

MEMO

Date: May 1, 2001

From: William J. Museler, President & Chief Executive Officer

To: Steven J. Balsler, Manager of Market Monitoring and Performance
James H. Savitt, Market Monitor

Re: Extraordinary Corrective Action to Address a Market Design Flaw:
Vulnerability of NYISO-Administered Markets to Inefficient Price Spikes

Thank you for your report on the vulnerability of the NYISO-administered markets to inefficient price spikes given the current tightness of supply, and the lack of proven demand-side response mechanisms, in New York State.

I agree with your conclusion that this vulnerability constitutes a "Market Design Flaw" as defined in Attachment Q to the NYISO's Open-Access Transmission Tariff and Attachment E to the NYISO's Market Administration and Control Area Services Tariff ("Services Tariff"), Temporary Extraordinary Procedures for Correcting Market Design Flaws and Addressing Transitional Abnormalities (the "TEPs"). This Market Design Flaw must be corrected because of the significant impact that it may have on prices and settlements. Price spikes attributable to the inability of demand to respond to market price signals are inefficient and inconsistent with a workably competitive market. I, therefore, agree with your determination that the NYISO must exercise its TEP authority to extend the duration of its currently effective bid caps, which are designed to restrain inefficient price spikes, and which are scheduled to expire today..

I have further determined, based on consultations with NYISO staff, that: (i) the Market Design Flaw identified by the Market Monitoring and Performance Unit cannot be corrected by revised ISO operations not requiring changes in ISO Procedures; (ii) corrective measures are required immediately and must take effect while the NYISO awaits a FERC determination on its request, pursuant to Section 205 of the Federal Power Act, to amend Attachment F of the Services Tariff to extend the duration of its currently effective \$1,000/MWh bid caps; and (iii) because the Management Committee has already endorsed this bid cap extension from May 1, 2001 forward there is no need for further consultation with Market Participants on this matter.

Please develop the text of an Extraordinary Corrective Action ("ECA" and post it on the OASIS, for implementation effective for operating hours beginning at midnight (HB00) on May 1, 2001. The ECA shall be the least restrictive of such measures that will reasonably address on an interim basis the Market Design Flaw. The ECA shall be effective for ninety (90) days, or until such time as FERC issues an order on the NYISO's request for a bid cap extension, which ever comes sooner.

William J. Museler, President and CEO
New York Independent System Operator

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