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Independent Market Monitor Pronounces NYS Electricity Markets Competitive, But Emphasizes Need For More Generation

- Conclusion Reached in Annual Market Assessment Delivered in Albany -

Guilderland, NY, April 17, 2001—At a pre-summer meeting held in Albany today between the New York Independent System Operator (NYISO) Board of Directors and New York State's various electricity market sector representatives, Independent Market Advisor, Dr. David B. Patton confirmed that New York's markets are indeed competitive, but said New Yorkers will suffer from higher electricity prices unless significant levels of new generation are added to the system in the near future.

In his report, which can be downloaded from the NYISO website (www.nyiso.com), Dr. Patton concluded that—except for isolated instances—suppliers bid competitively into the New York Electric Markets. Furthermore, he emphasized, if this situation were to change and suppliers began engaging in anticompetitive conduct, the NYISO has the capability to effectively address such conduct.

In what he characterized as “one of the true good stories in this market,” Dr. Patton found that the competitive markets facilitated by the NYISO have resulted in real benefits over the prior regulated system. The incentives provided by the competitive markets have resulted in increases in supplies offered to the market of five-to-10 percent compared to the regulated system. In essence, the restructured competitive market is delivering more power than the regulated system did with the same facilities.

However, Dr. Patton cautioned that the inability of investors to site significant amounts of new generation in the face of growing loads will make the markets increasingly vulnerable to large price fluctuations, even with fully competitive conduct by suppliers. Barriers to investment will also increase the vulnerability of the market to abuses of market power as transmission constraints and tight supply cause withholding to have a larger effect on price he warned.

With regard to the increase in prices in 2000 from historical levels, Dr. Patton's analysis found that they were primarily caused by much higher prices for natural gas and oil, and the outage of the Indian Point 2 nuclear unit in Eastern New York.

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Commenting on the results of Dr. Patton's year-long study, NYISO President and CEO William J. Museler said, "These findings confirm what we have believed all along, that New York's competitive markets are working. They also underscore a conclusion we reached in our own recent study, *Power Alert: New York's Energy Crossroads*, that New York needs to get serious about siting and building significant amounts of new generation, right away."

"Given the very tight supply situation we are faced with as we approach this summer, the NYISO will continue to devote every possible resource available to ensure that the system meets every challenge it encounters until new generation is successfully brought on-line," Museler stated.

The New York Independent System Operator (NYISO) is a not-for-profit corporation established in 1999 to facilitate the restructuring of New York State's electric industry. In addition to administering the State's wholesale energy markets, the NYISO operates the State's high voltage electric transmission system. Last year (2000), the NYISO's market volume (including energy, ancillary services, ICAP and TCC auctions) exceeded \$5.2 billion, more than all of the other Northeast electricity markets combined.