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October 22, 2004

**VIA HAND DELIVERY**

John W. Boston  
Chair of the NYISO Board  
c/o Robert E. Fernandez, NYISO General Counsel  
290 Washington Avenue Extension  
Albany, NY 12065

**RE: Responsive Supplemental Information for NYISO Board**  
**Consideration of New ICAP Demand Curves**

Dear Mr. Boston:

Attached are three copies of KeySpan-Ravenswood, LLC's ("Ravenswood") Responsive Supplemental Information related to the NYISO Staff proposed Demand Curves.

Sincerely,

James M. D'Andrea, Esq.  
Attorney for  
KeySpan-Ravenswood, LLC

cc: Madison Milhous

**Responsive Supplemental Information  
of KeySpan-Ravenswood, LLC  
Concerning Initial Supplemental Information  
Submitted by NYISO Market Participants**

**I. INTRODUCTION**

KeySpan-Ravenswood, LLC (“KeySpan”) submits this Responsive Supplemental Information to the NYISO Board for consideration, in response to Initial Supplemental Information Submitted by NYISO Market Participants. KeySpan’s response is directed primarily to the Initial Supplemental Information submitted by the City of New York (“NYC”) and the New York Municipal Power Agency (“NYMPA”). However, to the extent comments submitted by other Market Participants, applicable to the rest of state market, might be considered applicable to New York City (“In-City”), KeySpan’s comments are applicable there as well. Finally, KeySpan supports the Initial Supplemental Information Submitted by IPPNY as well as IPPNY’s Responsive Supplemental Information.

**II. CITY OF NEW YORK**

NYC made two proposals to revise the NYISO’s proposed In-City Demand Curves. First, it requested the NYISO apply a Winter Surplus Adjustment to the NYC Demand Curve. Second, NYC proposed revising the “zero crossing point” so that less capacity above the minimum reliability requirement is procured. The underlying purpose for these proposed changes is to reduce costs. Both of these proposals should be rejected.

a. Winter Surplus Adjustment

KeySpan has been an advocate for an annual capacity product for quite some time. An annual capacity product would coincide with the *annual* reliability analysis

performed by, and *annual* reliability requirement established by, the NYSRC and the NYISO. An annual capacity product would eliminate the Summer/Winter adjustment issue. Furthermore, viewing capacity as an annual product reveals the Winter “excess” for what it really is, *i.e.*, a necessary byproduct of meeting the annual reliability requirement and summer peak demands. In KeySpan’s opinion, there is no “excess” capacity during the winter.

Without this “excess,” units would not be able to schedule the necessary outages in preparation for the summer peak season. It is easy to call this capacity “excess” and claim it has a reduced value, but the reality is that it can be forced to perform in order to keep the system reliable during the winter and shoulder periods when maintenance outages occur. This is because installed capacity can be prohibited from taking outages if enough of this “excess” is not available to fill the gap left by other scheduled outages. Without this purported “excess” maintaining reliability during the winter and shoulder periods, simultaneously with the scheduling of necessary maintenance outages, would not be possible. A sufficient amount of capacity must be available year-round, not simply in certain months, to meet reliability needs. The winter “excess” meets those needs.

That being said, as long as the NYISO market continues to have monthly and six-month capacity products the Summer/Winter adjustment is required and needs to be based on objective data that exists in the Gold Book or other consistent data source. There is however no basis for an additional Winter surplus adjustment.

As noted in IPPNY’s Supplemental Information on NYISO Staff Proposed Demand Curves and the accompanying affidavit of Mark Younger, the assumptions behind the NYISO’s winter surplus adjustment are not appropriate nor can they be

expected over the 20 year life of the facility being modeled by the NYISO. Equally, they should not be applied to In-City capacity. The Gold Book is the appropriate source with respect to equilibrium conditions (*See*, Younger affidavit at paragraph 8). Moreover, it is not appropriate to make a Winter surplus adjustment in the context of other assumptions that are the basis for the NYISO Demand Curve proposal (*See*, Younger affidavit at paragraph 17).

b. Revision to Zero Crossing Point

The question that must be answered with respect to the x-intercept or zero crossing point is “whether the 18% zero crossing point is reasonable?” NYC is again arguing that reduction in costs should be the determining factor in setting the demand curve. This is easy to argue when reliability needs are being met by out-of-market procurement and development of resources by Public Authorities. However, NYC would not be arguing for a more vertical (steeper) Demand Curve if a deficiency charge that was three times the cost of entry existed and the market was headed toward a shortage. The Demand Curve replaced the vertical (steeper) curve of the prior market and replaced the volatile capacity pricing of the past with a market where prices decline gradually as more capacity is offered and prices rise gradually as less capacity is offered. The NYC proposal is an attempt to retain load’s protection against the old deficiency charge while subjecting supply to a more severe “bust” cycle. The proposal is simply a desire to return to the “bust” dynamics of the old market without exposure to the “boom” and should be rejected.

