Issues with ConEd/NYPSC Joint Capacity Mitigation Proposal
Provided by Keyspan Ravenswood
Jim D'Andrea – 9/13/2006

The Joint Proposal does not address or consider the following issues (in no order of priority or importance):

- The slope of the demand curve is steep and it purportedly incents the exercise of market power, accordingly the slope should be decreased by extending the length of the curve.
- Monopsony market power is not addressed by the proposal.
- Monopsony market power, combined with retail access LSE affiliate shareholder profits, is not addressed by the proposal.
- Monopsony market power is significantly greater than supplier market power and there is absolutely no mitigation with respect to the associated intended or unintended market impacts.
- The demand curve was intended to send an adequate price signal to existing and new resources to maintain reliability but there is no analysis that shows the proposed revisions will provide such signal.
- The demand curve was intended to reduce price volatility (*i.e.*, prevent small amounts of excess capacity from causing prices to plummet) but there is no analysis that shows how the proposed revisions will impact price volatility.
- Procuring large amounts of capacity in excess of minimum reliability requirements at prices greater than market clearing prices is not good utility practice. The proposal does not address above market price, out-of-market, procurement.
- The proposal does not review or consider the cost savings realized by market participants in the past as a result of the current price cap and resultant financial rebates to load.
- The proposal does not review or consider the cost savings realized by market participants in the past as a result of phasing in the demand curve during 2003 and 2004 and the avoidance of in-City deficiency prices.
- The proposal does not address the lumpiness of capacity that recently entered the market (*i.e.*, over 1,000 MW of new generation and over 800 MW of deferred retirement) in light of the ability to develop and construct much smaller quantities of capacity and the fact that the in-City demand curve has less than a 100MW margin between the minimum reliability requirement and the 100% reference point.
- The proposal does not address the discriminatory price cap.
- The proposal does not address the discriminatory bilateral restriction.
- The proposal does not review or consider the need to establish a long term forward capacity market.

- The proposal does not address the inapplicability of to go costs to a short term capacity market.
- The proposal does not provide a calculation of "expected" clearing prices under the demand curve after implementation of the Joint Proposal (including winter months).
- The proposal does not provide any sensitivity calculations of "expected" clearing prices under the demand curve after implementation of the Joint Proposal (including winter months) with various assumptions.
- The proposal does not address the asymmetry of the zero crossing point and price cap of 1.5 times the cost of entry.
- The proposal does not address the fact that resource adequacy will be maintained by the government or providers of last resort at all times (*i.e.*, deficiencies to reliability will not occur) such that prices in excess of the cost of entry will not be realized in the market in the same magnitude that prices below the cost of entry will be realized.
- The proposal does not address the recognition that resource adequacy should be maintained, but in addition, that significant amounts of excess capacity should not enter the market in an uneconomic manner.
- The proposal does not address the fact that offering capacity into the NYISO auctions, specifically the demand curve spot auction, at significantly less than its actual cost defeats the demand curve price signal.
- The proposal does not review or consider the fact that a going forward reference price does not work unless it is applied to a long term market where the "to-go" cost of a new resource is the cost of entry, i.e., it sets the clearing price or the clearing price is disciplined by a demand curve.
- The proposal does not review or consider that regardless of what is done in the short term, the long term solution can't be a monthly market under the existing sloped demand curve because it will simply clear at the monopsonist's or supplier's mitigation level.
- The proposal does not review or consider the retail access impacts.
- The proposal does not review or consider the impacts on demand response resources and SCRs.
- The proposal does not review or consider potential environmental impacts (reduced investment in emission reduction technology).
- The proposal does not review or consider the impacts on distributed generation resources.
- The proposal does not review or consider the impacts on renewable resources.
- The proposal perpetuates a bifurcated market.
- The proposal does not address who will oversee and approve reference prices.
- The proposal does not address whether there will be sufficient resources to review and approve reference prices, as well as revisions in a timely manner, as necessary.
- The proposal does not address what software revisions might be required.
- The proposal does not address how long it would take to complete the required software revisions.

