for devising such mechanisms by the summer of 2001, if possible,” Mr. Grossi stated.

The Board believes that it is important to develop a protective mechanism that is related to market factors and will provide meaningful protection to consumers. The mechanism should be triggered when market conditions indicate that competition will not be adequate to permit the normal laws of supply and demand to operate. It would thus prevent the dramatic price spikes that may result from non-competitive conditions. Both the triggering mechanism and the protective measures are under development and will be reviewed with appropriate committees of market participants prior to their implementation.

Under most circumstances, competition and the laws of supply and demand function both to maximize efficiency and protect against irrational prices. In New York, however, as in several other regions, deregulation is occurring at a time when demand is increasing and supply remains stagnant. This dynamic permits artificially high prices to occur at times when workable competition does not exist.

In addition, the Board directed the staff to continue to resolve the remaining market design and implementation flaws as expeditiously as possible by working with Market Participants through the appropriate committee processes.

The Board further directed its staff to work with all parties to encourage the rapid restoration to service of generating plants under repair. It also instructed staff to identify plants that have been retired but are still capable of returning to service. If these efforts are successful, expensive replacement power purchases can be avoided, wholesale prices lowered, price spikes moderated and congestion costs reduced.

The Board also instructed the NYISO staff to accelerate the development of price responsive mechanisms for next summer. Such mechanisms would enable high volume consumers of electricity (e.g., industrial plants) to curtail their purchases during high price periods. The Board had earlier authorized a study, currently in progress, to identify such mechanisms.

Finally, the NYISO Board of Directors today rejected the appeal by certain market participants of the Management Committee’s decision to extend the \$1,000 bid cap. Rather, the Board will “reluctantly submit” a

continuation of the bid cap to the FERC. The Board's reluctance is based on its concerns that bid caps interfere with the competitive process generally, and could potentially discourage developers from building needed new generation in New York. The NYISO Board will concur in the filing, however, since tight supply situations and transmission constraints can also occur during the winter months resulting in non-competitive conditions and artificially high prices. Furthermore, because the NYISO does not currently have the authority to mitigate market power retroactively, the \$1,000 bid cap will provide a modicum of protection against market abuses. The Board also instructed the staff to file to extend the bid caps until an economic market protective mechanism can be developed, thoroughly tested and implemented. The Board expects that the bid caps will terminate once an alternate protective mechanism is fully developed, tested, adopted by the NYISO's Management Committee and approved by the FERC.

"We will routinely update the public as to our progress on these and other measures as we make the difficult transition from a highly-regulated to a deregulated electric power system," said Mr. Grossi. "We are committed to realizing the triple objectives of reliability, efficiency and affordability in the energy marketplace."