Capacity Market Performance
New York City

Is There a “Right” Price

ICAPWG

June 30, 2006

Auction Market Price Information In-City

Summer 2006 Strip Auction	2186.7 MW	$12.35/kW-month
May 2006 Monthly Auction (May purchases)	1422.7 MW	$12.43/kW-month
May 2006 Spot Auction	2209.8 MW	$12.71/kW-month
May & June 2006 Monthly Auction (June purchases)	1088.8 MW	$12.44/kW-month
	359.0 MW	$12.33/kW-month
	1447.8 MW	
June 2006 Spot Auction	2165.3 MW	$12.71/kW-month
Forward Monthly Procurement	Up to 559 MW	$12.33-12.43/kW-month

Auction Market Analysis

- Loads voluntarily purchased over 3600 MWs of capacity for $12.35-12.43/kW-month ahead of the May spot auction.
- Loads continue to voluntarily procure capacity at these price levels ahead of the spot auctions.
- Analysis of PSC Staff suggested spot auction clearing prices were expected to be lower, possibly as low as $5.45/kW-month.
- As the NYISO pointed out in its 6/7/2006 letter to FERC's Office of Enforcement, prices in the $12.71/kW-month price range were expected; auction results further support that conclusion.
- If loads expected capacity prices would drop to $5.45/kW-month as suggested, loads would not have been willing to bid $12.35-12.43/kW-month in the Strip or monthly auctions.
- Strip and monthly auction prices correlate to spot auction prices.
- Spot auction prices are currently below the cost of entry.

Actual Construction Cost Information

(Cost of Entry)

NYPA	470 MW*	LM6000 Facilities	$ 550 + million
KeySpan	250 MW	CC Facility	$ 350 + million
NYPA	500 MW	CC Facility(pre-const. est.)	$ 650 + million
SCS	500 MW	CC Facility	$ 900 + million
		Con Ed Contract	$ 96-105+/kW-month (ICAP)
[Divestiture Proceeding using Con Edison 1996 cost information			$ 105+/kW-month (ICAP)]

*Capability Without 80 MW Limitation

Cost of Entry vs. Auction Prices

- NYPA, KeySpan and SCS construction costs are indicative of capacity costs at or in excess of the spot auction clearing prices.
- Load serving entities constructed or contracted for capacity at prices in line with auction results.
- If market clearing prices were in fact expected to be $5.45/kW-month, as suggested, these construction and contracting activities by LSEs would not have made any sense in light of the expected ability to procure the resource at a much lower price in the auction market.

What Is The "Right" Price?

- **Demand Curve determines quantity not price.**
- **Prices along Demand Curve determined to be just and reasonable by FERC.**
- **Should market clear below cost? Farther to the "Right"?**
- **Out of market discriminatory procurement above the "expected" $5.45/kW-month price would be imprudent.**
- **Potential Monopsony Power issues associated with out of market discriminatory procurement where costs are passed through to ratepayers.**
- **A combined Summer & Winter analysis also needs to be considered.**

Summer & Winter Analysis

- If analysis of PSC Staff is carried into the winter, the In-city spot auction would clear at $0 and payment would be in accordance with statewide auction.
- Statewide winter clearing price would drop to approximately $.60/kW-month.
- Combining the assumed $5.45 and $.60 prices, the annualized NYC clearing price would be approximately $3.00/kW-month.
- $3.00/kW-month is well below the cost of entry and less than what ISONE is willing to pay.
- Future clearing prices would have to be well above deficiency levels to achieve an equilibrium price at the cost of entry.
- However, deficiencies are not tolerated and accordingly, the market price could never reflect the cost of entry under the analysis of PSC Staff.

The Right Price

The "Right" price is the long run equilibrium cost of entry. The market signal being provided by current auction results is less than the cost of entry. Accordingly, the right price is certainly not lower, as suggested in the analysis of PSC Staff.