



# Independent Power Producers of New York, Inc.

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To: Ray Stalter - NYISO  
From: Glenn D. Haake  
Date: June 3, 2005  
Re: NYISO Request for Comments on Gold Book Data

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Pursuant to the NYISO's notice to the Installed Capacity Working Group ("ICAPWG") issued May 23, 2005, soliciting comments on the impact on the recent FERC-approved statewide ICAP demand curves of data concerning the current differential between available summer and winter capacity (the "Summer-Winter Differential") reflected in the 2005 Load and Capacity Data Report issued April 15, 2005 (the "2005 Gold Book"), IPPNY respectfully submits the following comments. For the reasons set forth below, IPPNY strongly believes that the NYISO should file with FERC revised statewide ICAP demand curves that eliminate the remaining \$4/kW-year of the "winter revenue benefit" offset to the cost of the proxy gas turbine (the "GT Cost"), which would yield a reference value for the first year of the statewide curves (i.e., the 2005-2006 capability year) of \$87/kW-year minus a \$15/kW-year net energy and ancillary services offset ("Net EA Offset"), or \$72/kW-year.<sup>1</sup> A failure to rectify the inadvertent omission that led the NYISO to propose the now rebutted winter revenue benefit would send a message to the market that the NYISO will permit artificially depressed demand curves to remain in effect, which will undermine the market's confidence in the future legitimacy of the demand curves and will impede their effectiveness to facilitate development of new capacity and the retention of needed existing resources.

Simply stated, the NYISO inadvertently failed to utilize current information on the Summer-Winter Differential when it supported its winter revenue benefit at the March 21, 2005, FERC staff technical conference on the ICAP demand curves (the "Tech Conference"). Based on the rationale and explanation provided by the NYISO during the Tech Conference and thereafter, had NYISO staff incorporated the current information that was available in advance of the Tech Conference in its methodology for calculating

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<sup>1</sup> IPPNY has sought rehearing of FERC's order approving the demand curves on this issue. As you may recall, IPPNY argued for an \$87/kW-year GT Cost with a \$10/kW-year Net EA Offset. NYISO staff advocated an \$87/kW-year GT Cost with a \$15/kW-year Net EA Offset and a \$5/kW-year winter revenue benefit offset. IPPNY's rehearing at FERC is confined to the winter revenue benefit issue.

the winter revenue benefit offset, NYISO staff's methodology would have dictated that it eliminate the entire Summer-Winter Differential, as explained further below.

In its filings during the Tech Conference, NYISO staff explained that it had adjusted the 1,400 MW Summer-Winter Differential identified in the 2004 Gold Book upward by 300 MW (to 1,700 MW) in calculating the winter revenue benefit, to account for its estimate of the increased Summer-Winter Differential that would result from the addition of the 1,080 MW Athens Generating Station and a couple of other generation units that went into service before the summer 2005 capability period. Staff explained that this adjustment reduced what would have been an \$8/kW-year winter revenue benefit deduction down to \$5//kW-year.

In its May 10, 2005 letter to FERC, the NYISO acknowledged that the 2005 Gold Book shows that, rather than increasing by 300 MW as assumed by NYISO staff in its calculations, the Summer-Winter Differential had actually increased by 700 MW from 2004 to 2005, to a total of 2,100 MW. Thus, the actual Summer-Winter Differential is fully 400 MW more than reflected in NYISO staff's analysis.<sup>2</sup>

In its Order Accepting ICAP Demand Curves, As Modified, Removing Refund Condition, and Dismissing Motion and Request for Rehearing issued on April 21, 2005, FERC acknowledged the appropriateness of NYISO staff's 300 MW revision to the Summer-Winter Differential and its consequential \$3/kW-year reduction of the \$8/kW-year winter revenue benefit down to \$5/kW-year. FERC further reduced the \$5/kW-year winter revenue benefit by \$1//kW-year to account for its finding that the reduction in winter capacity associated with reduced Canadian imports was 100 MW less than NYISO staff had reflected in its analysis.

It takes only a straightforward mathematical calculation to determine that had NYISO staff reflected the additional 400 MW of Summer-Winter Differential in its calculations, then it would have reduced its winter revenue benefit by a further \$4/kW-year. Effectively, it would have reduced the \$8/kW-year winter revenue benefit by a total of \$7/kW-year, leaving a \$1/kW-year winter revenue benefit. FERC's adjustment to reflect its findings regarding a lesser reduction in Canadian winter imports than assumed by the NYISO would eliminate the remaining \$1/kW-year of winter revenue benefit.

The foregoing shows that the logic and methodology employed by NYISO staff and endorsed by FERC dictate, when applied to the current information available prior to the Tech Conference showing a 2,100 MW Summer-Winter Differential<sup>3</sup>, that the entire \$5/kW-year winter revenue benefit is unsupported by the facts. We next turn to our

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<sup>2</sup> It is apparent that while this increased Summer-Winter Differential was known in early March, an unintentional lapse in departmental coordination prevented this information from being made available to be used in calculating a current Summer-Winter Differential prior to the April 15 issuance of the 2005 Gold Book.

<sup>3</sup> If anything, the 2,100 MW figure in the 2005 Gold Book understates the Summer-Winter Differential in future years when the demand curves will be in place because it does not include the impact of new capacity that will be coming on line, such as the Bethlehem Energy Center, Poletti 2 and SCS Energy projects (totaling approximately 1,750 MW which, due to the projects being gas-fired combined cycle facilities, will have significantly more winter capacity than summer capacity) and a number of other undefined gas turbines.

views on why it is crucial for the NYISO to file with FERC to revise the statewide demand curves prospectively to correct for this miscalculation.

The NYISO's ICAP demand curve is a novel approach to sending appropriate market signals for the development and retention of needed capacity, and one which is being emulated in other markets. The efficacy of the ICAP demand curves to support investment depends on the ability of investors and developers to rely on the NYISO and FERC to ensure that the curves will, out into the future and as revised triennially, consistently reflect the best available estimate of the cost of new entry. If that reliance is undermined, investment will not occur when it should, and system reliability will be eroded.

We are still in the very early days of the ICAP demand curves. It was only last month that the Court of Appeals for the District of Columbia Circuit rejected an appeal by the Electric Consumers Resource Council aimed at scuttling the entire demand curve program. The actions that the NYISO takes now will determine whether the market will view the demand curve reset process as one which, to the greatest extent possible, is based on best available information and objective evaluation, or one prone to potential political manipulation.

In addition, it should be noted that using the wrong Summer-Winter Differential to establish the final demand curves has a compound impact. First, the reference value is understated, as explained above. Second, the reference value must be "grossed up" in arriving at the seasonally adjusted curve to reflect the availability of excess capacity in the winter. Using the wrong Summer-Winter Differential to calculate this "gross up" will yield demand curves that are too low to provide suppliers an opportunity to recover the unadjusted reference value over the course of the year.

IPPNY is aware that many have argued the winter revenue benefit is simply one in a long list of "judgment calls" that went into the development of the demand curves and that for each call that went against a sector another call can be identified that inured to that sector's benefit. However, the fact that judgment calls are involved in the calculation of the demand curves does not justify ignoring clear and convincing, objective evidence. It is not a judgment call to calculate the Summer-Winter Differential.

IPPNY believes the NYISO used its best judgment in making the judgment calls. Likewise, it should make use of the best available evidence in calculating the Summer-Winter Differential. If the NYISO does so, it will be compelled to file to revise the statewide ICAP demand curves in the manner requested above. Doing so would also avert the potential for an unfavorable FERC order on rehearing directing the NYISO to make the requested revisions.