

For Immediate Release:

Tuesday, April 16, 2002

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New York ISO Expresses Strong Support For FERC's Standard Market Design Working Paper

- Balancing Seamless Grid With Regional Nuances The Challenge Going Forward, Says ISO -

(Guiderland, NY – April 16, 2002)—In comments filed last week in response to the Federal Energy Regulatory Commission's (FERC's) "Working Paper on Standardized Transmission Service and Wholesale Electric Market Design" ("SMD Working Paper"), the New York Independent System Operator (NYISO) said that it strongly supports the overall policy direction adopted by the FERC saying that "consistent transmission rules across control areas will protect customers and increase the benefits realized through competition."

"The FERC's Standard Market Design working paper provides an excellent framework and the vision for creating the national electric system of the future," said William J. Museler, NYISO President and CEO. "Put in automotive terms, the FERC has provided the blueprint for a superior chassis, body and engine and now it's a matter of selecting the appropriate options to complete the design."

In its comments, the NYISO emphasized that the Commission's key challenge in updating the open access transmission tariff will be to balance the need for standardization to achieve a seamless transmission grid with the need to permit regional differences and market innovations to address local issues. What may appear to be a "seam" problem or market design flaw from one side of an interface may be a valid market design innovation addressing physical limitations on the other side of the seam, the NYISO states in its comments. The NYISO says that it is important to understand the difference between the two so as not to stifle innovation or impede regional best practices.

With regard to specific suggestions, the NYISO expressed concern with the SMD Working Paper's proposal that generation sources that are not intermittent or subject to environmental restrictions should be allowed to elect to participate as though they were intermittent or energy limited resources. Such a rule would unnecessarily afford generators the opportunity to engage in physical withholding from the market, states the NYISO.

On transmission issues, the NYISO supports the Commission's analysis that identifies congestion charges as a market-based way to allocate the scarce transmission capacity in the day-ahead and real-time markets and advocates point-to-point transmission rights as a way to allow for more hedging opportunities than flow gate rights. The NYISO is also open to the idea of offering option-based transmission rights if it is something the market desires and it can be implemented.

The NYISO also supports the Commission's approach to handling imbalances using real-time markets for energy and agrees that both day-ahead and real-time markets should be based on voluntary, bid-based, security-constrained markets. In addition, allowing market participants to submit multi-part virtual load bids could, in theory, provide some benefits in terms of improved arbitrage opportunities, as long as the additional volume doesn't create a performance impact on the day-ahead market runs.

The NYISO supports the Commission's conclusions that reliability authorities may establish locational requirements for operating reserves, but does not agree that a need for locational reserves should translate into a requirement of reserving transmission capacity merely to allow the self-scheduling of reserves. The NYISO believes that a system of self-scheduling of operating reserves would be very complex and difficult to use in markets with locational reserve constraints, such as currently exist in New York. However, the NYISO does agree that day-ahead regulation and operating reserve markets should clear simultaneously with day-ahead markets for energy and transmission system, as is currently the case with the NYISO's co-optimized approach.

Finally, with regard to market monitoring and mitigation, the NYISO agrees with the Commission's emphasis on the importance of the independence of a Market Monitoring Unit. However, the NYISO also emphasizes the importance of integrating the Market Monitoring function with real time operations under the responsibility of the RTO.

"We strongly support the direction FERC has taken and believe the suggestions we are making will only enhance the proposed market design," said Museler.

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The New York Independent System Operator ("NYISO")—www.nyiso.com— is a not-for-profit corporation established in 1999 to facilitate the restructuring of New York State's electric industry. Based in New York's Capital Region, in addition to administering the State's wholesale energy markets, the NYISO operates the State's high voltage electric transmission system. Last year, the NYISO's market volume exceeded \$5.6 billion, more than all of the other Northeast markets combined.