NEW YORK INDEPENDENT SYSTEM OPERATOR
Building the Energy Markets of Tomorrow ... Today℠
10 Krey Boulevard - Rensselaer, NY 12144

March 15, 2006

F. Mitchell Davidson
Senior Vice President
FPL Energy
P.O. Box 1400
Juno Beach, FL 33408-0420

Re: Seabrook Nuclear Unit

Dear Mr. Davidson:

I am responding on behalf of the New York Independent System Operator, Inc. (NYISO) to your February 23, 2006 letter regarding the regional reliability protection arrangement referred to as the "Single Largest Contingency" which during certain conditions, limits the maximum operation of the Seabrook nuclear plant. This letter will also address issues discussed at our joint meeting with FERC staff on March 2, 2006 in Washington, D.C. We are providing a copy of this letter to FERC staff present at the meeting as well as those copied on your letter, as a follow-up to that meeting.

The need to reduce output at times from the Seabrook plant (and other large energy sources) arises from long standing reliability agreements among the northeast control areas (New York, New England, PJM). The Single Largest Contingency reliability protocol was established more than two decades ago among the control area operators that predated the NYISO, ISO-NE and PJM as a means of ensuring reliability to the entire region. The reliability protocol is necessary because at times when there are transmission constraints in the NYISO and PJM systems, there is an unacceptable risk from the sudden loss of a large unit in New England. This large source contingency can cause violations of reliability criteria that could lead to widespread blackouts in NYISO, ISO-NE and PJM.

As you know, these reliability protocols are important for the entire northeast region given New England's end-of-the-line electrical location in the Eastern Interconnection. We understand that this long-standing reliability protocol was made known to FPL Energy prior to the re-powering of Seabrook. We also note that the required reductions at Seabrook are consistent with operational limitations applied to other large sources in New England, including the Mystic 8 and 9 generating units, the Lake Road and Ocean States generating units, the Hydro-Quebec HVdc Line (Phase II), and the Millstone SLOD Special Protection System.

The NYISO appreciates the opportunity to provide additional clarification regarding the issues you raised in your letter and understands your desire to avoid the economic and operational consequences of periodic power reductions at the Seabrook plant. As discussed below, the NYISO and ISO-NE have a number of initiatives under way to address your concerns.

Single Largest Contingency Reliability Protocol

The longstanding reliability agreements between ISO-NE, NYISO and PJM require ISO-NE to operate the NEPOOL control area such that during certain predetermined reliability conditions, the largest contingent common mode net source loss for a normal contingency outage on the NEPOOL system is limited to a maximum of 1200 MW. This constraint ensures that the loss of such source has no greater adverse impact on the NYISO or PJM systems than that of the most limiting internal NYISO or PJM contingencies. The procedures related to these reliability arrangements were memorialized in a 1991 protocol (Procedure to Protect for the Loss of Phase II Imports protocol) in connection with the Hydro Quebec interconnection. A copy of this protocol was distributed at the March 2 FERC meeting. The protocol has been applied consistently to all source contingencies above 1200 MW in New England, including both nuclear and fossil fuel facilities. As you know, when this protocol was developed, such reliability-based operational practices were not generally within the purview of FERC.

The reliability protocol arrangements result from the fact that, rarely, but periodically, transmission congestion on the NYISO or PJM systems creates the risk that the sudden loss of a large power source (1200 MW or more) in New England could cause a voltage collapse on the NYISO or PJM systems that could result in widespread loss of load (blackout). The consequences of such a voltage collapse could be experienced in New York City and other heavily populated areas of both the Mid-Atlantic and Northeast regions. Of course, the guiding principle that was, and still is, in effect is that operating practices in one region should not adversely affect reliable operations in another region (this principle has since been formalized in the ERO Final Rule, Order 672[1]). NYISO, ISO-NE and PJM have agreed that the 1200 MW limit is the maximum normal contingency net source loss limit for the NEPOOL control area based on external system reliability requirements under normal operating conditions. NYISO, ISO-NE and PJM all monitor seven system reliability indicators in the NYISO and PJM regions and, when system conditions warrant, ISO-NE must take steps in accordance with the reliability protocol to limit the maximum normal contingency net source loss for the NEPOOL control area.

Seabrook's Owners Were Made Aware of this Limitation.

Your letter implies that FPL Energy was not aware of the Single Largest Contingency limitation, however, FPL was informed of the necessity for these constraints in 2004, as part of the (ISO-NE 18.4) approval process for uprating the Seabrook plant. The Seabrook uprate System Impact Studies specifically mention this limit.

> Since the output of Seabrook after the uprate may be greater than the 1200 MW loss of source limit for design contingencies, the following condition must be applied:
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> The Seabrook unit, with implementation of its proposed 1295 gross MW uprate or any lesser uprate, will be required to limit its gross output level in real-time operation such that the net loss of source that results from a contingent Seabrook generator trip is at or below the real-time-based maximum allowable net source loss for the NEPOOL control area...
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> *Seabrook Uprate System Impact Study, Phase I, Final Report*, January 22, 2004, rev. April 27, 2004 at p. 41

That condition was also included in the May 10, 2004 letter from ISO-NE to FPL Energy. At the March 2 FERC meeting, we understood you to have acknowledged that you were aware of this limitation prior to undertaking the uprate and are now seeking information regarding the need for and the appropriate use of the limitation. Despite the presence of this limitation, we are aware that FPL Energy is planning a second phase uprate to the Seabrook plant.

