

MEMO

To: James H. Savitt

From: William J. Museler

Date: May 12, 2000

**Extraordinary Corrective Action ("ECA"):
Implementation Flaw re: Energy Limited Resources**

You have advised me of the emergence of a market design flaw, specifically an implementation flaw affecting the way Energy Limited Resources ("ELRs") manage their bids within the confines of the NYISO's market models. ELRs must limit their electric production due to limitations driven by resource restrictions, maintenance, environmental, or other factors. The only method for limiting such production within the current software system is for these units to either delete their bids or to submit bids with extraordinarily high upper segments so that the likelihood of being chosen to operate is extremely low. When ELRs are scheduled at these upper segments, they may set clearing prices that reflect extraordinarily high bids submitted solely to limit their operation. Such bids do not reflect rational or verifiable elements of bid offers for example, fuel, maintenance, emissions credit, opportunity, or other costs. This result is not an outcome that would occur in a workably competitive market.

Under the NYISO's Temporary Extraordinary Procedures for Correcting Market Design Flaws and Addressing Transitional Abnormalities ("TEPs") the NYISO is empowered to correct this kind of implementation flaw since it would cause artificially high clearing prices and have a significant impact upon the New York markets. Accordingly, I request that you that you implement emergency corrective action to that will prevent ELRs bidding as described above from setting the marginal clearing price. The recalculated clearing prices should reflect a level that would be expected under the prevailing market conditions in the absence of this implementation flaw.

Please develop the text of the ECA and post it on the OASIS for immediate implementation.