June 3, 2005

To: Ray Stalter, ICAP Working Group

From: Tim Foxen, NRG Energy

Re: Comments on revisions to 2005 Gold Book

NRG Energy submits the following statements in response to NYISO's Installed Capacity Working Group notice issued May 23, 2005. This notice invited comments on the impact on the recent FERC-approved statewide ICAP demand curves of summer and winter capacity differentials reflected in the 2005 Load and Capacity Data Report ("Gold Book"). NRG participates and has substantial financial stake in NYISO capacity auctions. In addition, NRG supports establishing robust wholesale market structures in NYISO and elsewhere. Therefore, we seek fair and expeditious resolution to this issue. Simply put, the availability of the 2005 data and its impact to the demand curves should have been presented by NYISO at the March 21, 2005 FERC Technical Conference since this data was known to NYISO at the time[1]. NYISO's omission, whether intentional or not, should be corrected.

For background, the demand curves and resulting prices are initially developed on an annual basis but are converted to two sets of six month summer and winter curves to be consistent with the term of the capacity auctions. The ICAP annual reference price supported by NYISO was $ 67/kw/year and included $ 5/kw/year in offsets for a so-called winter revenue benefit. NYISO's basis for this offset, discussed at length at the FERC Technical Conference, was that winter period imports were predicted to be approximately 500 MW less than summer imports, mostly due to reductions from Hydro Quebec. Less capacity available for sale in winter would translate to a higher clearing price for capacity and higher revenues available to sellers, all other things equal.

[1] NYISO indicated in its May 10, 2005 letter to FERC that the revised Gold Book Data was posted on its website in early March .

NYISO estimated that each 100 MW of reduced winter period capacity availability equated to $ 1/kw/year in higher prices available to sellers. Stakeholders on the supply side argued against the premise that actual winter imports would be less and these arguments were accepted in part by FERC when they reduced the offset by $ 1/kw/year to $ 4/kw/year.

The 2005 Gold Book data shows that an additional 400 MW of capacity is available for sale in the winter compared to the 2004 data used by NYISO, after new generation adjustments. If this fact had been presented to the FERC and involved parties at the March 21 Technical Conference, it could have led to a conclusion that eliminated the winter period revenue offset. NYISO has acknowledged this in its May 10 letter to FERC. Therefore, NYISO should present to the ICAP Working Group the affect of this revision to summer and winter prices starting with the current capability period and through the period for which demand curves have been filed and accepted. It is likely that this recalculation will confirm that the price impact of the 400 MW winter period increase would indeed offset the $ 4/kw/year winter revenue benefit and would increase the annual equilibrium price to $ 72/kw/year.

NYISO's proposal in its May 10 Letter to establish a stakeholder process to discuss whether the demand curves should be revised to reflect the 2005 Gold Book data may be inconsistent with the need to use objective data points for establishing demand curves. The stakeholder process NYISO is initiating should be used to provide information on these revisions but should not subject them to debate as they are based on straightforward calculations. The revised prices should than be reflected in capacity auctions going forward.

NRG also states that it agrees with and supports relevant facts and arguments that are in IPPNY's submission in this working group forum.