Protocol Is Intended to Ensure Reliability

The reliability protocol between NYISO, ISO-NE and PJM allows large New England-based power sources to operate at levels above 1200 MW during non-transmission constrained situations in the NYISO and PJM systems. Without the protocol and the real-time monitoring of seven system reliability indicators in the NYISO and PJM regions, Seabrook would be limited to 1200 MW maximum operations at all times. Thus, we view the reliability protocol arrangement as a benefit to large sources such as Seabrook and to the New England consumers.

Your letter questions whether the reliability arrangement is used to achieve beneficial economic impacts for New York customers at the expense of New England customers. We assure you that this is not the case. The reliability constraint that affects the Seabrook plant is only one of many consequences of a transmission congestion problem that has other more substantial economic consequences within New York State. As described above, these reliability based protective actions are required by good utility practice and are fully consistent with applicable NERC and NPCC standards of operation. As with all reliability operating criteria, these actions may have economic consequences in both

[1] *Rules concerning Certification of the Electric Reliability Organization; and Procedures for Establishment, Approval, and Enforcement of Electric Reliability Standards*, Order No. 672, 114 FERC ¶ 61,104 (2006). .

control areas. It would not be appropriate, however, to consider the economic consequences of any one reliability protocol without considering the impacts of this and other protocols on the three-control area regions as a whole.

FPL is mistaken in its assertion that the NYISO requests Seabrook output limitations to protect New York consumers from higher costs. First, while communication from the NYISO control room to the ISO-NE control room may in practice precede the backing down of single source contingencies by ISO-NE, ISO-NE does not act "at the request of the NYISO." ISO-NE has an independent obligation to maintain the reliability protocols when any of the seven reliability indicators call for action. In instances where Seabrook is asked to limit output, there is a specific reliability requirement calling for such action by ISO-NE. Second, before ISO-NE implements the required reductions, NYISO will have already considered, and taken actions, if feasible, to offload the Central-East Interface to mitigate the required reduced net source loss for the NEPOOL control area. In addition, the majority of the time that the NYISO transmission system is constrained there is no impact to the ISO-NE region. As is most often the case, NYISO will dispatch more expensive internal resources, including gas turbine units, out of economic merit order to alleviate loading on the Central-East Interface when the transmission constraint is due to a New York based contingency. It is only in approximately 5 percent of the time that the NYISO is transmission constrained due to a New England-based contingency and there is a required reduction of net source loss for the NEPOOL control area.

NYISO's Ability to Discuss Real-Time Market Conditions With Market Participants Is Limited

We are troubled by your statements that communications with NYISO have not been to your satisfaction. We strive to provide appropriate feedback and work with entities affected by our operations to the best of our ability. While our communication efforts may not be perfect, you must realize that NYISO has limited ability to communicate regarding confidential market conditions, which sometimes precludes our employees from disclosing certain information to any market participants, including Seabrook. For example, our operators are prohibited from disclosing certain information regarding the market sensitive outage conditions that may exist on the system at any given time.[2] These rules are in place to benefit all market participants and to avoid potential manipulation. Nevertheless, the NYISO will consider whether it can improve such communications without compromising the confidentiality that our tariff requires us to preserve.

Conclusions

NYISO is conscious of the desirability of avoiding these periodic power reductions at the nuclear plant, and we do so only when necessary to avoid the danger of widespread reliability consequences to customers. We appreciate your confirmation at the March 2 FERC meeting that the effects of the typical 20 MW down ratings do not cause physical harm to the plant. Nevertheless, we understand the difficulties that such power swings may cause to your operations and we are open to finding other ways to ensure reliability while minimizing the impact to the plant operations.

In this regard, as we discussed at the March 2 meeting, NYISO and ISO-NE are considering a "walk-down" approach that could identify 1250 MW as an interim step before requiring implementation of the 1200 MW maximum normal contingency net source loss as a way to mitigate the impact on Seabrook. Also, the ISOs are considering the use of forecasting longer-term system condition trends as a means of mitigating the impact of short-term power swings on Seabrook. In addition, there are short-term studies being conducted by NYISO and ISO-NE at this time to review the NYISO system reliability indicators. It is possible, however, that the results of these studies will show that reductions are required for the ISO-NE maximum normal contingency net source loss on a more frequent basis than at present. We understand that a meeting between the NYISO and FPL Energy is scheduled for late March 2006 to discuss the findings of these studies. Longer-term planning studies are also being conducted by PJM, NYISO and ISO-NE on the 1200 MW value for the ISO-NE maximum normal contingency net source loss standard to determine whether it could be updated given expected future system conditions.

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[2] *See e.g.*, Attachment F ("Code of Conduct") to NYISO's OATT, which prohibits NYISO from disclosing Confidential Information to any Market Participant. Confidential Information includes information re ATC, TTC, and curtailments/interruptions.