

October 25, 2004

Mr. William Boston  
Chair of NYISO Board  
C/o  
Mr. Robert E. Fernandez, Esq.  
NYISO General Counsel  
290 Washington Avenue Extension  
Albany, NY 12065

Re: Consolidated Edison Submission of Responsive Supplemental Information for  
NYISO Proposed Demand Curves

Dear Chairman Boston:

Attached is a submission of responsive supplemental information for consideration by the NYISO Board of Directors for the proposed demand curves for the 2005 to 2008 capability years.

Sincerely,

Norman Mah

## **Submission of Responsive Comments from Consolidated Edison on the ICAP Demand Curve**

Consolidated Edison would like to submit the following responsive supplemental information for the NYISO Board of Director's (BOD) consideration in approval of the new ICAP Demand Curves. We have participated in this long process of determining the appropriate price level of capacity for the New York markets and have been among the many participants that have taken the opportunity to offer ideas and criticisms. We believe that resetting of the demand curve is not an exact science by any means and some portion of the final adjustments will need to be based on judgment. The NYISO staff has understood this and, as a result, directed the study to include several methods and sources to determine both the Entry Cost and Net Revenues offsets. The NYISO thus must make a judgment about which of these source is appropriate to determine the final price level. The result of this judgment will have a large cost impact on all market participants.

### **Independent Power Producers of New York (IPPNY) submittal**

IPPNY, based on an affidavit of Mark Younger, discusses flaws in the analysis used to determine Net Revenue offsets that could result in raising the demand curve prices. IPPNY then concludes that the source of Net Revenues should be one of the studies that contained one of the lowest offsets of all the analyses made. IPPNY also states that the amount of Net Revenues they are promoting is close to the amount of offsets that the Department of Public Service (DPS) submitted to the NYSIO Board of Directors. This comparison, however, is misleading because it takes the DPS comments out of the appropriate context for the cost of new entry, since IPPNY did not include the comparable annual capital cost from the DPS study. The DPS annual capital cost is \$75/kW-yr, which is \$12/kW-yr lower than the \$87/kW-yr determined in the NYISO study. On an annual basis, the DPS ICAP demand curve revenue requirement is \$62/kW-yr which is \$15/kW-yr lower than the \$77/kW-yr proposed in the IPPNY submission.

### **Keyspan-Ravenswood (KR) submittal**

KR presented all of their recommendations at the ICAPWG meetings that were convened over the past months to vet the ICAP DC issues. Both the consultant and NYISO staff chose not to use the KR recommendations, which included a five-year shorter depreciation life and a different basis to determine potential Net Revenues. Accordingly, the NYISO BOD should also reject the KR recommendations.

### **Joint comments of Entergy, Mirant, and Sithe**

The NYISO staff proposal includes a revision to the formula that will be used to determine the future winter revenue benefit adjustment for the 2005 – 2008 period. The new formula makes adjustments for actual generator availability in the winter ICAP markets for the period that the demand curve has been in effect. The parties above contend that generator availability for the years that the DC has been in effect is not representative of future years. These parties thus recommend that the NYISO BOD should eliminate the availability adjustments and return to the original formula proposed by the supplier sector (which has been used since the demand curve went into effect). The NYISO staff analysis determined that adjusting for generator availability was

necessary so as not to overcompensate generators for the winter period. To the extent that the historical bidding is not perfectly representative of bidding for the next three years, the formula that NYISO staff used will accommodate the actual availability the next time the DC is reset. This treatment is similar to, and consistent with, how generators utilize historic availability to count capacity in the UCAP auction and therefore, the NYISO BOD should reject this request of Entergy, Mirant, and Sithe

**NRG submittal**

The gas transportation cost issue that NRG raises was discussed in the ICAPWG meetings. The consultants and NRG exchanged a significant amount of data following the working group meetings. The consultant and NYISO staff at a follow-up ICAPWG meeting then rejected this issue as inappropriate for recovery in the ICAP markets.