



Leigh Bullock/NYISO

10/05/2004 04:27 PM

To

cc

bcc

Subject Fw: ESPWG - Additional Comments from Calpine

----- Forwarded by John Buechler/ NYISO on 10/05/2004 10:50 AM -----

"Felak"

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>

10/01/2004 10:03

AM

To "JBuechler" <JBuechler@nyiso.com>, "William Palazzo" <William.Palazzo@nypa.gov>, "JCharlton" <JCharlton@nyiso.com>, "BThornton" <BThornton@nyiso.com>

cc "Kaslow Thomas" <tkaslow@calpine.com>

Subject further Calpine comments on the NYISO's reliability and economic planning initiatives

Ladies and Gentlemen:

This is to respond to the bottom of the last page -- action items 2 and 3 -- in the 9/15/04 draft ESPWG meeting minutes.

First, concerning the possible reporting of congestion projections for potential use in the economic planning process, we just wanted to re-emphasize aspects of the previous suggestions we made in item #2 of our attached comments -- concerning the fact that transmission congestion is just one of the (and perhaps not even the most important) "information" items that needs to be made available. Thus, we continue to urge that such a distinction be carried forward with any implementation of new market rules.

Second, concerning sorely needed market enhancements for potential use in the reliability planning process, we believe that the predominant focus of the NYISO in this respect should be on defining and implementing a capacity market design that is fundamentally and integrally based on the assurance of long term supply for loads -- set up in advance via (for example) a demand curve and/or capacity purchase requirements of sufficient term (say 8 to 10 years) consistent with how decisions on financial investments are really made for new projects. This would also have the extra benefit of further driving down energy prices due to increased competition being present. As before, we would be pleased to present details on why and how this needs to be done at your earliest opportunity.

Thank you very much for your continued consideration of these suggestions.

Best regards.....Rich

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## Calpine Comments on NYISO Economic Planning Initiatives

Calpine thanks the NYISO for the opportunity to offer our suggestions concerning the development of your comprehensive planning process for economic needs. We have made these points brief, but as always would be pleased to discuss the subject further at your convenience.

1) As was basically done for aspects of the NYISO's recent reliability needs planning exercise, economic needs planning should also fully allow for the even-handed consideration of all physical and procedural alternatives. For example, changes in market rules, the competitive addition of supply and demand-side resources, merchant and regulated T&D installations, pertinent financial and contractual options, as well as modifications to control and protection systems and operating protocols.

2) For the initial determination of whether "economic" need exists, the quantification of same, and its extent of impact, it is not clear (as may have thus far possibly been assumed by some parties) that transmission congestion should be the predominant or sole measure of such "need". This is because other factors and phenomena may be at least as important. For example, to the degree that the prevailing market design and market signals do not fully support optimal power system resource (i.e., generation, DSM, end-use, and/or T&D) maintenance, curtailment, commitment, or dispatch -- with or without transmission congestion also being present (whether or not coterminously) -- the market cannot (without improvement) deliver the efficient solution. Absence of a competitive market solution may simply mean that more development work on the existing market's characteristics is needed, and may not indicate that a transmission solution (e.g., to reduce congestion *per se*) is the most efficient course of action. This is especially true because it is unclear if the NYISO and the market participants will ever come to agreement on just what constitutes applicable transmission congestion, or how it will be treated for these purposes. In that regard, we would also note that for something with such widespread economic and physical ramifications, it may not be sufficient for an acceptable definition of "agreement" to be a minimal percentage of passing votes at some committee meeting. "Compromise" on such a difficult to understand and implement matter as transmission congestion will not necessarily yield a desired efficient or stable situation going forward. For example, the concept of a demand curve is premised on the ability to deliver sufficient stability of revenue to justify new construction where and when it is needed. If implemented solely based on transmission congestion, the economic needs planning process could conclude that significant transmission investment is the efficient solution (in the absence of new generation investment in a load pocket), when the more efficient solution may indeed be a generation solution -- and the absence of the new generation investment may indeed be a consequence of an unwillingness of the LSE to enter into an adequate term PPA that will support financing.

3) For a number of reasons which we could further detail, we urge that the NYISO should strongly favor the implementation of an "information approach" -- especially because it has the promise of being the most supportive (and least intrusive) to further development of a truly competitive marketplace. In addition, if correctly put into practice, it should also serve to further enhance the potential benefits of the proposed reliability needs planning basis -- as well as the efficiency of other aspects of overall market structure.

4) Finally, based on our experience nationwide, and particularly in the Northeast, for this purpose of establishing a NYISO economic needs planning process we would suggest not immediately pursuing other possibilities listed in your August 11, 2004 document (i.e., the PJM, Hogan, ISO-NE, CAISO, or "market based initiatives"). If later needed, perhaps some facets of those sorts of alternatives could be considered to help supplement implementation of the preferred "information approach".