Shifting the x-intercept point is not only about the steepness of the slope. Changing the x-intercept point will also exacerbate what is often referred to as the lumpiness

problem. The NYISO proposed x-intercept point allows for the simultaneous development of varied projects of different sizes. If the x-intercept point is too far to the left, developers will face a market where they can easily develop themselves into a product with no value. The development paralysis that existed in the past, and is just starting to end, will continue. The paralysis is one where developers fear their development and investment, in conjunction with others, would be worthless because it quickly pushed the Demand Curve to zero. The x-intercept point proposed by the NYISO is reasonable, in the context of the other assumptions that are the basis for the Demand Curve and KeySpan-Ravenswood's prior comments, and should not be revised.

### **III. NEW YORK MUNICIPAL POWER AGENCY**

The NYMPA claims that its costs have increased because it must purchase more capacity than the minimum reliability requirements. This claim ignores the fact that NYMPA is not exposed to potential deficiency charges. In addition, it ignores that the basis for establishing the Demand Curve in the first place was to introduce market stability. Past prices and market volatility were not reasonable and did not appropriately compensate suppliers because mitigation and price caps gave protection to purchasers, but the market bottom could drop out when a small "excess" was introduced. This extreme and one-sided volatility did not provide for efficient market outcomes or readily ensure reliability. There were trade offs by both suppliers and purchasers when the Demand Curve concept was adapted. These purported "costs" should not be given weight over the long term reliability benefits that are just starting to be realized, especially in light of the past market deficiencies, elimination of the deficiency charge, continued price mitigation, and the initial phase in of the Demand Curve.

NYMPA even gives an example of how the Demand Curve has stabilized the capacity market. NYMPA states that recent additions of capacity supply were the result of a competitive bidding process but then claims the Demand Curve did nothing to encourage this development. However, NYMPA ignores the fact that the success of bilateral arrangements and competitive procurement processes requires a liquid and stable capacity market in order for parties to come to an agreement. Without a stable capacity market parties would not be able to come to agreement on price. Prior to the Demand Curve why would anyone enter into an agreement to purchase capacity at its cost if the market would signal it was worthless as soon as it was developed? The purchaser would not be able to justify the price it had just paid so the capacity market became paralyzed and the market was only able to rely on Public Authority intervention to maintain reliability. With the Demand Curve, contracting parties can now negotiate around a more reasonable range of outcomes. Without the Demand Curve parties have little confidence to contract because there is too large a spread.

NYMPA also claims increased prices simply added revenues to existing resources. NYMPA fails to recognize that existing resources provide the same reliability service that new capacity provides and new capacity should not be valued any more than existing capacity. In a competitive market it is the service that should be paid for, and old resources and new resources alike can provide this service. In addition, existing resources are already mitigated to cost based rates established using 1996 Con Edison cost information.

- a. NYC and LI Cost Information

NYMPA next makes an unsupported claim that the rest of state cost information casts doubt on NYC and LI information. First, KeySpan supports IPPNY and its positions with respect to the rest of state cost information. In addition, NYMPA provides no support for its claim considering the NYC and LI cost information is based on actual projects developed and constructed in those localities. KeySpan's prior comments on NYC and LI costs are unchanged.

b. Net Energy and Ancillary Services Revenue

NYMPA claims Levitan Associates Inc's (LAI) Energy and Ancillary Services analysis is flawed because it does not perform deterministic transmission modeling that can account for various real time occurrences. KeySpan performed a GE MAPS simulation, which explicitly included a transmission representation, and found that the resulting capacity factors and energy output were somewhat lower than those in LAI's deterministic models, as might be expected. However, KeySpan's real disagreement with the LAI modeling is based on its assumed heat rate and load shape. With corrections to these data assumptions reasonable results were obtained as outlined in KeySpan's prior comments.

Recent (2002-2003) historic revenues even reflect that these forecast potential revenues are reasonable. Unlike KeySpan's analysis, NYMPA did not provide any detailed analysis to support its claim.

With respect to NYMPA's request to use Dr. David Patton's historic market analysis as the primary basis for net energy and ancillary services revenue credits, even Dr. Patton rejects this proposal. Dr. Patton explicitly stated during his presentations of historic energy revenues that it should not be used as the primary source of information for

establishing the Demand Curves. Nevertheless, KeySpan's prior analysis of 2002-2003 historic revenues shows NYMPA's request for higher net energy revenue credits should be rejected.

#### **IV. CONCLUSION**

For the reasons stated above, the requests of NYC and NYMPA should be rejected.