

CPB Comments on Criteria/Process for Identifying New Capacity Zones

Submitted by Saul Rigberg.

1) as suggested by LIPA's October 30 and MI's October 20 written comments, maintaining existing levels of reliability by providing appropriate economic signals should be the threshold factor in determining whether establishment of a new zone should be considered (increased costs to consumers should only be tolerated when necessary to maintain reliability);

2) the NYISO's proposed criterion, as currently structured, fails to provide meaningful information regarding the need for a new capacity zone because the deliverability-related test the NYISO proposes to use focuses on the current state of the system - - the question is whether a new peaker can fit within the headroom at system equilibrium and not whether the peaker can fit within the existing headroom when there is excess capacity;

3) another threshold inquiry, as discussed by MI, is whether the new zone would result in a workably competitive market without serious market power concerns (it is sheer hubris to believe that mitigation measures can be crafted to prevent the exercise of market power when, as would be the case in a Lower Hudson Valley zone, three suppliers would control more than 95 percent of the market);

4) in conformity with the newly-revised NYISO Mission Statement, cost/benefit and consumer impact analyses should be a major part of the evaluation criteria;

5) it would not be a good result of creation of a new zone if older, dirty generation facilities were able to put off retirement because they began receiving higher capacity payments (note that air-borne pollutants have economic consequences on consumers living within the windshed in terms of higher medical bills and absences from work and school as well as quality of life issues);

6) regarding appropriate economic signals, CONE reveals little about the economics of the system, whereas net CONE takes into account the expected energy and ancillary revenues, thereby allowing exploration of the economic rationality of a decision regarding where to locate a facility; and,

7) under no circumstances should the NYISO continue its proposal to unilaterally exclude from the shared governance model the issue of whether or not to establish a specific new capacity zone

- this proposal devalues the role of MPs and detracts attention from the substantive issues associated with establishing a new capacity zone
- the Board does not have the unilateral authority to remove an issue from the shared governance process (remember the MPs voted to remove the

demand curve reset process from regular MP voting-it was not imposed by the NYISO

- Tom Paynter provided a strong analysis of how the demand curve reset process is largely mechanical compared to the many policy concerns involved in consideration of a new capacity zone
- requesting a profound market change in a compliance filing is not appropriate
- the shared governance process allows the Board to overrule the MC and file a section 206 petition--this is the proper process for all issues, whether controversial or not controversial
- the NYISO's proposal impairs transparency, sends the wrong message to the legislature, the PSC, the CPB and MPs in general, and is contrary to the stated intent of the NYISO's consumer liaison initiative.