

MEMORANDUM

DATE: April 21, 2010
TO: Dave Lawrence
FROM: Paul L. Gioia
RE: Demand Curve – Deliverability Costs

Below are comments on the rationale for excluding deliverability costs in setting the CONE for the demand curve for 2011-2014. The comments are submitted on behalf of the New York Transmission Owners, LIPA and NYPA.

1. The demand curve should reflect the cost of developing new capacity if we were at the minimum capacity requirement during the 2011-2014 time frame. If we were at the minimum ICAP requirement in that time frame, given projected load levels, it would not be necessary to pay for deliverability upgrades for new generation to be able to provide capacity. There is sufficient deliverability to serve current and projected load levels. Furthermore, all existing generation was grandfathered under the consensus deliverability proposal. There is no economic justification for paying the existing fleet of resources a capacity payment for costs for which they were specifically exempted. Consequently, the inclusion of any deliverability costs in the CONE for the demand curve for the 2011-2014 time frame is unwarranted and would impose unjustified costs on New York consumers.

2. While new units that want to sell capacity may have to pay deliverability costs, these units are not needed for reliability. If these units want to participate in the capacity market, they would have to incur deliverability costs, but they are not needed for reliability. Their participation in the capacity market is voluntary, and any related deliverability costs should not be reflected in the CONE for the demand curve.

3. If at some point in the future the NYISOs reliability planning studies demonstrate that a resource adequacy deficiency and a transmission capability deficiency are contributing to a future reliability violation, then the inclusion of deliverability costs may be appropriate. However, the need for new capacity would not necessarily mean that deliverability investments are required. If new capacity is needed that would require deliverability investments, the NYISO should consider a full examination of alternatives to such investments. At this point, the need for deliverability investments in the future to reliably serve load has not been demonstrated.