

MEMO

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

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

Date: September 6, 2000

**Re: Extraordinary Corrective Action to Address a Market Design Flaw:
External Proxy Bus Prices During Transmission Constraints
(ECA 20000907B)**

Thank you for the presentation of the Market Monitoring and Performance Unit and the Market Advisor regarding the conduct that has appeared in the Real-Time energy markets concerning external proxy bus prices during transmission limitation periods.

I agree with your conclusion that this conduct has identified a "Market Design Flaw" as defined in Attachment Q of 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 this Market Design Flaw has had on prices over the last several 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 different from what would otherwise occur during periods of efficient competition.

I have further determined, based on consultations with ISO 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, 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 on the OASIS, for implementation effective twenty-four hours after issuance. 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 a period of ninety (90) days.

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

Cc: Market Participants via OASIS