



# Comments of Market Advisor on the Reliability Needs Assessment

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POTOMAC  
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## Introduction

- The Reliability Needs Assessment (“RNA”) identifies areas in New York where reliability criteria will be violated without additional investment in generation and/or transmission.
- We are called to review the RNA and evaluate whether the results of the RNA indicate any market design flaws.
- Given the assumptions regarding load growth and the additions and retirements in the Base Case, reliability criteria were first be violated in New York City in 2008.
  - ✓ This is not surprising given the relatively tight capacity conditions currently in NYC.



## Long-Term Market Signals

- The fact that reliability needs are predicted downstate does not, in and of itself, indicate any market design flaws.
- We continually evaluate the economic signals provided by the New York markets.
- The following figure shows the Net Revenue provided by the markets over the past three years at different locations.
  - ✓ Net revenue is the revenue that a new generators would earn above its variable production costs.
  - ✓ This analysis utilizes FERC's standardized assumptions that account for variable O&M costs, fuel costs, and forced outages. However, it does not ancillary services revenues, start-up costs, minimum run-times, and other physical limitations.

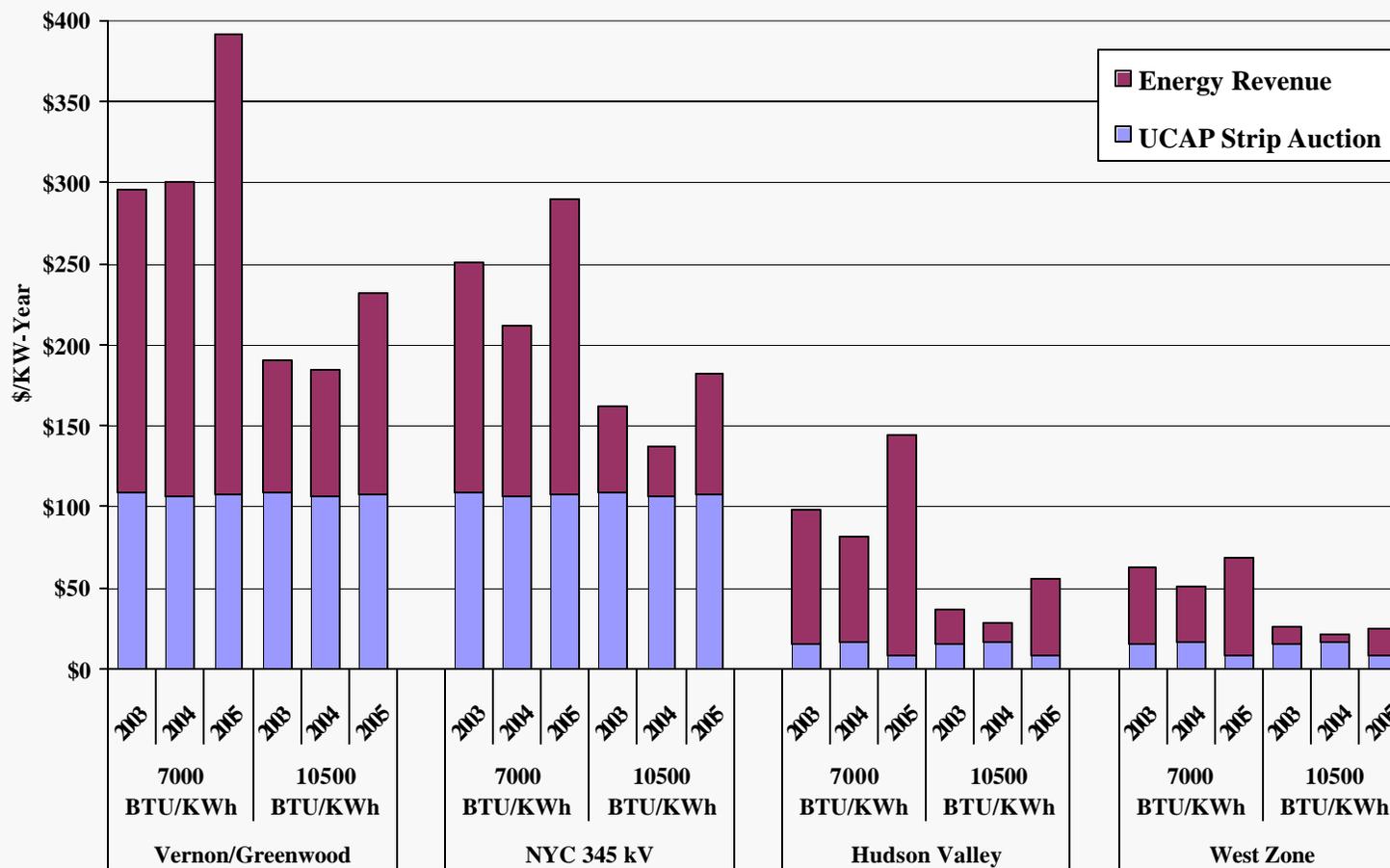


## Long-Term Market Signals

- The net revenue analysis shows that the long-term economic signals in NYC are at levels in 2005 that are close to those that will justify new investment.
  - ✓ A new gas turbine would earn net revenue of approximately \$180 per kw-year outside of the load pockets in NYC and more than \$200 per kw-year inside the load pockets.
  - ✓ These levels are close to the estimated annual cost (including return on investment) of building a new turbine in the City.
- The net revenue levels increased significantly during 2005 due to:
  - ✓ Higher load and tighter conditions in 2005;
  - ✓ Instances of shortages that resulted in very high energy prices under the shortage pricing provisions in New York's Standard Market Design ("SMD").
  - ✓ There were no shortages in 2003 or 2004, which contributed to the lower net revenue in those years.



## Estimated Net Revenue





## Conclusions

- Based on our review of the RNA and continuing review of the New York ISO markets, we do not find preliminary indications of market design flaws.
- However, one important indication of potential flaws or inadequate market signals will be whether the market alternatives proposed to address the reliability issues are adequate.
- If market alternatives are inadequate, this may indicate market design flaws or other issues impeding efficient investment in new and existing generation or transmission.
- To make this evaluation, we will be reviewing the Comprehensive Reliability Plan (“CRP”) when it is issued later this year.