- The proposal lacks specific tariff language for a complicated market design change.
- The proposal does not indicate when the tariff language will be presented for approval.
- The alternative proposal does not recognize the relative scarcity difference between New York City and the Statewide market.
- The proposal does not address how reference prices would be calculated for demand response resources.
- The proposal does not address how reference prices would be calculated for special case resources.
- The proposal does not address whether a resource that does not offer its capacity to the market will be forced to offer it at a mitigated price.
- The proposal does not address how opportunity costs will be factored into reference prices.
- The proposal does not address how the market and reliability will be impacted in light of the ISO New England capacity program beginning in December 2006.
- The proposal does not address how the market and reliability will be impacted in light of the potential HQ capacity resource shortages this winter.
- The proposal does not address the need for locational capacity to get paid the greater of the locational clearing price or the statewide price.
- Further analysis of the proposal put forth at the BIC by NRG and KeySpan needs to be conducted.
- The proposal does not review or consider establishing reference prices in accordance with the demand curve methodology, not "to go" costs, considering the current market design.
- The proposal does not address the fact that if reference prices under the Joint Proposal are essentially zero or negative and all supplies are price takers, what happens when there is more than 118% capacity in the in-City demand curve auction.
- The proposal is specifically premised on reference prices being less than or equal to the current DGO price and if bid caps but it does not address what will happen a year or two from now if after the proposed additional mitigation is implemented and prices in the market increase. If all that is desired are prices lower than what they are currently, it is hard not to anticipate additional mitigation or revisions to the market design in the future with the intent of reducing prices again. The impact this unavoidable conclusion will have on the market has not been considered.
- The joint proposal does not address the fact that reduced prices are being sought while at the same time improved reliability measures, such as increased fuel switching capability are in the process of being implemented, and the construction of additional resources is being sought.
- The joint proposal ignores the "revealed preference price" of the NYPA LM6000 installations, the ConEd SCS Astoria contract, and the NYPA 500 MW addition.
- The joint proposal does not review or consider reliability implications in New York City if existing resources retire or are not repaired/maintained in response to mitigation.

- The joint proposal does not include a reliability must run option for the NYISO to use if untimely retirements will impair reliability.
- The joint proposal does not recognize the fact that the delayed retirement of the 800+ MW NYPA Poletti project is in fact a reliability must run agreement.
- The joint proposal does not recognize the fact that if Con Ed and NYPA want wholesale or retail customers to pay less for capacity in the future all they need to do is reduce their rates rather than seeking to reduce market clearing prices and the rates of other suppliers.
- The joint proposal does not deal with the reality that if Con Ed and NYPA don't want the money they received for their capacity this past summer they are within their rights to seek regulatory approvals to give the money back to wholesale and retail customers.
- The joint proposal does not recognize that Con Ed's steam affiliate reported to FERC that it has sold over 300 MW in the monthly spot auctions at $12.71/kW-month instead of in the strip or monthly auctions at lower prices.
- The joint proposal does not recognize the fact that if Con Ed and NYPA want wholesale or retail customers to be protected from prices in excess of what Con Ed and NYPA believe they should pay, financial arrangements are available whereby Con Ed and NYPA can provide customers with these protections.
- The joint proposal does not address the issue of capacity sales from resources that do not yet exist and have not timely completed a DMNC test which artificially inflate the market supply.
- The joint proposal does not recognize that Con Ed's own filings claim the earliest a DMNC test was conducted on the new SCS Astoria facility was some time after May 11, 2006, yet Con Ed sees nothing wrong with such capacity being sold prior to the capacity existing or being tested.
- The joint proposal does not address how LSEs who hedged will be impacted.
- The joint proposal does not address the fact that loads voluntarily purchased capacity in bilateral agreements and the NYISO auctions at prices well in excess of the resulting prices under the proposal.
- The joint proposal does not address the fact that the demand curve was intended to be "self correcting" with respect to price (i.e. price would be determined by supply and that supply would enter and exit the market in response to price.)
- The joint proposal does not recognize that the Con Ed/SCS capacity agreement includes guaranteed "energy" payments that are in fact capacity payments. This is the exact type of agreement the NYPSC feared the DGOs would enter into and took action to prohibit them from doing so.