

MEMO

TO: Jim Savitt
FROM: Bill Museler
DATE: May 12, 2000

Extraordinary Corrective Action: Market Design Flaw Regarding External Bid Production Guarantees

Thank you for the presentation of the Market Monitoring Unit, with the assistance of the Market Advisor, regarding the conduct that has appeared in the Energy Markets concerning external bid production guarantees and related matters.

I agree with your conclusion that this conduct has identified a "Market Design Flaw" as defined in Attachment Q to the ISO OATT, 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 Market Participants exploiting this Market Design Flaw have caused on prices in the last few days. These prices are not prices based on supply and demand levels determined by efficient competition in periods of relative scarcity. I further agree with your analysis that prices produced by exploiting this Market Design Flaw will, absent appropriate action, remain higher than levels that would otherwise occur during periods of efficient competition in times of relative surplus.

I have further determined, based on consultations with ISO Staff, that (i) the Market Design Flaw identified by the Market Monitoring Unit cannot be corrected by revised ISO operations not requiring changes in ISO Procedures, and (ii) corrective measures are required immediately and must take effect before the ISO can begin or complete consultation and cooperation with the Market Participants, and jurisdictional agencies as necessary, to develop any appropriate rule or rule change in accordance with the ISO Agreement.

Please develop the text of the Extraordinary Corrective Action ("ECA") and post it immediately on the OASIS, for effective implementation. 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 all hours reserved for price corrections as of the date of this Memorandum, and prospectively for a period of ninety (90) days.

xc: Market Participants via OASIS
I.Freilicher
NYISO Board Members
Sr. Management Team